ING DIRECT
Annual Report 2008

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

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. He is a member of the Audit Committee, and was a member of the Conduct Review and the Credit and Investment Committees until 31 December 2008. He became a member of the Risk Committee on 1 January 2009.

Evert Derks Drok, MEc, LLM, Chief Executive Officer

Mr Drok was appointed Director in November 2005 and Chief Executive Officer with effect from 1 February 2006. He was a member of the Conduct Review and the Credit and Investment Committees until 31 December 2008, and became a member of the Risk Committee on 1 January 2009.

Dirk Herman Harryvan, MEc

Mr Harryvan was appointed Director in July 2006. He is Chief Executive Officer of ING Direct NV and a member of the Executive Board of ING Groep NV. He is a member of the Audit Committee and was a member of the Conduct Review and the Credit and Investment Committees until 31 December 2008. He became a member of the Risk Committee on 1 January 2009.

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

Ms Lee was appointed Director in December 2005. She was Chairman of the Credit and Investment Committee and a member of the Conduct Review Committees until 31 December 2008. Ms Lee is also a member of the Audit Committee and on 1 January 2009, became the Chair of the Risk Committee.

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

Mr Harley was appointed Director in July 2007. He is Chairman of the Audit Committee and was a member of the Conduct Review and the Credit and Investment Committees until 31 December 2008. He became a member of the Risk Committee on 1 January 2009.

Simonis Maria Hubertus Tellings

Mr Tellings was appointed Director in March 2007. He was Chairman of the Conduct Review Committee and a member of the Credit and Investment Committee until 31 December 2008. Mr Tellings is also a member of the Audit Committee and on 1 January 2009, became a member of the Risk Committee.

DIRECTORS' MEETINGS

The number of meetings of Directors (including meetings of committees of Directors) held during the year to 31 December 2008 and the number of meetings attended by each Director was as follows:

MEETINGS OF DIRECTORS

Director	Number Held	Number Attended
E D Drok	5	5
D H Harryvan	5	0
I Y L Lee	5	4
P R Shirriff	5	5
H D Harley	5	5
S M H Tellings	5	5

COMMITTEE MEETINGS

Director	Number Held	Number Attended		
		Audit	Conduct Review	Credit & Investment
E D Drok	14	4	5	5
D H Harryvan	14	0	0	0
I Y L Lee	14	3	3	4
P R Shirriff	14	4	5	5
H D Harley	14	4	5	5
S M H Tellings	14	4	5	5

CORPORATE STRUCTURE

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. 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: Direct Business, Commercial Property Finance and Intermediary Mortgages.

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 902 permanent employees as at 31 December 2008 (2007: 843 employees).

CEO'S YEAR IN REVIEW

2008 has seen unprecedented change in the financial sector, both internationally and in Australia. As the impact of the global financial crisis has taken hold, we have seen the cost of funding increase significantly, a number of leading global financial institutions have failed, and economic conditions have steadily worsened over the course of the year.

However the Bank has withstood these challenging conditions to produce an excellent result in 2008, generating a net profit after tax of $182.1 million. This is an increase of $10.9 million on the 2007 net profit after tax of $171.2 million and has been achieved notwithstanding significantly increased investment in systems, infrastructure and products.

ING DIRECT has also achieved the milestone of becoming Australia's 5th largest retail savings bank, following the consolidation of St George Bank and BankWest into Westpac and the Commonwealth Bank respectively. We are now clearly positioned as the primary alternative to the "Big 4" banks, and well placed to achieve one of our key objectives in 2009 – to become Australia's "most preferred consumer bank".

Savings

Our savings portfolio has been heavily impacted by changes in the market environment. Net portfolio movement for 2008 was a decrease of $1.5 billion. The key drivers of this result were the "savings war", resulting in a significant increase in price and a move to the "Big 4" banks. This final point was exacerbated following the introduction of the Government Deposit Guarantee scheme in October, with a number of our customers initially unclear as to whether ING DIRECT was covered. The Bank has seen an improvement in its savings base since October.

Despite these challenges, we have achieved some great results to strengthen our savings business into 2009, including the introduction of Australia's first (and only) fully electronic Straight Through Account Opening Process ("SOAP") and the launch of a new tiered-value at call product (the "Savings Accelerator"). Overall, the Bank had 205,817 new savings accounts opened during the year. We will launch our Business Term Deposit product during the first quarter of 2009.

Mortgages

Despite a significant slow down in housing lending in Australia in 2008, the Bank's retail mortgage business performed strongly, with the residential loan portfolio increasing 11% from $30.9 billion to $34.4 billion. Both our Residential and Commercial mortgages portfolios have also continued to demonstrate outstanding credit quality throughout 2008.

Commercial Property Finance

Despite slowing our rate of new business during the second half of the year in the face of deteriorating market conditions, the Commercial Property Finance business achieved strong growth over 2008, increasing to $3.2 billion at 31 December 2008, up from $2.6 billion at 31 December 2007. More importantly, the business continued its excellent record of zero losses, now for over ten years.

Funding & Liquidity

In response to the increasingly challenging funding conditions, the Bank deliberately chose a strategy to build a strong and sustainable liquidity position, exceeding our key ratios throughout the year. We also successfully launched a securitisation program, securitising part of the Bank's retail mortgage portfolio. The program provides immediate liquidity of up to $5.7 billion, through repurchase agreements with the Reserve Bank of Australia.

Our Customers

Our customer service in 2008 continued to lead the industry, achieving a number of call centre and customer satisfaction accolades despite the challenging conditions. Our call centre was rated the #1 call centre in Australia, as rated by consumer research company, Global Reviews and published in the Business Review Weekly. During the year, we achieved the highest Net Promoter Score (a global benchmarking measure of the number of customers who would recommend the Bank sourced from Nielsen) amongst all financial institutions in Australia. Our total customer base at the end of 2008 was 1.4 million.

Our People

Our Winning Performance Culture survey showed that our employees continue to be very engaged, with 84% of staff rated as 'engaged' or 'very engaged'. This is a particularly strong result given the challenging circumstances throughout the year.

Awards

The year also saw the Bank win numerous awards, including being named 'Best Foreign Bank', 'Most Trusted Bank', and 'Best Broker Bank', amongst others.

In the Community

The Bank has also developed stronger community links by donating more than $1 million in cash and employee work hours to the ING Foundation. 821 of our staff contributed time to the Foundation. Financial grants were provided to a range of charities including Redkite, Barnardos and UNICEF.

Outlook for 2009

Despite forecasts of continued and worsening economic conditions in 2009, the Bank is well positioned for strong performance. Many of the investments we have made in 2008 in people, infrastructure and technology will be critical in achieving our aggressive 2009 targets. In particular, the launch of our new products (including Business Term Deposits) will provide great impetus for growth across both savings and mortgages.

I look forward to a promising and exciting 2009.

Eric Drok

Chief Executive Officer

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Total equity at 31 December 2008 was $1,938 million (2007 - $1,940 million). The movement was due to increased profits for the year offset by the movement in Balance Sheet reserves.

During the year, the Bank invested in the IDS Trust 2008-1, which is a consolidated subsidiary of the Bank. The IDS Trust 2008-1 is a securitisation vehicle through which the Bank securitises part of its mortgage portfolio. The Financial Statements disclose a consolidated and a parent entity presentation for the 2008 financial year.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Standby facilities from related entities of $350m were either cancelled or are in the process of being cancelled, after 31 December 2008. The standby facilities comprised $250m from ING DIRECT NV Spanish Branch (cancellation effective 1 March 2009) and $100m from ING Life Limited (cancellation effective 1 April 2009).

Apart from this, no events or transactions have occurred since 31 December 2008 or are pending that would have a material effect on the Financial Statements at that date or for the period then ended or that are of such significance in relation to the Bank's affairs except as identified below, in order to make such Financial Statements not misleading regarding the Bank's financial position, results of operations or cash flows.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

In the opinion of the Directors, disclosure of any further information on likely developments in operations would be unreasonably prejudicial to the interests of 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 full time executive officer, director and secretary. The amount of the premium is, under the terms of the insurance contract, confidential. The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the the officers in their capacity as officers of the Bank or a related body corporate.

Signed in accordance with a resolution of the Directors.

Phillip R Shirriff
Chairman

Evert D Drok
Director

Ernst & Young

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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 year ended 31 December 2008, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst + Young

Ernst & Young

A K Harmer
Partner

Sydney
23 March 2009

BOARD RESPONSIBILITIES

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

Composition of the Board

The Board comprises five Non-Executive Directors (two of whom are representatives of ING Groep NV) and one Executive Director. The Chairman is a Non-Executive Director. The Board met five times this year with a minimum meeting requirement of at least three times a year. All Non-Executive Directors were members of the Audit Committee, and all Directors were members of the Conduct Review and Credit & Investment Committees of the Board to ensure a regular and consistent flow of information between business units and all Directors.

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 regularly 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 a number of Committees that operate under charters approved by the Board. Two of these Committees, the Conduct Review Committee and the Credit and Investment Committee, were dissolved on 31 December 2008. The Board resolved to establish a Risk Committee effective from 1 January 2009. The Audit Committee continues unchanged.

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 Credit Committee, an Asset and Liability Committee, an Operational Risk Committee and a Prioritisation Review Committee. These business unit level Committees are run by Senior Executives who report to the Chief Executive Officer.

Audit Committee

This Committee, chaired by H D Harley, 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 generally meets three times a year in the first, second and fourth quarters of the calendar 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.

Board Responsibilities (continued)

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.

Conduct Review Committee
This Committee, chaired by S M H Tellings, met at least three times a year on the same day as the meeting of the Board. It was responsible for appropriate programs being in place to maintain compliance with legal and regulatory requirements and accepted codes of practice.

Further responsibilities of this Committee included a broad range of corporate governance and performance, remuneration, education and succession issues in relation to the Board, management and staff. With this broad responsibility this Committee assisted the Board in a holistic approach to corporate governance issues. This approach integrates and aligns the organisation's culture, the compliance philosophy, training and remuneration so that optimal long-term outcomes are achieved for all stakeholders in the Bank.

The Board resolved that this Committee would be dissolved on 31 December 2008 and the Risk Committee established to be effective from 1 January 2009.

Credit and Investment Committee
This Committee, chaired by I Y L Lee, was established to assist the Board with issues relating to credit and market risk, liquidity, the investment and return on capital and the funding and investment strategy. This Committee generally met five times a year on the same day as the meeting of the Board.

Specifically the Committee's mandate encompassed the approval, review and monitoring of all policies and guidelines for the investment and management of the Bank's funds. In addition to this, the Committee also considered new products and instruments that were recommended from time to time by the Asset and Liability Committee of the Bank. Further with respect to credit risk, the Committee monitored the development of the retail and commercial mortgage portfolios in general and in relation to any possible adverse macro-economic scenarios. With these responsibilities this Committee provided the Board with an oversight of the use, sourcing and protection of the Bank's funds.

The Board has resolved that this Committee would be dissolved on 31 December 2008 and the Risk Committee established to be effective 1 January 2009.

Risk Committee
In November 2008, the Board resolved that the Credit & Investment Committee and the Conduct Review Committee would be dissolved and a Risk Committee formed, to be effective 1 January 2009. It is proposed that the Risk Committee, chaired by I Y L Lee, will meet at least four times a year.

The Risk Committee will be 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 has been established to ensure a holistic approach to risk management within the Bank. It will ensure that 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.

All Committees also perform such additional functions as the Board of Directors may from time to time require and such other functions as are required of the Committee by applicable legislation or by any relevant regulatory authority and 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 2008

		Consolidated		Bank	
amounts in thousands of dollars	Note	**2008**	2007*	**2008**	2007
Interest income		**3,389,139**	2,671,555	**3,389,091**	2,671,555
Interest expense		**(2,941,666)**	(2,296,044)	**(2,941,666)**	(2,296,044)
Net interest income	5	**447,473**	375,511	**447,425**	375,511
Net non-interest income		**17,821**	21,296	**17,821**	21,296
Total operating income	4	**465,294**	396,807	**465,246**	396,807
Employment expenses		**(93,048)**	(76,319)	**(93,048)**	(76,319)
Advertising expenses		**(35,372)**	(28,465)	**(35,372)**	(28,465)
Depreciation and amortisation expenses		**(10,788)**	(6,972)	**(10,788)**	(6,972)
Occupancy expenses		**(11,372)**	(10,783)	**(11,372)**	(10,783)
Technology expenses		**(10,326)**	(7,101)	**(10,326)**	(7,101)
Other expenses		**(32,876)**	(27,123)	**(32,828)**	(27,123)
Total operating expenses	4	**(193,782)**	(156,763)	**(193,734)**	(156,763)
Loan loss provisions	4	**(12,702)**	3,326	**(12,702)**	3,326
Operating profit before tax		**258,810**	243,370	**258,810**	243,370
Income tax expense	6	**(76,722)**	(72,219)	**(76,821)**	(72,219)
Profit for the year		**182,088**	171,151	**181,989**	171,151

* Amounts shown under “2007 Consolidated” are for comparative purposes and represent the operations of the Bank only. Refer to Note 2, “Significant accounting policies – basis of preparation” for further details.

Balance Sheet as at 31 December 2008

		Consolidated		Bank	
amounts in thousands of dollars	Note	**2008**	2007*	**2008**	2007
ASSETS					
Cash and cash equivalents		**718,843**	431,074	**718,843**	431,074
Available for sale financial assets	10	**6,878,414**	7,137,440	**6,878,414**	7,137,440
Loans and advances	11	**38,998,197**	34,254,362	**38,998,197**	34,254,362
Derivative assets	12 (A)	**956,330**	80,131	**956,330**	80,131
Property, plant and equipment	13	**41,553**	17,597	**41,553**	17,597
Receivables and other assets	14	**191,960**	106,060	**191,960**	106,060
Deferred tax assets	6	**225,230**	76,427	**225,131**	76,427
Total assets		**48,010,527**	42,103,091	**48,010,428**	42,103,091
LIABILITIES					
Deposits	15	**18,800,207**	20,202,132	**18,800,207**	20,202,132
Deposits payable to other financial institutions	16	**15,578,793**	11,451,235	**15,578,793**	11,451,235
Derivative liabilities	12 (B)	**422,034**	177,218	**422,034**	177,218
Deferred tax liabilities	6	**157,699**	94,536	**157,699**	94,536
Debt issues	17	**10,823,760**	8,091,055	**10,823,760**	8,091,055
Creditors and other liabilities	18	**282,278**	141,461	**282,278**	141,461
Provisions	19	**7,431**	5,648	**7,431**	5,648
Total liabilities		**46,072,202**	40,163,285	**46,072,202**	40,163,285
Net assets		**1,938,325**	1,939,806	**1,938,226**	1,939,806
EQUITY					
Contributed equity	21	**1,334,000**	1,334,000	**1,334,000**	1,334,000
Reserves	22	**(197,171)**	(13,602)	**(197,171)**	(13,602)
Retained profits	23	**801,496**	619,408	**801,397**	619,408
Total equity		**1,938,325**	1,939,806	**1,938,226**	1,939,806

Statement of Changes in Recognised Income and Expenses for the year ended 31 December 2008

		Consolidated		Bank	
amounts in thousands of dollars	Note	**2008**	2007*	**2008**	2007
Total equity at beginning of year		**1,939,806**	1,693,064	**1,939,806**	1,693,064
Income and expenses recognised directly in equity:					
Available for sale investments net of tax	22	**(6,026)**	(6,455)	**(6,026)**	(6,455)
Cash flow hedges net of tax	22	**(178,510)**	(18,538)	**(178,510)**	(18,538)
Share-based payment plan	22	**967**	584	**967**	584
Total income and expenses recognised directly in equity		**(183,569)**	(24,409)	**(183,569)**	(24,409)
Profit for the year		**182,088**	171,151	**181,989**	171,151
Capital issued	21	**-**	100,000	**-**	100,000
Total equity at end of year		**1,938,325**	1,939,806	**1,938,226**	1,939,806

* Amounts shown under "2007 Consolidated" are for comparative purposes and represent the operations of the Bank only. Refer to Note 2, "Significant accounting policies – basis of preparation" for further details.

Cash Flow Statement for the year ended 31 December 2008

	Consolidated		Bank	
amounts in thousands of dollars	**2008**	2007*	**2008**	2007
Cash flows from operating activities				
Operating profit before tax	**258,810**	243,370	**258,810**	243,370
Adjustments for:				
depreciation	**10,788**	6,972	**10,788**	6,972
increase/(decrease) to loan loss provisions	**12,702**	(3,326)	**12,702**	(3,326)
other	**126,430**	1,423	**126,430**	1,423
Taxes paid	**(44,856)**	(69,624)	**(44,856)**	(69,624)
Changes in:				
loans and advances	**(4,743,835)**	(5,581,724)	**(4,743,835)**	(5,581,724)
derivatives	**(631,383)**	42,384	**(631,383)**	42,384
receivables and other assets	**(383,506)**	(57,770)	**(383,506)**	(57,770)
deposits	**(1,401,925)**	1,423,604	**(1,401,925)**	1,423,604
Net cash flows from operating activities	**(6,796,775)**	(3,994,691)	**(6,796,775)**	(3,994,691)
Cash flows from investing activities				
Changes in:				
available for sale assets	**259,026**	(232,072)	**259,026**	(232,072)
property, plant and equipment	**(34,744)**	(10,245)	**(34,744)**	(10,245)
Net cash flows from investing activities	**224,282**	(242,317)	**224,282**	(242,317)
Cash flows from financing activities				
Deposits payable to other financial institutions	**4,127,558**	4,755,133	**4,127,558**	4,755,133
Debt issues	**2,732,704**	(322,104)	**2,732,704**	(322,104)
Share issue	**-**	100,000	**-**	100,000
Net cash flows from financing activities	**6,860,262**	4,533,029	**6,860,262**	4,533,029
Net cash flows	**287,769**	296,021	**287,769**	296,021
Cash and cash equivalents at beginning of year	**431,074**	135,053	**431,074**	135,053
Cash and cash equivalents at end of year	**718,843**	431,074	**718,843**	431,074

* Amounts shown under "2007 Consolidated" are for comparative purposes and represent the operations of the Bank only. Refer to Note 2, "Significant accounting policies – basis of preparation" for further details.

1. CORPORATE INFORMATION

ING Bank (Australia) Limited (the "Bank") is a company limited by shares which is incorporated and domiciled in Australia. Its registered office is Level 14, 140 Sussex Street, Sydney NSW 2000, Australia. The ultimate parent entity of the Bank is ING Groep NV which owns 100% of the issued shares.

The financial report for the year ended 31 December 2008 is comprised of the Bank and its controlled entity ("the Group") and was authorised for issue in accordance with a resolution of the Directors on 23 March 2009.

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 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. Since no "consolidated" entity existed for the 2007 financial year, the amounts disclosed for comparative purposes represent the operations of the Bank only.

Statement of compliance

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

New accounting standards and interpretations

The following new and amended standards have been identified as applicable for the Group:

- AASB 127 *Consolidated and Separate Financial Statements ("AASB 127")* became effective as of 1 March 2008. The recent amendments to the standard have no effect on the financial results of the Group.
- AASB 2008-10 *Amendments to Australian Accounting Standards – Reclassification of Financial Assets*. This standard makes amendments to AASB 139 *Financial Instruments: Recognition and Measuremen*t (*"AASB 139"*) and AASB 7 *Financial Instruments: Disclosure*. The amendment permits the reclassification of certain non-derivative financial assets, other than those designated at fair value through the Income Statement by the entity upon initial recognition, out of the fair value through the Income Statement category when the financial asset is no longer held for the purpose of selling or repurchasing in the near future and there are rare circumstances or it would otherwise have met the definition of a loan and receivable at initial recognition. This amendment is applicable from 1 July 2008. The Group has opted not to reclassify any financial assets pertaining to the amendments.

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 2008, but have not been applied in preparing this financial report:

- AASB 2007-6 *Amendments to Australian Accounting Standards arising from changes to AASB 123.* Under the Group's current existing policy relevant borrowing costs are expensed in the period they are incurred as permitted under the existing version of AASB 123 *Borrowing costs ("AASB 123")*. The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised, where previously there was a discretionary choice between capitalising and expensing. These revisions will decrease finance costs and increase the carrying value of the qualifying asset with a resulting increase in depreciation expense;
- AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101*. AASB 101 *Presentation of Financial Statements ("AASB 101")* introduces the concept of complete set of financial statements and the amendments are operative for financial years ending on or after 1 January 2009. The initial assessment of AASB 101 is that it is not expected to impact on the financial results of the Group;

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- AASB 2008-1 *Amendments to Australian Accounting Standards – Share-based payments: Vesting conditions and cancellations*. The amendments clarify the definition of "vesting conditions", introducing the term "non-vesting conditions" for conditions other than vesting conditions. The Group has not yet determined the extent of the impact, if any;
- AASB 2008-5 *July 2008 Amendments to Australian Accounting Standards arising from the Annual Improvements Project* and AASB 2008-6 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvement project;
- AASB 2008-8 *Amendments to Australian Accounting Standards – Eligible Hedged Items*. This standard makes amendments to AASB 139. The amendments clarify how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation as a hedged item, should be applied in particular situations. This standard is applicable to annual reporting periods beginning on or after 1 July 2009. This standard is not expected to impact on the financial results of the Group.

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, 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 ("the Trust"), which is involved in the securitisation of the Bank's assets, has been consolidated. The basis for consolidation is that the Bank has retained all residual benefits from the Trust's activities and the residual ownership risks related to the Trust's 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 retranslated 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 the Income Statement.

Cash and cash equivalents

Cash and cash equivalents in the Balance Sheet comprise cash on hand and 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 are classified into one of the following categories which determines their measurement basis:

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Available for sale financial assets

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

After initial measurement, available for sale securities are subsequently measured at fair value. The fair value of available for sale investments is initially recognised 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 equity until the asset is derecognised or impaired, at which time the cumulative gain or loss will be recognised in the Income Statement.

Loans and advances, receivables and other assets

Loans and advances 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 leverage leases. After initial measurement, loans and advances and receivables and other assets are held at amortised cost using the effective yield method.

Securitisation

The Bank has sold to the Trust the equitable rights to mortgages selected for securitisation. The Trust is a special purpose vehicle that issues securities under the internal securitisation program, for the purpose of liquidity management. The Trust has 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 Trust, it has retained substantially all risks and rewards of these cash flows by virtue of the ownership of the residual income unit. The residual income unit issued by the Trust entitles the Bank to any residual income of the Trust after all note-holder repayments and costs of the Trust 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. 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 Bank 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Cash flow hedges

For a derivative designated as hedging a highly probable cash flow exposure arising from a recognised asset or liability, the gain or loss on the derivative associated with the effective portion of the hedge is initially recognised in 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.

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 are 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. Leverage lease receivables are recorded as loans and advances which reflect the equity participation in the lease.

Loan loss provisions and impairment of other financial assets

The Group assesses periodically and at each Balance Sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset but before the Balance Sheet date (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 unsolved 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 the 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	2008	2007
Computer Software	3 years	3 years
Computer Hardware	3 years	3 years
Leasehold Improvements	10 years	10 years
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 period of the lease.

For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

Impairment losses are recognised in the Income Statement.

Derecognition

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

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

Bank

Deferred income 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 in a transaction that is not 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 income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the Balance Sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the Income Statement.

Trust

Income tax has not been brought to account in relation to the Trust as taxable income and gains are fully distributable to its 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.

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 Head Company of the tax consolidated group is ING Australia Holdings Limited and the other eligible members are ING Real Estate Development Australia Pty Limited, ING REDA Holdings Pty Limited, ING Investment Management Australia Pty Limited and Jaring Pty Limited.

Members of the tax-consolidated group have entered into a tax sharing deed that provides for the allocation of income tax liabilities between the group members. The Bank recognises amounts receivable or payable separately under a tax sharing deed with group members as tax-related amounts receivable or payable.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 the fair value revaluation of the employee share-based payment plan.

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 capitalised and recognised as interest income on a straight line basis over the average life of the loan. Quarterly testing is performed to demonstrate that the straight line amortisation is not materially different to the effective interest rate method.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the item 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. Actual results may differ from the judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these Financial Statements are outlined below:

SIGNIFICANT ACCOUNTING JUDGEMENTS

Recovery of deferred tax assets

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

SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The grant date is the date on 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.

3. ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

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 and 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 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.

Average life of a loan

The Group's current accounting policy is to defer transaction costs associated with the origination of loans and to amortise to the Income Statement on a straight line basis over four years. The Group has currently determined that the average life of the loan is less than six years.

The Group performs quarterly testing to validate this accounting estimate and to demonstrate that this method is not materially different to the effective interest rate method.

Income recognition

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.

The Group performs quarterly testing to validate this accounting estimate and to demonstrate that this method is not materially different to the effective interest rate method.

4. PROFIT FROM ORDINARY ACTIVITIES

	Consolidated		Bank	
amounts in thousands of dollars	**2008**	2007	**2008**	2007
Operating profit before tax has been determined as follows:				
Interest income				
Cash	**19,661**	19,311	**19,661**	19,311
Available for sale securities	**453,993**	415,471	**453,993**	415,471
Loans and advances				
- Related parties	**10,721**	9,055	**10,721**	9,055
- Mortgage loans	**2,885,236**	2,216,328	**2,885,188**	2,216,328
Interest income - non-trading derivatives	**19,528**	11,390	**19,528**	11,390
Total interest income	**3,389,139**	2,671,555	**3,389,091**	2,671,555
Interest expense				
Deposits - other persons/corporations	**1,322,024**	1,151,863	**1,322,024**	1,151,863
Deposits payable to other financial institutions				
- Related bodies corporate	**54,908**	-	**54,908**	-
- Other persons/corporations	**833,477**	574,037	**833,477**	574,037
Debt issues				
- Related bodies corporate	**58,697**	40,466	**58,697**	40,466
- Other persons/corporations	**597,405**	473,341	**597,405**	473,341
Interest expense - non-trading derivatives	**75,155**	56,337	**75,155**	56,337
Total interest expense	**2,941,666**	2,296,044	**2,941,666**	2,296,044
Net interest income	**447,473**	375,511	**447,425**	375,511
Non-interest income				
Account fees	**10,979**	12,144	**10,979**	12,144
Discharge fees and penalties	**5,244**	3,005	**5,244**	3,005
Profit/(loss) from sale of available for sale securities	**2,225**	(3,558)	**2,225**	(3,558)
(Loss)/profit from repurchase of debt securities	**(4,941)**	1,257	**(4,941)**	1,257
Other	**4,873**	9,198	**4,873**	9,198
Cash flow hedge ineffectiveness	**(559)**	(750)	**(559)**	(750)
Net non-interest income	**17,821**	21,296	**17,821**	21,296
Total operating income	**465,294**	396,807	**465,246**	396,807

4. PROFIT FROM ORDINARY ACTIVITIES (CONTINUED)

	Consolidated		Bank	
amounts in thousands of dollars	**2008**	2007	**2008**	2007
Operating expenses				
Fees and commissions	**6,972**	6,016	**6,972**	6,016
Employee benefits				
- Wages and salaries	**80,107**	65,552	**80,107**	65,552
- Workers compensation	**597**	573	**597**	573
- Superannuation	**6,720**	5,675	**6,720**	5,675
- Share-based payment plan	**968**	583	**968**	583
- Other employee costs	**4,656**	3,936	**4,656**	3,936
Advertising	**35,372**	28,465	**35,372**	28,465
Depreciation				
- Computer hardware	**5,787**	3,634	**5,787**	3,634
- Computer software	**2,745**	1,673	**2,745**	1,673
- Leasehold improvements	**2,227**	1,633	**2,227**	1,633
- Motor vehicles	**29**	32	**29**	32
Occupancy	**11,372**	10,783	**11,372**	10,783
Professional services	**4,506**	4,053	**4,506**	4,053
Technology	**10,326**	7,101	**10,326**	7,101
Stationery and printing	**522**	431	**522**	431
Management costs				
- Parent company	**10,827**	7,459	**10,827**	7,459
- Related entities	**58**	176	**58**	176
Telephone and communication	**4,407**	3,083	**4,407**	3,083
Other	**5,584**	5,905	**5,536**	5,905
Total operating expenses	**193,782**	156,763	**193,734**	156,763
Loan loss provisions				
Collective provisions	**7,763**	(5,307)	**7,763**	(5,307)
Specific provisions	**4,939**	1,981	**4,939**	1,981
Total loan loss provisions	**12,702**	(3,326)	**12,702**	(3,326)

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 2008**	**Interest**	**Average rate for 2008**	Average balance for 2007	Interest	Average rate for 2007
Interest income						
Cash and cash equivalents	**307,830**	**19,661**	**6.39%**	302,207	19,311	6.39%
Available for sale securities	**6,294,680**	**456,565**	**7.25%**	6,327,560	418,070	6.61%
Loans and advances	**37,107,909**	**2,907,517**	**7.84%**	31,103,128	2,206,783	7.10%
	43,710,419	**3,383,743**	**7.74%**	37,732,895	2,644,164	7.01%
Interest expense						
Deposits	**19,364,467**	**1,316,629**	**6.80%**	18,737,179	1,151,863	6.15%
Deposits payable to financial institutions	**12,295,259**	**888,384**	**7.23%**	8,730,446	546,646	6.26%
Debt issues	**9,959,484**	**731,257**	**7.34%**	8,422,319	570,144	6.77%
	41,619,210	**2,936,270**	**7.06%**	35,889,944	2,268,653	6.32%
Net average balance and related interest	**2,091,209**	**447,473**		1,842,951	375,511	

Bank amounts in thousands of dollars	**Average balance for 2008**	**Interest**	**Average rate for 2008**	Average balance for 2007	Interest	Average rate for 2007
Interest income						
Cash and cash equivalents	**307,830**	**19,661**	**6.39%**	302,207	19,311	6.39%
Available for sale securities	**6,294,680**	**456,565**	**7.25%**	6,327,560	418,070	6.61%
Loans and advances	**37,107,909**	**2,907,469**	**7.84%**	31,103,128	2,206,783	7.10%
	43,710,419	**3,383,695**	**7.74%**	37,732,895	2,644,164	7.01%
Interest expense						
Deposits	**19,364,467**	**1,316,629**	**6.80%**	18,737,179	1,151,863	6.15%
Deposits payable to financial institutions	**12,295,259**	**888,384**	**7.23%**	8,730,446	546,646	6.26%
Debt issues	**9,959,484**	**731,257**	**7.34%**	8,422,319	570,144	6.77%
	41,619,210	**2,936,270**	**7.06%**	35,889,944	2,268,653	6.32%
Net average balance and related interest	**2,091,209**	**447,425**		1,842,951	375,511	

Gains or losses on derivative products have been attributed to the underlying hedged asset and liability.

6. INCOME TAX EXPENSE

	Consolidated		Bank	
amounts in thousands of dollars	**2008**	2007	**2008**	2007
Income tax expense				
Current income tax	**83,816**	65,503	**83,816**	65,503
Deferred income tax	**(7,094)**	6,716	**(6,995)**	6,716
Income tax expense reported in Income Statement	**76,722**	72,219	**76,821**	72,219
Statement of changes in equity				
Current income tax				
Current income tax on interest rate swap	**(540)**	(1,459)	**(540)**	(1,459)
Deferred income tax				
- Revaluation of cash flow hedge	**(75,964)**	(6,486)	**(75,964)**	(6,486)
- Revaluation of available for sale securities	**(2,583)**	(2,767)	**(2,583)**	(2,767)
Income tax expense reported in equity	**(79,087)**	(10,712)	**(79,087)**	(10,712)
Reconciliation of prima facie income tax expense on accounting profit before income tax expense as follows:				
Accounting profit before income tax expense	**258,810**	243,370	**258,810**	243,370
Prima facie income tax on operating profit at 30% (2007 - 30%)	**77,643**	73,011	**77,643**	73,011
Over provision in prior years	**(29)**	(247)	**(29)**	(247)
Effects of amounts which are not assessable	**(892)**	(545)	**(793)**	(545)
Income tax expense reported in Income Statement	**76,722**	72,219	**76,821**	72,219

6. INCOME TAX EXPENSE (CONTINUED)

amounts in thousands of dollars	Consolidated Balance Sheet 2008	Consolidated Balance Sheet 2007	Consolidated Income Statement 2008	Consolidated Income Statement 2007	Bank Balance Sheet 2008	Bank Balance Sheet 2007	Bank Income Statement 2008	Bank Income Statement 2007
Deferred income tax at 31 December relates to the following:								
Deferred tax liabilities								
Amortisation of discount securities	**11,520**	9,304	**2,216**	4,869	**11,520**	9,304	**2,216**	4,869
Deferred lending expenses	**32,563**	34,210	**(1,646)**	3,033	**32,563**	34,210	**(1,646)**	3,033
Revaluation of available for sale securities	**4,095**	24,725	**(20,806)**	11,349	**4,095**	24,725	**(20,806)**	11,349
Revaluation of cash flow hedge	**43,503**	21,862	**-**	(225)	**43,503**	21,862	**-**	(225)
Revaluation of fair value hedge	**57,933**	1,184	**56,749**	107	**57,933**	1,184	**56,749**	107
Leveraged leases	**2,056**	2,156	**(99)**	(89)	**2,056**	2,156	**(99)**	(89)
Other	**6,029**	1,095	**4,933**	582	**6,029**	1,095	**4,933**	582
Total deferred tax liabilities	**157,699**	94,536			**157,699**	94,536		
Deferred tax assets								
Depreciation and amortisation	**2,484**	2,214	**(270)**	(102)	**2,385**	2,214	**(171)**	(102)
Provisions for impairment	**7,415**	4,304	**(3,111)**	2,416	**7,415**	4,304	**(3,111)**	2,416
Deferred lending income	**14,041**	9,647	**(4,394)**	(7,029)	**14,041**	9,647	**(4,394)**	(7,029)
Revaluation of debt issues	**58,053**	818	**(57,235)**	-	**58,053**	818	**(57,235)**	-
Revaluation of cash flow hedge	**124,814**	27,042	**(168)**	-	**124,814**	27,042	**(168)**	-
Revaluation of fair value hedge	**919**	24,395	**23,476**	(12,655)	**919**	24,395	**23,476**	(12,655)
Other	**17,504**	8,007	**(6,739)**	4,460	**17,504**	8,007	**(6,739)**	4,460
Total deferred tax assets	**225,230**	76,427			**225,131**	76,427		
Deferred income tax charge			**(7,094)**	6,716			**(6,995)**	6,716

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.

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 Head Entity of the tax consolidated group is ING Australia Holdings Limited.

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 benefits.

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	2008 - No	2008 - WAEP	2007 - No	2007 - WAEP
Outstanding at the beginning of the year	**146,981**	**€27.38**	115,093	€24.19
Granted during the year	**111,960**	**€21.63**	46,799	€32.13
Lapsed during the year	**(18,452)**	**€32.71**	(6,947)	€15.30
Exercised during the year	**(1,600)**	**€18.96**	(7,500)	€19.62
Transferred during the year	**(572)**	**€26.59**	(464)	€21.46
Outstanding at the end of the year	**238,317**	**€24.30**	146,981	€27.38
Exercisable at the end of the year	**34,488**	**€23.28**	**15,585**	€18.71

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	2008 - No	2008 - WAGP	2007 - No	2007 - WAGP
Outstanding at the beginning of the year	**22,224**	**€29.43**	23,987	€24.20
Granted during the year	**26,955**	**€21.02**	9,835	€32.13
Lapsed during the year	**(2,208)**	**€27.79**	(4,833)	€24.53
Vested during the year	**(6,630)**	**€23.37**	(6,954)	€18.71
Transferred during the year	**(1)**	**€28.95**	189	€32.26
Outstanding at the end of the year	**40,340**	**€24.89**	22,224	€29.43
Exercisable at the end of the year	**-**	**-**	**-**	**-**

The outstanding balances of share options as at 31 December 2008 are:

Year of Grant	Number of Options	Exercise Price
2003	7,450	€12.65
2004	14,285	€18.71
2005	34,488	€23.28
2006	30,551	€32.77
2007	39,583	€32.13
2008	111,960	€21.02
Total	238,317	€24.30

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.

7. SHARE-BASED PAYMENT PLAN (CONTINUED)

The outstanding balances of performance units as at 31 December 2008 are:

Year of Grant	Number of Performance Units	WAGP
2006	5,441	€32.77
2007	8,318	€32.13
2008	26,581	€21.02
Total	40,340	€24.89

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.

8. COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

Specified Executives:	
Lisa Dominique Claes	Executive Director Direct Business
John Philip Moore	Executive Director Commercial Property Finance
Brett Alexander Morgan	Executive Director Intermediary Mortgages
Mark Frederick Mullington	Chief Financial Officer
Patricia Anne Myers	Chief Operating Officer
Sharyn Lyn Schultz	Executive Director Human Resource Management
Victor Charles Joseph Wolff	Executive Director Marketing and Communications
Specified Directors:	
Evert Derks Drok	Chief Executive Officer
Dirk Herman Harryvan	Director (Non-Executive)
Irene Yun Lien Lee	Director (Non-Executive)
Phillip Robert Shirriff	Director (Non-Executive)
Hugh Douglas Harley	Director (Non-Executive)
Simonis Maria Hubertus Tellings	Director (Non-Executive)

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

amounts in thousands of dollars	**2008**	2007
Short-term employee benefits	**5,105**	6,066
Post-employment benefits	**-**	-
Other long-term benefits	**307**	421
Termination benefits	**-**	698
Share based payments	**510**	223
Total Compensation	**5,922**	**7,408**

Employees received no other payments or benefits other than the ones disclosed in notes 7, 8 and 27

9. AUDITOR'S REMUNERATION

Amounts paid or due and payable for audit and review of the financial report by:		
Ernst & Young	**230**	494
Amounts paid or due and payable for other services to Ernst & Young:		
Accounting and reporting services	**100**	114
Regulatory services	**106**	265
Taxation services	**200**	72
Total	**636**	**945**

10. AVAILABLE FOR SALE FINANCIAL ASSETS

	Consolidated		Bank	
amounts in thousands of dollars	**2008**	2007	**2008**	2007
Discount securities	**4,783,309**	4,940,960	**4,783,309**	4,940,960
Mortgage backed securities	**721,691**	1,011,340	**721,691**	1,011,340
Corporate bonds	**131,573**	132,438	**131,573**	132,438
Government bonds	**167,088**	99,017	**167,088**	99,017
Other securities	**1,074,753**	953,685	**1,074,753**	953,685
Total available for sale financial assets	**6,878,414**	7,137,440	**6,878,414**	7,137,440
Maturity analysis of available for sale financial assets				
Not longer than 3 months	**4,576,695**	4,532,691	**4,576,695**	4,532,691
Longer than 3 months and not longer than 1 year	**1,205,698**	1,412,009	**1,205,698**	1,412,009
Longer than 1 year and not longer than 5 years	**1,094,456**	1,191,761	**1,094,456**	1,191,761
Longer than 5 years	**-**	-	**-**	-
No maturity specified	**1,565**	979	**1,565**	979
Total available for sale financial assets	**6,878,414**	7,137,440	**6,878,414**	7,137,440

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.

11. LOANS AND ADVANCES

Retail loans	**34,424,477**	30,853,605	**34,424,477**	30,853,605
Commercial loans	**3,798,436**	3,265,103	**3,798,436**	3,265,103
Other loans – parent entity	**150,000**	150,000	**150,000**	150,000
– related bodies corporate	**650,000**	-	**650,000**	-
Gross loans and advances	**39,022,913**	34,268,708	**39,022,913**	34,268,708
Specific provision for impairment	**(10,115)**	(7,508)	**(10,115)**	(7,508)
	39,012,798	34,261,200	**39,012,798**	34,261,200
Collective provision for impairment	**(14,601)**	(6,838)	**(14,601)**	(6,838)
Total loans and advances	**38,998,197**	34,254,362	**38,998,197**	34,254,362
Maturity analysis of loans and advances				
Not longer than 3 months	**824,074**	206,960	**824,074**	206,960
Longer than 3 months and not longer than 1 year	**524,900**	591,504	**524,900**	591,504
Longer than 1 year and not longer than 5 years	**2,496,780**	1,984,719	**2,496,780**	1,984,719
Longer than 5 years	**32,764,311**	28,909,133	**32,764,311**	28,909,133
No maturity specified	**2,412,848**	2,576,391	**2,412,848**	2,576,391
Total loans and advances	**39,022,913**	34,268,707	**39,022,913**	34,268,707

While retail loans and advances principally have a contractual term of 30 years, the average life of a loan is less than 6 years (2007 - less than 6 years).

12 (A) DERIVATIVE ASSETS

amounts in thousands of dollars	Consolidated 2008	Consolidated 2007	Bank 2008	Bank 2007
Fair value hedge	**441,987**	3,233	**441,987**	3,233
Cash flow hedge	**145,009**	72,875	**145,009**	72,875
Other derivative assets	**369,334**	4,023	**369,334**	4,023
Total derivative assets	**956,330**	80,131	**956,330**	80,131
Maturity analysis of derivative assets				
Not longer than 3 months	**2,512**	131	**2,512**	131
Longer than 3 months and not longer than 1 year	**49,048**	10,864	**49,048**	10,864
Longer than 1 year and not longer than 5 years	**904,770**	67,384	**904,770**	67,384
Longer than 5 years	**-**	1,752	**-**	1,752
Total derivative assets	**956,330**	80,131	**956,330**	80,131

12 (B) DERIVATIVE LIABILITIES

amounts in thousands of dollars	Consolidated 2008	Consolidated 2007	Bank 2008	Bank 2007
Fair value hedge	**5,988**	87,077	**5,988**	87,077
Cash flow hedge	**416,046**	90,141	**416,046**	90,141
Total derivative liabilities	**422,034**	177,218	**422,034**	177,218
Maturity analysis of derivative liabilities				
Not longer than 3 months	**758**	1,178	**758**	1,178
Longer than 3 months and not longer than 1 year	**35,208**	8,270	**35,208**	8,270
Longer than 1 year and not longer than 5 years	**376,880**	167,770	**376,880**	167,770
Longer than 5 years	**9,188**	-	**9,188**	-
Total derivative liabilities	**422,034**	177,218	**422,034**	177,218
Amounts recognised in equity (pre tax)	**254,330**	23,122	**254,330**	23,122
Amounts recognised in the Income Statement (pre tax)	**269,318**	(41,641)	**269,318**	(41,641)

13. PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Bank	
amounts in thousands of dollars	**2008**	2007	**2008**	2007
Property, plant and equipment at cost	**115,884**	81,159	**115,884**	81,159
Accumulated depreciation and amortisation	**(74,331)**	(63,562)	**(74,331)**	(63,562)
Total property, plant and equipment	**41,553**	17,597	**41,553**	17,597
Mainframe computers & computer equipment				
Opening balance	**5,601**	4,450	**5,601**	4,450
Additions	**10,846**	4,305	**10,846**	4,305
Depreciation	**(5,123)**	(3,154)	**(5,123)**	(3,154)
Closing balance	**11,324**	5,601	**11,324**	5,601
Personal computers				
Opening balance	**1,991**	1,734	**1,991**	1,734
Additions	**705**	738	**705**	738
Depreciation	**(664)**	(481)	**(664)**	(481)
Closing balance	**2,032**	1,991	**2,032**	1,991
Computer software				
Opening balance	**4,134**	2,601	**4,134**	2,601
Additions	**16,898**	3,206	**16,898**	3,206
Depreciation	**(2,745)**	(1,673)	**(2,745)**	(1,673)
Closing balance	**18,287**	4,134	**18,287**	4,134
Leasehold improvements				
Opening balance	**5,684**	5,411	**5,684**	5,411
Additions	**6,304**	1,906	**6,304**	1,906
Depreciation	**(2,227)**	(1,633)	**(2,227)**	(1,633)
Closing balance	**9,761**	5,684	**9,761**	5,684
Motor vehicles				
Opening balance	**187**	128	**187**	128
Additions	**-**	90	**-**	90
Disposals	**(9)**	-	**(9)**	-
Depreciation	**(29)**	(31)	**(29)**	(31)
Closing balance	**149**	187	**149**	187

14. RECEIVABLES AND OTHER ASSETS

Sundry debtors	**130**	121	**130**	121
Accrued interest receivable	**183,333**	88,199	**183,333**	88,199
Income tax receivable	**-**	13,027	**-**	13,027
Other assets	**8,497**	4,713	**8,497**	4,713
Total receivables and other assets	**191,960**	106,060	**191,960**	106,060

15. DEPOSITS

	Consolidated		Bank	
amounts in thousands of dollars	**2008**	2007	**2008**	2007
Total deposits on demand and short term deposits	**18,800,207**	20,202,132	**18,800,207**	20,202,132
Maturity analysis of deposits				
At call	**15,147,221**	18,540,145	**15,147,221**	18,540,145
Not longer than 3 months	**3,059,553**	900,826	**3,059,553**	900,826
Longer than 3 months but not longer than 1 year	**575,397**	739,673	**575,397**	739,673
Longer than 1 year and not longer than 5 years	**18,036**	21,488	**18,036**	21,488
Total deposits on demand and short term deposits	**18,800,207**	20,202,132	**18,800,207**	20,202,132

16. DEPOSITS PAYABLE TO OTHER FINANCIAL INSTITUTIONS

Certificate of deposits				
Related bodies corporate	**403,987**	58,575	**403,987**	58,575
Other financial institutions	**10,828,554**	10,988,744	**10,828,554**	10,988,744
	11,232,541	11,047,319	**11,232,541**	11,047,319
Deposits				
Related bodies corporate	**1,505,461**	276,500	**1,505,461**	276,500
Other financial institutions	**2,840,791**	127,416	**2,840,791**	127,416
	4,346,252	403,916	**4,346,252**	403,916
Total deposits payable to other financial institutions	**15,578,793**	11,451,235	**15,578,793**	11,451,235
Maturity analysis of deposits payable				
At call	**761,401**	52,738	**761,401**	52,738
Not longer than 3 months	**10,143,273**	9,965,725	**10,143,273**	9,965,725
Longer than 3 months but not longer than 1 year	**4,051,479**	1,364,621	**4,051,479**	1,364,621
Longer than 1 year and not longer than 5 years	**716,630**	276,296	**716,630**	276,296
Deposits payable to other financial institutions – face value	**15,672,783**	11,659,380	**15,672,783**	11,659,380

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.

17. DEBT ISSUES

amounts in thousands of dollars	Consolidated 2008	Consolidated 2007	Bank 2008	Bank 2007
Short Term – not longer than 1 year to maturity				
Floating rate notes	**1,700,000**	556,000	**1,700,000**	556,000
Corporate bonds	**232,041**	148,193	**232,041**	148,193
Total short term debt issues	**1,932,041**	704,193	**1,932,041**	704,193
Long Term				
Corporate bonds	**2,912,847**	1,544,788	**2,912,847**	1,544,788
Subordinated debt - related bodies corporate	**-**	726,000	**-**	726,000
Redeemable preference shares – related bodies corporate	**1,000,000**	-	**1,000,000**	-
Floating rate notes	**2,940,055**	3,440,109	**2,940,055**	3,440,109
Euro floating rate notes	**2,038,817**	1,675,965	**2,038,817**	1,675,965
Total long term debt issues	**8,891,719**	7,386,862	**8,891,719**	7,386,862
Total debt issues	**10,823,760**	8,091,055	**10,823,760**	8,091,055
Maturity Analysis of debt issues				
Not longer than 3 months	**625,000**	136,230	**625,000**	136,230
Longer than 3 months but not longer than 1 year	**1,305,000**	1,027,380	**1,305,000**	1,027,380
Longer than 1 year and not longer than 5 years	**7,709,172**	7,683,230	**7,709,172**	7,683,230
Longer than 5 years	**1,000,000**	879,874	**1,000,000**	879,874
Debt issues – face value	**10,639,172**	9,726,714	**10,639,172**	9,726,714

The variance between the total debt issues and the total of the maturity analysis of debt issues 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

	Consolidated 2008	Consolidated 2007	Bank 2008	Bank 2007
Accrued interest payable				
Related bodies corporate	**20,457**	6,832	**20,457**	6,832
Other persons/corporations	**210,090**	103,686	**210,090**	103,686
Total accrued interest payable	**230,547**	110,518	**230,547**	110,518
Other liabilities				
Accrued expenses	**19,671**	20,231	**19,671**	20,231
Prepaid interest	**4,290**	4,756	**4,290**	4,756
Commitment fees	**753**	538	**753**	538
Income tax payable	**25,393**	-	**25,393**	-
Other	**1,624**	5,418	**1,624**	5,418
Total other liabilities	**51,731**	30,943	**51,731**	30,943
Total creditors and other liabilities	**282,278**	141,461	**282,278**	141,461

19. PROVISIONS

	Consolidated 2008	Consolidated 2007	Bank 2008	Bank 2007
Annual leave	**4,206**	3,480	**4,206**	3,480
Long service leave	**3,225**	2,168	**3,225**	2,168
Total provisions	**7,431**	5,648	**7,431**	5,648
Provisions expected to be paid in next 12 months	**4,558**	3,480	**4,558**	3,480

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

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.

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.

20. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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 amount 2008	Fair value 2008	Carrying amount 2007	Fair value 2007
Recognised Financial Assets				
Cash and cash equivalents	718,843	718,843	431,074	431,074
Available for sale financial assets	6,878,414	6,878,414	7,137,440	7,137,440
Loans and advances	38,998,197	39,671,644	34,254,362	34,051,949
Derivative assets	956,330	956,330	80,131	80,131
Other receivables	458,743	458,743	200,084	200,084
Recognised Financial Liabilities				
Deposits	18,800,207	18,818,041	20,202,132	20,201,081
Deposits payable to other financial institutions	15,578,793	15,629,629	11,451,235	11,451,366
Derivative liabilities	422,034	422,034	177,218	177,218
Debt issues	10,823,760	10,728,124	8,091,055	8,029,570
Other liabilities	447,408	447,408	241,645	241,645

Bank

amounts in thousands of dollars	Carrying amount 2008	Fair value 2008	Carrying amount 2007	Fair value 2007
Recognised Financial Assets				
Cash and cash equivalents	718,843	718,843	431,074	431,074
Available for sale financial assets	6,878,414	6,878,414	7,137,440	7,137,440
Loans and advances	38,998,197	39,671,644	34,254,362	34,051,949
Derivative assets	956,330	956,330	80,131	80,131
Other receivables	458,644	458,644	200,084	200,084
Recognised Financial Liabilities				
Deposits	18,800,207	18,818,041	20,202,132	20,201,081
Deposits payable to other financial institutions	15,578,793	15,629,629	11,451,235	11,451,366
Derivative liabilities	422,034	422,034	177,218	177,218
Debt issues	10,823,760	10,728,124	8,091,055	8,029,570
Other liabilities	447,408	447,408	241,645	241,645

21. CONTRIBUTED EQUITY

	Consolidated		Bank	
amounts in thousands of dollars	**2008**	2007	**2008**	2007
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

Effective 1 July 1998, the Corporations legislation abolished the concept of authorised capital and par value shares. Accordingly the Bank does not have authorised capital nor par value in respect of its issued capital.

Consolidated	**2008**		2007	
Issued capital	**# of Shares**	**$ 000**	# of Shares	$ 000
Balance at beginning of financial year	**1,334,000,004**	**1,334,000**	1,234,000,004	1,234,000
Issue of ordinary voting shares	**-**	**-**	100,000,000	100,000
Balance at end of financial year	**1,334,000,004**	**1,334,000**	1,334,000,004	1,334,000

Bank	**2008**		2007	
Issued capital	**# of Shares**	**$ 000**	# of Shares	$ 000
Balance at beginning of financial year	**1,334,000,004**	**1,334,000**	1,234,000,004	1,234,000
Issue of ordinary voting shares	**-**	**-**	100,000,000	100,000
Balance at end of financial year	**1,334,000,004**	**1,334,000**	1,334,000,004	1,334,000

Terms and conditions of equity

Ordinary voting shares and ordinary non-voting shares have the right to receive dividends as declared and in the event of winding up of the Bank, to participate in the proceeds of sale of all surplus assets in proportion to the number and amounts paid up on shares held. Ordinary voting shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Bank. Ordinary non-voting shares have no right to vote.

Transaction costs

No transaction costs were incurred when issuing the shares.

22. RESERVES

	Consolidated		Bank	
amounts in thousands of dollars	**2008**	2007	**2008**	2007
Available for sale reserve				
Opening balance	**(4,804)**	1,651	**(4,804)**	1,651
Revaluation movement for the year, net of tax	**(8,251)**	(2,897)	**(8,251)**	(2,897)
Transfer to net profit	**2,225**	(3,558)	**2,225**	(3,558)
Total available for sale reserve	**(10,830)**	(4,804)	**(10,830)**	(4,804)

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.

Cash flow hedge reserve				
Opening balance	**(10,326)**	8,212	**(10,326)**	8,212
Revaluation movement for the year, net of tax	**(178,510)**	(18,538)	**(178,510)**	(18,538)
Transfer to net profit	**-**	-	**-**	-
Total cash flow hedge reserve	**(188,836)**	(10,326)	**(188,836)**	(10,326)

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.

For the year ended 31 December 2008, the Bank recognised ($178.5) million (2007 – ($18.5) 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 2008 was ($269.7) million (2007 – ($14.7) million) gross and ($188.8) million (2007 – ($10.3) million) after deferred tax. This cash flow hedge reserve will fluctuate with the fair value changes on the underlying derivatives and will be reflected in the Income Statement under interest income / (expense) over the remaining term of the underlying hedged items. The cash flow hedge reserve relates to a large number of derivatives with varying maturities up to 6 years, with the largest concentration in the range of less than 1 year. Accounting ineffectiveness on derivatives designated under cash flow hedge accounting of $0.6 million (2007: $0.8 million) was recognised in the Income Statement.

General reserve				
Opening balance	**1,528**	944	**1,528**	944
Revaluation movement for the year, net of tax	**967**	584	**967**	584
Transfer to net profit	**-**	-	**-**	-
Total general reserve	**2,495**	1,528	**2,495**	1,528
Total reserves	**(197,171)**	(13,602)	**(197,171)**	(13,602)

23. RETAINED PROFITS

Opening balance	**619,408**	448,257	**619,408**	448,257
Profit for the year	**182,088**	171,151	**181,989**	171,151
Closing balance	**801,496**	619,408	**801,397**	619,408

24. 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 two committees to discharge its responsibilities.

Risk Committee – The Risk Committee was formed to be effective from 1 January 2009 and replaces both the Conduct Review Committee and the Credit and Investment Committee. The Risk Committee 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 has been established to ensure a holistic approach to risk management within the Bank. It will ensure that 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.

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.

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.

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.

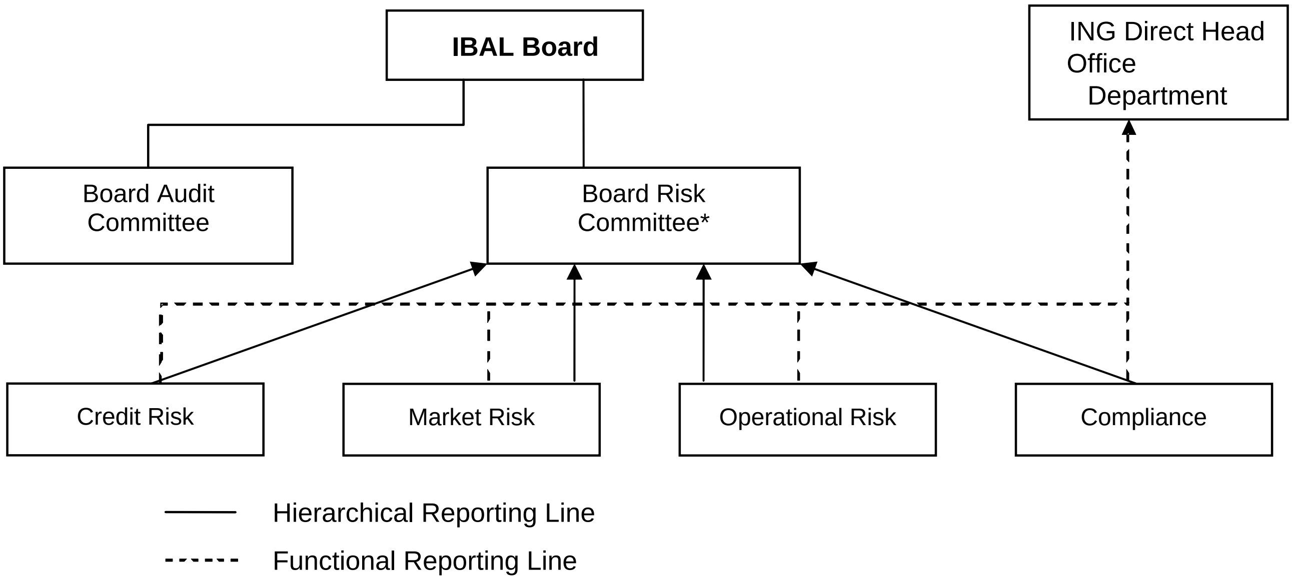
24. RISK MANAGEMENT (CONTINUED)

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.



* The Board Risk Committee was formed, effective 1 January 2009 and replaced the Board Credit & Investment Committee and the Board Conduct Review Committee which were dissolved on 31 December 2008.

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 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. The ORC meets on a monthly basis.

24. 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.

General

The Group's credit policy is to maintain a well diversified loan and investment portfolio while avoiding large risk concentrations.

CREDIT RISK

Credit risk is the risk of loss from default by debtors or counterparties. Credit risks arise 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 % OF TOTAL OUTSTANDINGS

		Weighted Total Bank	
S&P Equivalent Rating	Risk Gradings	**2008**	2007
AAA	1	**4.3**	3.6
AA	2-4	**11.6**	12.5
A	5-7	**2.4**	2.5
BBB	8-10	**45.5**	47.8
BB	11-13	**34.1**	32.5
B	14-17	**1.1**	0.6
Problem Grade	18-20	**1.0**	0.5
		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 5 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.

24. RISK MANAGEMENT (CONTINUED)

Collateral policies

As with all financial institutions and banks in particular, the Group is in the business of taking credit risks. 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.

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.

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

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.

The total retail mortgage portfolio 90 days past due as at the end of 2008 increased by 29 basis points to 58 basis points of outstandings (2007 - 29 basis points) but still remains below external benchmark indices. Over the course of 2008, in anticipation of rising arrears due to worsening credit environment, level of resources in Collections has been increased to handle larger volume of past due and impaired loans.

LOANS BY CREDIT QUALITY

amounts in thousands of dollars	2008	2007
Neither past due nor impaired	**37,908,449**	33,710,724
Past due but not impaired (1-90 days)	**739,967**	330,858
Impaired	**266,669**	102,269
	38,915,085	34,143,851

AGEING ANALYSIS (PAST DUE BUT NOT IMPAIRED)

Past due for 1-30 days	**461,894**	227,584
Past due for 31-60 days	**209,850**	71,838
Past due for 61-90 days	**68,223**	31,436
	739,967	330,858

IMPAIRED LOANS BY ECONOMIC SECTOR

Private individuals	**222,381**	100,157
Construction & Commercial Real Estate	**44,288**	2,112

	266,669	102,269

24. RISK MANAGEMENT (CONTINUED)

RISK CONCENTRATION: GROUP PORTFOLIO, BY ECONOMIC SECTOR

in percentages	2008	2007
Construction & commercial real estate	**6.8**	6.3
Financial institutions	**16.5**	17.8
Private individuals	**74.9**	75.2
Public administration	**1.8**	0.7
	100.0	100.0

PROVISION FOR IMPAIRMENT

amounts in thousands of dollars	2008	2007
Specific provisions		
Opening balance	**7,508**	9,750
Charges against profit	**9,144**	6,736
Provision release	**-**	(3,199)
Write-back of provisions no longer required	**(3,339)**	(1,053)
Sub-total	**13,313**	12,234
Bad debts written off	**(3,198)**	(4,726)
Closing balance – specific provisions	**10,115**	7,508

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.

Collective provisions		
Opening balance	**6,838**	12,648
New and increased provisioning	**7,763**	1,252
Provision release	**-**	(7,062)
Closing balance – collective provisions	**14,601**	6,838
Total provision for impairment	**24,716**	14,346

The estimated fair value of collateral on impaired loans was $320 million as at 31 December 2008 (2007 - $144 million).

MAXIMUM CREDIT RISK EXPOSURE

amounts in thousands of dollars	2008	2007
Financial assets		
Cash and cash equivalents	**718,843**	431,074
Accrued interest receivable	**183,334**	88,199
Available for sale securities	**6,878,414**	7,137,440
Loans and advances	**38,998,197**	34,254,362
Derivative assets	**956,330**	80,131
Total	**47,735,118**	41,991,206
Off-Balance Sheet		
Undrawn loan commitments and bank guarantees	**4,121,308**	4,616,904
Total maximum credit risk exposure	**51,856,426**	46,608,110

24. RISK MANAGEMENT (CONTINUED)

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.

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 changes in interest rates, credit spreads, currencies and related correlations. For the Bank, this covers:

- Interest rate risk
- 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, each of which has a re-pricing profile. 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 modeling 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 modeled) 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 at Risk (“EVaR”) and Earnings at Risk (“EaR”);

- EVaR 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 EVaR 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.

24. RISK MANAGEMENT (CONTINUED)

INTEREST RATE RISK ANALYSIS

Risk Monitor	Limit	2008	2007
EVaR	<($125,000)		
+ 200 bp increase		**9,358**	44,793
(-) 200 bp increase		**(6,192)**	(43,218)
EaR	<=30% of Base Earnings		
+ 200bp lagged increase	Year 1	**26%**	13%
+ 200bp immediate increase	Year 1	**(6%)**	(7%)

Assumptions underlying EVaR and EaR

The major assumption used at December 2008 for EVaR is a ± 200bp immediate parallel rate shock. The net present value ("NPV") of the Balance Sheet is calculated based on this rate shock and compared to the NPV using the actual rates at 31 December 2008. The difference between these two NPVs is the EVaR measure.

The major assumptions that relate to the EaR measures for 31 December 2008 are:

- 200bp parallel rate shock ramped over 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; and
- The change in interest rate applied to the savings accounts for the lagged increase scenario is based on an internally approved model for lagging the rate.

Other key assumptions used to measure EVaR 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.

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;

24. RISK MANAGEMENT (CONTINUED)

- 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 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 Bank 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 Bank's contingency funding plan 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 good access across the wholesale funding markets over the past year. Response to the Group's debt issuance continued to be strong albeit at greater credit spreads. At 31 December 2008, approximately 42% of the Group's funding was provided by retail sources (2007 – 51%) and 58% was provided by wholesale sources (2007 – 49%).

As a direct response to the challenging conditions posed by the credit crisis, the group undertook a number of initiatives to improve the level of and access to liquidity, as well as increasing the intensity of the monitoring and management regimes. Specific initiatives include:

- strengthening of internal risk management practices and the senior management team, including more direct senior management involvement, and also more frequent and more detailed reviews;
- establishment of an internal securitisation program in October 2008 of $7.5 billion of its retail mortgages. This provides additional liquidity in the event of long-term disruptions as these securities are eligible to be converted into cash under repurchase arrangements with the Reserve Bank of Australia;
- increasing the volume of marketable liquid assets. The level of liquid assets was $7.8 billion at 31 December 2008.

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

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 management 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.

24. RISK MANAGEMENT (CONTINUED)

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 processes	Examples of risk management tools
Risk identification	Risk and control self assessments Risk awareness programs Fraud detection
Risk measurement	Incidents reporting and analysis Risk adjusted return on capital Quality of control scorecards
Risk monitoring	Operational risk committee 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.

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.

25. CAPITAL MANAGEMENT

The Group is an Authorised Deposit-taking Institution ("ADI") 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 Bank. 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 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 Bank'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 Bank to hold additional capital for other risks it may deem significant.

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

Active capital management

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

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

To support these business activities and market effects, the Group actively manages its capital. The main focus of 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 Bank measures this risk by ascribing a portion of the capital adequacy limit to cover the calculated change in economic value. The Bank has implemented buffer and trigger limit structures to ensure that sufficient capital is maintained to meet unexpected changes in the risk profile of the Bank resulting from movements in market interest rates.

Forecasting regulatory capital requirements

The Group's capital management policy requires regular re-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 assets 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. Risk management 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 asset duration, 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. Capital re-forecasting addresses the impact of both the expected net duration outcome and also an ALCO approved maximum net duration position.

25. CAPITAL MANAGEMENT (CONTINUED)

Surplus capital

The Group holds an amount of surplus capital 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 assuming the maximum ALCO approved net duration. Additionally, the amount of surplus capital must be sufficient to accommodate a suitable period of time before additional capital can be delivered.

KEY CAPITAL INDICATORS

amounts in thousands of dollars		2008	2007
Qualifying capital			
Tier 1			
Total equity		**1,938,325**	1,939,806
Adjust for:	Available for sale reserve	**10,830**	4,804
	Cash flow hedge reserve	**188,836**	10,326
Total additions		**199,666**	15,130
Deductions		**(80,302)**	(87,786)
Total tier 1 qualifying capital		**2,057,689**	1,867,150
Tier 2			
Asset revaluation reserve		**-**	-
Collective provision for doubtful debts, net of tax		**10,221**	4,787
Term subordinated debt		**-**	726,000
Redeemable preference shares		**1,000,000**	-
Total tier 2 qualifying capital		**1,010,221**	730,787
Total qualifying capital		**3,067,910**	2,597,937
Total risk adjusted assets and off Balance Sheet exposure		**23,918,205**	24,559,175
Risk Weighted Capital Ratio		**12.8%**	10.6%

On 1 January 2008 the Group adopted the standardised approach to capital adequacy in accordance with the new Basel II Capital Requirements and APRA prudential standards. The effect of implementing the Basel II standardised approach was a reduction in the level of risk weighted assets and an increase in the capital adequacy ratio.

2007 comparatives are presented under Basel I requirements.

26. 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.

27. 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	**2008**	2007
Aggregate amounts receivable from the ultimate controlling entity	**153,273**	151,609
Aggregate amounts receivable from related parties in the wholly owned group	**652,808**	150,627
Total	**806,081**	302,236

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.

Aggregate amounts payable to the ultimate controlling entity	**559**	855
Aggregate amounts payable to related parties in the wholly owned group	**2,955,310**	1,069,562
Total	**2,955,869**	1,070,417

Other transactions with entities in the wholly owned group

Aggregate amounts payable comprise accrued interest and currency revaluation on 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.

Amounts receivable from related parties in the wholly owned group	**659,729**	-
Amounts payable from related parties in the wholly owned group	**-**	1,903

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

Amounts paid / payable to the ultimate controlling entity	**10,827**	7,459
Amounts paid / payable to related bodies	**58**	176
Total	**10,885**	7,635

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 as a whole.

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 mortgages and savings deposits and are on normal commercial terms.

Key management personnel remuneration is disclosed in Note 8.

28. CONTINGENCIES AND COMMITMENTS

Contingencies

Consolidated

amounts in thousands of dollars	2008	2008	2007	2007
	Unused	**Available**	Unused	Available
Standby facilities from related entities	**350,000**	**350,000**	350,000	350,000

Bank

amounts in thousands of dollars	2008	2008	2007	2007
	Unused	**Available**	Unused	Available
Standby facilities from related entities	**350,000**	**350,000**	350,000	350,000
Standby facilities to related entities	**272,101**	**286,875**	-	-

The Bank has provided a liquidity facility of $286.9 million to the Trust.

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	**2008**	2007
Commitments to extend credit		
- irrevocable commitments to extend credit	**4,075,365**	4,572,864
- bank accepted guarantees	**45,943**	44,040
Total commitments to extend credit	**4,121,308**	4,616,904
Operating Leases - Land & Buildings *		
Lease payments due:		
- not later than 1 year	**8,583**	7,992
- later than 1 year and less than 5 years	**34,403**	36,717
- later than 5 years	**29,981**	38,631
Total minimum lease payments	**72,967**	83,340

*Operating leases are the leases of the premises the Bank occupies at 140 Sussex Street Sydney, Lot 121 Reliance Drive Tuggerah, 570 Bourke Street Melbourne, 6-12 Hurtle Parade Mawson (Adelaide), 100 Edward Street Brisbane and 28B Railway Parade Subiaco (Perth).

DIRECTORS' DECLARATION

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

1) In the opinion of the Directors:

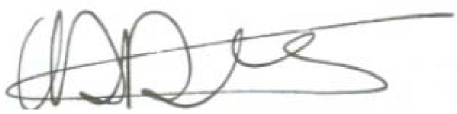
   a) the Financial Statements and notes of the Group are in accordance with the Corporations Act 2001, including

      i) giving a true and fair view of the Group's financial position as at 31 December 2008 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

Evert D Drok
Director

Sydney
Date: 23 March 2009

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

We have audited the accompanying financial report of ING Bank (Australia) Limited ("the Bank"), which comprises the balance sheet as at 31 December 2008, and the income statement, statement of recognised income and expense and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the Bank 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 Bank are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 our 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, we consider 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 met the independence requirements of the Corporations Act 2001. We have given to the directors of the Bank a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence

Auditor's Opinion

In our opinion:

1. 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 financial position of ING Bank (Australia) Limited and the consolidated entity at 31 December 2008 and of their performance for the year ended on that date; and

   ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Ernst + Young

Ernst & Young

A K Harmer
Partner
Sydney
23 March 2009