ING Australia
Annual Report 2019

ING Bank (Australia) Limited
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GPO Box 4094, Sydney, NSW, 2001

ing.com.au

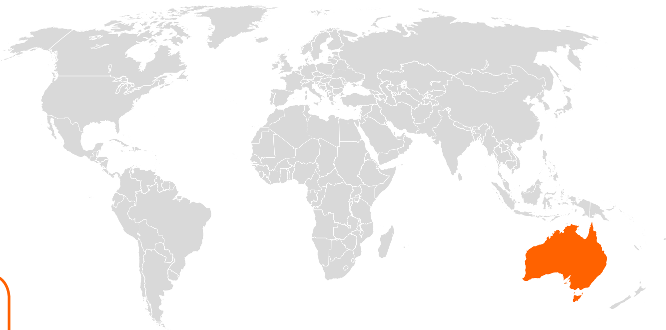
ING

Contents

A snapshot of our business

Who we are

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



2019 highlights

- More than 423,000 new customers
- Primary bank (main financial institution) customer numbers exceeded 833,000
- In 2019, ING expanded its distribution of insurance products with the introduction of car and travel insurance
- Orange Everyday at 1.75 million accounts

Our customers

- 1.84 million active customers
- #1 Net Promoter Score

Our award highlights

- RFi Australian Banking Innovation Awards
  - Australia's Most Trusted Bank
  - Financial Services Executive of the Year
  - Most Innovative Financial Institution
  - Best Communication Strategy
- Australian Mortgage Awards Bank of the Year
- Mozo's Australia's Best Bank award
- Mozo's Excellent Banking App award
- Mozo Experts Choice Awards
  - Car insurance
  - Home and contents insurance

Our people

- 1,766 employees

Our community

- We've supported 89 social enterprises through the ING Dreamstarter program and a number of social entrepreneurs through ING Dreamstarter scholarships.
- We continued our partnership with Cerebral Palsy Alliance to help empower young people who have a disability to get ahead.

Financial highlights

Net profit after tax	Cost to income ratio	Capital adequacy ratio	Savings	Loans
$440m	40.3%	13.6%	$44,841m	$62,958m

CEO's year in review

We celebrated ING's 20th anniversary in Australia with another strong year. We continue to see strong customer growth and have been voted the most trusted[1] and recommended bank in the country[2].

Primary Bank and new product growth

We welcomed more than 423,000 new customers, bringing our total active customer base to 1.84 million.

At the core of our strategy is growing the number of customers who choose ING as their main bank. In 2019 we grew this number by 30 per cent, supported by strong growth from our award-winning Orange Everyday transaction account, with 459,000 new accounts opened.

We grew our residential mortgage business by 6.3 per cent and our share of the broker market increased each quarter. More than 30,000 customers achieved the Aussie dream of buying their own home, with the help of ING.

Market share across deposits and loans continued to perform well, and faster than system. Retail deposits grew by 9.9 per cent and Business lending grew by 9.2 per cent.

Statutory net profit after tax was at $440m, an increase of 9.7 per cent over the previous year.

One of the highlights of the year was being named Australia's most trusted bank - an accolade particularly pleasing in what was a challenging year for financial services. We continue to lead the industry with our Net Promoter Score (how likely customers are to recommend ING to friends and family).

Our second key objective is to further diversify our balance sheet by growing our wholesale lending, and our consumer lending businesses and expanding our product suite to meet more of our customers' needs.

Our ING Personal Loan continued to be popular with more than 16,300 customers signing up to help them pursue their goals. In response to customer feedback we enabled a debt consolidation option – a good example of our customer-first approach to product design.

Car and travel was added to our range of insurance products offered through partner A&G, ensuring more customers can stay protected, wherever they are, whatever they do. We gave more than 60,000 customers peace of mind through an ING insurance product in 2019.

[1] The Australian Banking Innovation Awards **2019 Australia's Most Trusted Bank - ING**
[2] ING "Australia's most recommended bank" according to Nielsen Consumer & Media View July 19 - December 19 (n = 11403) when compared by customers of 18 other banks operating in Australia.'

Making a difference

We believe we have a duty to support the communities we serve and help deliver a sustainable future for all Australians. We provide special financial relief measures and support for customers impacted by natural disasters, such as the devastating bushfires.

Community spirit is an integral part of the ING culture. It's inspiring to see the passion from so many of our people who want to make a real and meaningful difference in their community. That's why everyone at ING is entitled to an Impact Leave Day to volunteer for a cause they care about.

Our ING Dreamstarter program supports businesses who are working to drive social good and create a better world for all Australians. In 2019 we supported nine socially conscious enterprises - bringing our total to 89 - to turn their ideas into reality and drive social and environmental change.

Through our partnership with Cerebral Palsy Alliance we empower young people who have a disability to get ahead, through employee volunteering and mentoring programs.

Image credit: Total Eren

Sustainable business lending

Our Wholesale Banking business continued to perform well, up 13.3 per cent year on year. We pride ourselves on being one of the industry leaders in financing sustainable projects that support Australia's transition towards renewable and cleaner energy generation.

ING was awarded the FinanceAsia Best Project Finance Deal of 2019 for our support of the Kiamal Solar Farm in Victoria. ING also provided underwriting support for a 200MW Solar Farm for Lightsource BP near Wellington NSW and was lead for acquisition financing for the 270MW Snowtown 2 wind farm in South Australia. By the end of 2019 we surpassed $800m of commitments in the Australian renewable energy sector.

Delivering a digital experience

We understand the quality of our digital offering is core to delivering a differentiated experience - an area we continue to invest in.

Our mobile app drives more than 830,000 daily interactions with customers. For more than a third of our customers (and growing) this is the only way they interact with us. We continue to deliver enhancements to the app which give customers the tools to build a sustainable financial future through personalised offers, while ensuring we remain simple and easy to do business with.

We've improved our operational efficiencies by using AI, automation and robotics technologies to speed up processing, approvals and cycle times across a number of areas, including mortgage and consumer lending applications.

Our care for our customers is what sets us apart, so it's imperative we stay close to them in order to respond to their changing needs.

Moving to a more agile way of working has boosted collaboration across teams and accelerated the time taken to bring new products and services to market that provide value and convenience to our customers.

Building a safe and secure ING

2019 was a watershed year for our initiatives focused on making sure ING continues to be a safe and secure bank.

Our risk management framework and policy settings have ensured that our lending growth has been achieved while maintaining high quality credit exposures.

We continued to work on the global know your customer ("KYC") enhancement program, which emphasises a thorough understanding of our customers and regulatory compliance as the key priority to ensure we only do business with people whose values reflect our own.

In addition, we focused our efforts on enhancing a strong compliance culture through employee training to ensure everyone understands their responsibilities and accountabilities in protecting the bank and our customers.

Our people

Our 'secret sauce' for success comes from the 1,766 passionate people that work at ING, serving our customers every day. Continuing investment in the employee experience is how we attract and retain the best talent.

We want our people to feel they can bring their whole self to work. In 2019 our Diversity & Inclusion Council led a number of initiatives to drive awareness and celebrate gender equality, LGBTQ and our diverse cultural heritage.

Mental health continues to be a key area of focus for ING in Australia. One in five Australians experience a mental illness in any year, therefore we place a strong emphasis on providing support and training for mental health through events and drop in counselling sessions. We have also increased the number of mental health first aiders on site to help others in their time of need.

Following a review of our existing HR policies we were the first Australian bank to give our people equal access to 14 weeks paid parental leave so they can share the care during the early years of their child's life. We also removed the labels 'primary' and 'secondary' carer from our policy to reflect the modern family.

Underpinning our culture is our 'Orange Code' - the non-negotiable promises we make to each other and the community. Our values are the principles we stick to no matter what – to be responsible, prudent, honest and with integrity above all.

Thank you

2019 was another great year where we continued to grow our business, launch new products for our customers and make ING a place where your whole self is welcome. Thank you to our customers, our people and our community partners for your ongoing support.

Uday Sareen
Chief Executive Officer
ING Bank (Australia) Limited

Our approach to sustainability

We believe empowering people to stay a step ahead in life and in business also means helping customers and society stay a step ahead of the challenges they're facing.

As a global bank we have an opportunity – and responsibility – to make a positive impact and help create a healthy planet with prosperous people.

We recognise we can play a critical role in addressing society's biggest challenges by financing change, sharing knowledge and using our influence and innovation skills.

That's why we strive to be sustainable – as a lender, as a partner and through the services we offer our customers.

Our sustainability approach focuses on driving positive change in two areas – climate action and financial health.

Climate action

Banks have a major role to play in financing the transition to a low-carbon economy. Over the past year we've made considerable progress on steering our lending portfolio towards global climate goals.

By the end of 2019 we surpassed AUD $800m of commitments in the Australian renewables sector, making us one of the industry leaders in this area.

Our financing of renewables included the 256MW Kiamal solar farm in Victoria, the largest in the state and a deal for which ING was awarded Best Project Finance Deal in 2019 by FinanceAsia. We supported the financing of a 200MW solar farm for Lightsource BP near Wellington in NSW and the 270MW Snowtown 2 wind farm in South Australia.

We are committed to steering our portfolio in line with the goals of the Paris Agreement, to keep global warming to well below two degrees. Our commitment is detailed in our global Terra approach.

Our first Terra progress report was issued in 2019 and shows the climate impact of our global EUR 600bn lending book, and the progress we have made in aligning our lending with the goals of the Paris Agreement.

Image credit: Total Eren

Financial health

Our business model, commitment to fairness and value, and our prudent approach to lending also support our aim to contribute to a financially healthy society.

As one of the leading innovative banks for the past 20 years, we continue to direct our focus on products, tools, research and education that help future-proof our customers and society.

We also invest in building a strong community and in 2019 focussed on two key programs:

ING Dreamstarter

Our ING Dreamstarter program supported the launch of nine new social enterprises, bringing the total to 89 since launching in 2014. The program helps budding social entrepreneurs to ideate, launch, grow and scale businesses with the potential for social impact.

Our innovative ING Dreamstarter gifting platform continued to evolve, leveraging key periods through the year to help raise the profile of our Dreamstarter family, while driving engagement and sales.

A highlight was the ING Dreamstarter Christmas campaign, born out of the startling statistic that Australians receive an estimated 10 million unwanted gifts each Christmas, contributing to staggering wastage and landfill.

The 'Give Me Something Good' campaign empowered Australians to help fight gift wastage by asking their loved ones for socially and environmentally good gifts. It featured a shareable online Good Gift List tool; our first ING Dreamstarter pop-up store (which was 99% sustainable); and The Rubbish Choir, a group of real garbage collectors from councils across Greater Sydney who sang a reworked version of a Christmas classic to encourage less unwanted gifts, and more of the gifts that are good for both people and the planet.

Cerebral Palsy Alliance

Our partnership with Cerebral Palsy Alliance continued to empower young people with a disability to build life skills that help them pursue their education, employment and economic goals, through award-winning programs Ignition Mentoring and Life Labs.

Our sustainability reporting

Our sustainability reporting is underpinned by our approach to materiality, which help us prioritise the economic, social and environmental issues most important to our stakeholders and their potential impact on our organisation. Our reporting is compiled in accordance with the Global Reporting Initiative (GRI).

Our performance against our key material issues is listed below and reporting relevant to the GRI is available here.

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

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

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

Confidence and trust earned through fair value for products and services

How we measure: Our target is to have the number one Net Promoter Score ("NPS") across the industry.

How we did in 2019: We continued to attract the highest Net Promoter Score of any Australian Bank in 2019 (37.3 Dec18).

*ING is "Australia's most recommended bank". Source: Nielsen Consumer & Media View May'19-October '19 (n=11613) when compared by customers of 18 other banks operating in Australia.

Responsible lending and debt prevention

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

How we measure: We aim to have our default rates below industry benchmarks.

How we did in 2019: ING's customer default rates have remained consistently below industry benchmarks in 2019.

System availability and data security

System availability

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

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

How we did in 2019: We achieved 99.88% average availability in 2019 (99.96% in 2018).

Data security

Digital banking security and the continuity of our online services are top priorities. Our specialists continually optimise our systems and processes to ensure their security. However, vulnerabilities can still exist and we place high importance on how we respond. Read more.

How we measure: Globally, ING Groep has implemented a Responsible Disclosure program with the other major banks through the Dutch Banking Association. We actively support this process and disclose the number of reported vulnerabilities remediated by the business.

How we did in 2019: 88% of reported vulnerabilities in 2019 were remediated (82% in 2018).

Help our people be their best

Talent attraction and retention

The ability to attract and retain employees remains crucial, particularly where innovation is fundamental to our business strategy. A key focus for 2019 was diversity and inclusion and initiatives to drive awareness and engagement on gender equality, LGBTQ, mental health and cultural heritage.

We continue to provide opportunities for global mobility, professional development, community investment and wellbeing, which are all part of empowering our people to deliver on our long term strategy. Read more.

How we measure: We measure our employee engagement through the Workforce Performance Culture (WPC) survey and our organisational health through the Organisational Health Index (OHI), alternating between each bi-annually. In 2019 we measured our organisational health using the OHI.

How we did in 2019: Our OHI score increased by two points to 78, up from 76 in 2017, the last time we conducted *this survey*. This result is in the top quartile of the global benchmark across industries.

Environmental and social performance

At ING we believe that managing our environmental and social impact is key to achieving our goal of being truly sustainable. It means making sure our operations – our buildings, data centres and how we use transport – are in line with the low-carbon economy of the future, that our employees are treated well and that neither we nor our suppliers infringe on human rights.

Through our ING Groep Environmental Program, we monitor and manage the impact of our operations including energy, business travel, water, paper use and waste, and sustainable procurement.

The Environmental Program was established to ensure we're not only empowering our clients to make the transition to a more sustainable economy, but that we're making our own transition to become a more resource-efficient and climate-resilient company.

To stay a step ahead we also need teams with a healthy mix of contrasting perspectives and backgrounds as they are more creative, faster to adapt and more inventive with their solutions.

That's why our approach to diversity and inclusion is founded on bringing your whole self to work. Having a workforce that reflects the diversity of our customer base and a working environment in which a diverse workforce can feel comfortable being themselves are important priorities for us.

The human rights we consider fundamental and universal for our workforce are also salient in how we do business and who we do business with.

Read more about our environmental and social risk (ESR) policies.

Read more about our human rights management approach.

Read more about our sustainability partnerships, memberships and endorsements.

Tax Transparency

We're committed to paying our fair share of taxes and maintaining the highest standards of corporate governance, social responsibility and ethical conduct. This includes a strong commitment to comply with our tax obligations and contribute directly to the economy by paying taxes to support public services and amenities for the benefit of the wider community.

Our tax transparency disclosures conform with the Australian Board of Tax, Voluntary Tax Transparency Code (TTC) of which the Bank is a signatory. Read more about the Code.

Please refer to page 28 for additional disclosures.

The Bank's tax strategy is to:

- safeguard our tax position in compliance with all applicable tax laws and regulations;
- ensure that tax position is correctly disclosed in the financial statements; and
- provide high-quality tax support to our businesses and management.

The Bank pays taxes promptly and in accordance with all applicable laws and regulations, taking account of both the letter and the spirit of the law.

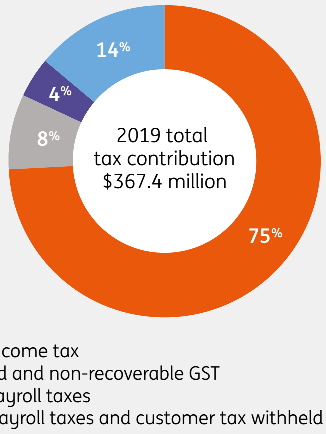
We have a low tolerance for tax risks, seek to fully cooperate with the Australian Taxation Office ("ATO") and other tax authorities and are committed to conduct any dealings in an open and transparent manner.

We do not undertake any aggressive tax planning. The commercial requirements of a transaction will dictate its form and no transactions will be entered into where obtaining a tax benefit is the primary purpose.

Our tax risk governance underscores a prudent approach to tax management and operates within our broader governance and risk management framework. Tax risk governance is underpinned by the Tax Risk Management ("TRM") policy which is reviewed annually and approved by the Board of Directors. The TRM policy is designed to effectively implement tax strategy, operate within its acceptable level of risk appetite and is aligned with the ATO's tax risk management and governance review guide. Our employees must adhere to the ING Values – to be honest, prudent and responsible, and with integrity above all - when managing tax affairs.

Tax contribution summary for corporate taxes paid

The Bank's total tax contribution (paid and remitted) amounted to $367.4 million.



International related party dealings

The Bank believes in the principle that tax should follow business and consequently profits are allocated to the countries in which business value is created. The Bank's international related party dealings are conducted in accordance with arm's length principles as prescribed by the Australian transfer pricing laws and in accordance with the Organisation of Economic Cooperation and Development ("OECD") guidelines.

We disclose transactions with related parties at Note 24 of our Financial Report. The main related-party transactions are with ING entities domiciled in The Netherlands, Poland and Singapore. The key business dealings include provision of management and administration services, employment related recharges, support and technology services, short and long term funding, money market transactions and interest rate and cross-currency derivatives.

Directors' report

The Directors submit their report, together with the financial report of ING Bank (Australia) Limited ("the Bank") and its controlled entities ("the Group") for the year ended 31 December 2019.

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

During the year, the Customer Experience Committee and the Technology and Transformation Committee were established with effect from 30 July 2019. Committee membership was reviewed and updated. There were further updates to the Committee membership following the retirement of Mr Katz.

Directors' qualifications and special responsibilities

Michael Katz, B.Comm (Hons), Chairman (retired)
Mr Katz was appointed as Director in January 2010 and was appointed Chairman of the Group in March 2011. Mr Katz reached his maximum tenure in December 2019 and accordingly retired as Director effective 31 December 2019. During the year, Mr Katz was Chairman of the Remuneration and Nomination Committee and a member of the Audit and Risk Committees. With effect from 30 July 2019 he was Chairman of the Technology and Transformation Committee and a member of the Customer Experience Committee. Following his retirement, Mr Katz is no longer Chairman or member of the Board Committees.

Dr John Francis Laker AO, MSc, PhD, Chairman
Dr Laker was appointed as Director on 1 January 2019 and appointed Chairman of the Group with effect from 1 January 2020. During the year, he was a member of the Remuneration and Nomination Committee and appointed Chair of that Committee with effect from 1 January 2020. He is also a member of the Audit and Risk Committees.

Aris Bogdaneris, B.Sc, B.A., M.A.
Mr Bogdaneris was appointed as Director in August 2015. During the year Mr Bogdaneris was a member of the Audit and Risk Committees until 29 July 2019 and a member of the Remuneration and Nomination Committee with effect from 30 July 2019

Nancy Fox, BA, JD (Law), FAICD
Ms Fox was appointed as Director in May 2018. Ms Fox is the Chair of the Risk Committee and a member of the Audit Committee. During the year Ms Fox was a member of the Remuneration and Nomination Committee until 29 July 2019 and a member of the Customer Experience Committee with effect from 1 January 2020.

Amanda Lacaze, B.A.
Ms Lacaze was appointed as Director in May 2011. She was appointed Chair of the Customer Experience Committee with effect from 30 July 2019 and Chair of the Technology and Transformation Committee with effect from 1 January 2020. During the year Ms Lacaze was a member of the Audit and Risk Committees until 29 July 2019 and was re-appointed to the Audit Committee with effect from 1 January 2020 following Mr Katz' retirement. Ms Lacaze is also a member of the Remuneration and Nomination Committee.

Mark Newman, B.Sc (Hons)
Mr Newman was appointed as Director in April 2015. During the year Mr Newman was a member of the Audit and Remuneration and Nomination Committees until 29 July 2019 and a member of the Technology and Transformation Committee with effect from 30 July 2019. He is also a member of the Risk Committee.

Darryl Newton, B.Comm, CA, GAICD
Mr Newton was appointed as Director in August 2018. Mr Newton is the Chair of the Audit Committee and a member of the Risk Committee. During the year Mr Newton was a member of Remuneration and Nomination Committee until 29 July 2019 and a member of the Technology and Transformation Committee with effect from 30 July 2019.

Uday Sareen, M.Sc (Hons), B.Eng (Hons), MBA, Chief Executive Officer
Mr Sareen was appointed as Chief Executive Officer on 1 June 2016 and as Director on 22 June 2016. He is not a member of any of the Board Committees.

Company secretaries

Robert Thie LL.M., LL.B.
Mr Thie was appointed as Company Secretary of the Group on 20 November 2018 and resigned on 31 July 2019. He progresses his career at ING Groep N.V.

Martine Forrester, LL.B, GAICD, GIA (Cert)
Ms Forrester was appointed as Company Secretary of the Group on 31 July 2019.

Suzanna Dabski, LL.M, B.BA LL.B, B.BA (Hons)
Ms Dabski was appointed as Company Secretary of the Group on 31 July 2019 and resigned 20 December 2019.

Meetings of Directors

Director	Meetings eligible to attend as a member	Meetings attended as a member
Meetings held during the year	**6**	
M Katz	6	6
J Laker	6	6
A Bogdaneris	6	4
N Fox	6	5
A Lacaze	6	5
M Newman	6	5
D Newton	6	6
U Sareen	6	6

Committee Meetings

	Audit		Risk		R&N		CEC		T&T	
Meetings held	5		5		4		1		1	
Director	E	A	E	A	E	A	E	A	E	A
M Katz	5	5	5	5	4	4	1	1	1	1
J Laker	5	5	5	5	4	4	n/a	n/a	n/a	n/a
A Bogdaneris	2	2	2	2	3	1	n/a	n/a	n/a	n/a
N Fox	5	4	5	5	1	1	1	1	n/a	n/a
A Lacaze	2	2	2	2	4	3	1	1	1	1
M Newman	2	1	5	4	1	1	n/a	n/a	1	1
D Newton	5	5	5	5	1	1	n/a	n/a	1	1

E – Meetings eligible to attend as a member
A- Meetings attended as a member
R&N - Remuneration and Nomination Committee
CEC - Customer Experience Committee
T&T – Technology and Transformation Committee

Corporate structure

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

Nature of operations and principal activities

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

Employees

The Group employed 1,379 (2018: 1,262) permanent employees) and 387 (2018: 253) contractors as at 31 December 2019.

Significant changes in the state of affairs

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

Significant events after the balance date

No subsequent events have occurred since the year ended 31 December 2019, or are pending, that would have a material effect on the financial statements.

Likely developments and expected results

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

Rounding

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

Indemnification and insurance of directors and officers

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

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

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

Auditor's independence declaration

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

Signed in accordance with a resolution of the Directors.

Dr John Laker
Chairman

Uday Sareen
Chief Executive Officer

Sydney
4 March 2020

KPMG

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

To the Directors of ING Bank (Australia) Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of ING Bank (Australia) Limited for the financial year ended 31 December 2019 there have been:

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

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

KPMG

KPMG

Brendan Twining
Partner
Sydney
4 March 2020

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Corporate governance statement

Board responsibilities

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

Composition of the Board

At 31 December 2019 the Board comprised seven Non-Executive Directors (two of whom are representatives of ING Groep N.V.) and one Executive Director. The Chairman is a Non-Executive Director. The Board met six times this year.

Board's 2019 governance priorities

The Board's 2019 governance priorities were:

- undertaking the board renewal;
- implementing the recommendations of the Group's Self-Assessment conducted following the APRA Prudential Inquiry into CBA to strengthen the Group's governance, risk management and culture;
- clarification of the roles, accountabilities responsibilities of the Board, Board Committees and Executive Committee; and
- reviewing the remuneration of senior executives and governance framework.

A summary of the roles and responsibilities of the Board, its Committees and the CEO are also outlined below.

Board Responsibilities

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

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

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

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

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

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

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

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

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

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

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

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

To ensure that all relevant issues are addressed between meetings of the Board and its Committees, there are also various Committees at a business unit level. These Committees are the Executive Committee, Credit Risk Committee, Asset and Liability Committee, Non-Financial Risk Committee, Customer Integrity Risk Committee and the Finance and Risk Committee. All business unit level Committees are run by appropriate Senior Executives of the Group.

Board Committees

Up until 29 July 2019, the composition of the Board Committees was as follows:

Director	Audit	Risk	R&N
M Katz	Member	Member	Chair
A Lacaze	Member	Member	Member
M Newman	Member	Member	Member
A Bogdaneris	Member	Member	
N Fox	Member	Chair	Member
D Newton	Chair	Member	Member
J Laker	Member	Member	Member

R&N - Remuneration and Nomination Committee

The Customer Experience Committee and Technology and Transformation Committee were established with effect from 30 July 2019. The composition of the Board Committees was as follows:

Director	Audit	Risk	R&N	CEC	T&T
M Katz	Member	Member	Chair	Member	Chair
A Lacaze			Member	Chair	Member
M Newman		Member			Member
A Bogdaneris			Member		
N Fox	Member	Chair		Member	
D Newton	Chair	Member			Member
J Laker	Member	Member	Member		

As a result of Mr Katz' retirement from the Board, with effect from 1 January 2020 the composition of the Board Committees is as follows:

Director	Audit	Risk	R&N	CEC	T&T
A Lacaze	Member		Member	Chair	Chair
M Newman		Member			Member
A Bogdaneris			Member		
N Fox	Member	Chair		Member	
D Newton	Chair	Member		Member	Member
J Laker	Member	Member	Chair		

R&N - Remuneration and Nomination Committee
CEC - Customer Experience Committee
T&T – Technology and Transformation Committee

Audit Committee

The Audit Committee, chaired by Mr Newton, assists the Board by providing an objective non-executive review of the effectiveness of the Group's financial reporting and risk management framework. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes which involve the safeguarding of assets, the maintenance of proper accounting records as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Audit Committee assists the Board in the establishment and maintenance of a framework of internal control and ethical standards for the management of the Group.

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

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

Risk Committee

The Risk Committee, chaired by Ms Fox, assists the Board by providing an objective non-executive oversight of the implementation and operation of the Group's risk management framework. The Risk Committee ensures a holistic approach to risk management within the Group. It ensures the Group maintains a risk management strategy and framework that is consistent with the approved risk appetite and complexity of the Bank's business model.

The Risk Committee formulates the Bank's risk appetite for Board consideration and also makes recommendations on key policies relating to capital, liquidity and funding, ensures effective and informed risk management reporting to the Board as necessary, and being available to meet with regulators (such as the Australian Securities and Investment Commission ("ASIC") and Australian Prudential Regulation Authority ("APRA") on behalf of the Group, when requested.

Remuneration and Nomination Committee

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

Customer Experience Committee

Established effective 30 July 2019, the Customer Experience Committee, chaired by Ms Lacaze, assists the Board in reviewing and monitoring customer experience with the Group, including customer complaints, resolution and closure and customer outcomes.

Technology and Transformation Committee

Established effective 30 July 2019, the Technology and Transformation Committee, chaired by Ms Lacaze, assists the Board in reviewing the Group's technology strategy and planning, including priorities, budgets and deliverables and annual budgets and operational plans. In addition, it oversees and monitors the Group's strategic transformation initiatives, including technology, data and business transformation.

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

Pillar 3 Disclosures

The Common Disclosures and Regulatory Capital reconciliation documents required under the 'Pillar 3 Disclosures', per prudential standard APS 330 "Public Disclosure" are provided in the Investor Relations section of the Bank's website. Read More

Financial statements
Statements of comprehensive income
as at 31 December 2019

		Consolidated		Bank	
Amounts in millions of dollars	Note	2019	2018	2019	2018
Interest income using effective interest method		2,174	2,109	2,586	2,435
Other interest income		119	125	118	107
Total interest income		**2,293**	**2,234**	**2,704**	**2,542**
Interest expense using effective interest method		(1,136)	(1,178)	(1,591)	(1,544)
Other interest expense		(126)	(110)	(122)	(86)
Total interest expense		**(1,262)**	**(1,288)**	**(1,713)**	**(1,630)**
Net interest income		**1,031**	**946**	**991**	**912**
Net non-interest income		79	35	118	67
Total operating income	3	**1,110**	**981**	**1,109**	**979**
Employment expenses		(223)	(193)	(223)	(193)
Advertising expenses		(48)	(46)	(48)	(46)
Depreciation and amortisation expenses		(48)	(43)	(48)	(43)
Occupancy expenses		(17)	(16)	(17)	(16)
Technology expenses		(21)	(17)	(21)	(17)
Management expenses		(38)	(35)	(38)	(35)
Fee expenses		(13)	(10)	(10)	(8)
Other expenses		(38)	(32)	(40)	(33)
Total operating expenses		**(446)**	**(392)**	**(445)**	**(391)**
Loan impairment expense	12	(32)	(13)	(32)	(13)
Operating profit before tax		**632**	**576**	**632**	**575**
Income tax expense	4	(192)	(175)	(192)	(175)
Profit for the year		**440**	**401**	**440**	**400**
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Unrealised revaluations net of tax:					
Financial assets at FVOCI					
Gains / (losses) arising during the year	21	(17)	(9)	(17)	(9)
Gains / (losses) transferred to profit or loss	21	16	8	16	8
Net gains / (losses) on financial assets at FVOCI		(1)	(1)	(1)	(1)
Cash flow hedges					
Gains / (losses) arising during the year	21	(45)	(6)	(45)	(6)
Gains / (losses) transferred to profit or loss	21	(25)	(12)	(25)	(12)
Net gains / (losses) on cash flow hedges	9	(70)	(18)	(70)	(18)
Total amount recognised directly in equity		**(71)**	**(19)**	**(71)**	**(19)**
Total comprehensive income		**369**	**382**	**369**	**381**

(1) The interest expense on the lease liability is presented as part of 'interest expense'.
(2) The depreciation expense on the right of use asset is presented as part of depreciation and amortisation expenses. The above statements of comprehensive income should be read in conjunction with the accompanying notes on pages 22 to 79 which is an integral part of the financial statements.

Financial statements
Balance sheets

as at 31 December 2019

		Consolidated		Bank	
Amounts in millions of dollars	Note	2019	2018	2019	2018
Assets					
Cash and cash equivalents	6	902	1,037	425	691
Due from other financial institutions	7	1,271	607	1,336	657
Financial assets at FVOCI	8	2,915	2,687	2,915	2,687
Securities at amortised cost	8	1,516	1,468	1,516	1,468
Derivative assets	9	92	73	92	70
Receivables and other assets		69	36	67	36
Loans and advances	11	62,883	58,558	62,883	58,558
Amounts due from controlled entities	24	-	-	10,770	9,084
Deferred tax asset	4	108	53	104	50
Property, plant and equipment	10	140	85	140	85
Intangible assets		55	39	55	39
Total assets		**69,951**	**64,643**	**80,303**	**73,425**
Liabilities					
Derivative liabilities	9	595	362	594	362
Creditors and other liabilities	13	244	211	244	212
Deposits and other borrowings	14	58,967	55,844	59,087	55,962
Amounts due to controlled entities	24	-	-	13,591	11,182
Debt issues	15	5,210	3,603	1,852	1,084
Current tax liabilities		23	82	23	82
Provisions	19	17	17	17	17
Deferred tax liabilities	4	52	52	50	50
Total liabilities		**65,108**	**60,171**	**75,458**	**68,951**
Net assets		**4,843**	**4,472**	**4,845**	**4,474**
Equity					
Contributed equity	20	1,334	1,334	1,334	1,334
Reserves	21	-	85	-	85
Retained earnings		3,509	3,053	3,511	3,055
Total equity		**4,843**	**4,472**	**4,845**	**4,474**

The above balance sheets should be read in conjunction with the accompanying notes on pages 22 to 79 which is an integral part of the financial statements.

Financial statements
Statements of changes in equity
as at 31 December 2019

Amounts in millions of dollars	Note	Contributed equity 20	Reserves 21	Retained earnings	Total equity
Consolidated					
As at 1 January 2019		1,334	85	3,053	4,472
Profit for the year		-	-	440	440
Other comprehensive income		-	(71)	-	(71)
Total comprehensive income		-	(71)	440	369
Transactions with owners, recorded directly in equity					
Transfers	21	-	(16)	16	-
Share based payment plan	21	-	2	-	2
As at 31 December 2019		**1,334**	**-**	**3,509**	**4,843**
As at 31 December 2017		**1,334**	**123**	**2,646**	**4,103**
Changes on initial application of AASB 9		-	(15)	-	(15)
Restated balance as at 1 January 2018		1,334	108	2,646	4,088
Profit for the year		-	-	401	401
Other comprehensive income		-	(19)	-	(19)
Total comprehensive income		**-**	**(19)**	**401**	**382**
Transactions with owners, recorded directly in equity					
Transfers	21	-	(6)	6	-
Share based payment plan	21	-	2	-	2
As at 31 December 2018		**1,334**	**85**	**3,053**	**4,472**
Bank					
As at 1 January 2019		**1,334**	**85**	**3,055**	**4,474**
Profit for the year		-	-	440	440
Other comprehensive income		-	(71)	-	(71)
Total comprehensive income		-	(71)	440	369
Transactions with owners, recorded directly in equity					
Transfers	21	-	(16)	16	-
Share based payment plan	21	-	2	-	2
As at 31 December 2019		**1,334**	**-**	**3,511**	**4,845**
			-		
As at 31 December 2017		**1,334**	**123**	**2,649**	**4,106**
Changes on initial application of AASB 9		-	(15)	-	(15)
Restated balance as at 1 January 2018		**1,334**	**108**	**2,649**	**4,091**
Profit for the year		-	-	400	400
Other comprehensive income		-	(19)	-	(19)
Total comprehensive income		**-**	**(19)**	**400**	**381**
Transactions with owners, recorded directly in equity					
Transfers	21	-	(6)	6	-
Share based payment plan	21	-	2	-	2
As at 31 December 2018		**1,334**	**85**	**3,055**	**4,474**

The above statements of changes in equity should be read in conjunction with the accompanying notes on pages 22 to 79 which is an integral part of the financial statements.

Financial statements
Statements of cash flow
as at 31 December 2019

Amounts in millions of dollars	Note	Consolidated 2019	Consolidated 2018	Bank 2019	Bank 2018
Cash flows from operating activities					
Operating profit before tax		632	576	632	575
Adjustments for:					
Depreciation and amortisation expenses		43	35	43	35
Loan impairment expense		32	13	32	13
Other		(114)	(50)	(115)	(52)
Taxes paid		(274)	(185)	(274)	(185)
Changes in:					
Loans and advances		(4,357)	(6,012)	(4,357)	(6,012)
Derivatives		214	(23)	210	(28)
Receivables and other assets		(33)	90	(30)	56
Creditors and other liabilities[1]		(36)	(199)	(36)	(193)
Deposits and other borrowings		3,102	4,853	3,827	3,928
Debt issues		-	9	-	9
Net cash flows (used in)/from operating activities[2]		**(791)**	**(893)**	**(68)**	**(1,854)**
Cash flows from investing activities					
Payments for property and equipment		(32)	(21)	(32)	(21)
Payments for securities		(825)	(652)	(825)	(652)
Proceeds from sale of securities		292	332	292	332
Proceeds from redemption of securities		90	46	90	46
Proceeds from discount securities		167	80	167	80
Net cash flows (used in) / from investing activities[2]		**(308)**	**(215)**	**(308)**	**(214)**
Cash flows from financing activities					
Proceeds from other long term financing		13,127	14,546	13,127	14,546
Proceeds from debt issued		1,518	75	-	75
Proceeds from covered bond issuance		750	1,000	750	1,000
Repayment of other long term financing		(13,106)	(13,378)	(13,106)	(13,378)
Repayment of debt issued		(661)	(782)	18	-
Dividends paid		-	-	-	-
Net cash flows from financing activities		**1,628**	**1,461**	**789**	**2,243**
Net cash flows		529	353	413	175
Cash and cash equivalents at beginning of year[3]		1,644	1,291	1,348	1,173
Cash and cash equivalents at end of year[3]	6 & 7	**2,173**	**1,644**	**1,761**	**1,348**

[1] Lease payments for 2019 have been allocated to operating cash flow as the lease repayments are mainly interest in the first year of the lease.
[2] Interest received was $2,298 million (2018: $2,174 million) and interest paid was $1,231 million (2018: $1,215 million) for Consolidated.
Interest received was $2,698 million (2018: $2,489 million) and interest paid was $1,680 million (2018: $1,572 million) for Bank.
[3] For the purposes of the Cash Flow Statement, Cash and cash equivalents include 'Cash and cash equivalents' at note 6 and 'Due from other financial institutions' at note 7.
The above statements of cash flow should be read in conjunction with the accompanying notes on pages 22 to 79.

Notes to the financial statements

1. Basis of preparation

1.1 Corporate information

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

The financial statements for the year ended 31 December 2019 is comprised of the Bank and its controlled entities comprising IDS Trust 2008-1, IDOL Trust Series 2010-1, IDOL Trust Series 2011-1, IDOL Trust Series 2011-2, IDOL Trust Series 2012-1, IDOL Trust Series 2012-2, IDOL Trust Series 2013-1, IDOL Trust Series 2013-2, IDOL Trust Series 2014-1, IDOL Trust Series 2015-1, IDOL Trust Series 2016-1, IDOL Trust Series 2017-1, IDOL Trust Series 2019-1 and IBAL Covered Bond Trust. During the year, IDOL Trust Series 2010-1 was wound up and IDOL Trust Series 2019-1 was established. The financial statements were authorised for issue in accordance with a resolution of the Directors on 4th March 2020.

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

1.2 Basis of accounting

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

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

The financial statements are prepared on a historical cost basis and financial instruments which are measured at fair value.

2. Significant accounting policies

2.1 Changes to accounting policies

The Group changed its accounting policies in 2019 as a result of adopting AASB 16 'Leases'. The other amendments did not have a significant impact on Group's accounting policies, Group's results or financial position.

AASB 16 'Leases'

AASB 16 'Leases' was issued by the AASB in February 2016. AASB 16 replaces AASB 117 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases- Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. The Group has adopted AASB 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the Standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 January 2019.

AASB 16 'Leases' - Impact of adoption transition

For lessee accounting, the new Standard removes the distinction between operating and finance leases. All leases are recognised on the statement of financial position with exemptions for short-term leases with a lease term of less than 12 months and leases of low-value assets (for example mobile phones or laptops).

2. Significant accounting policies (continued)

There is no significant impact of the adoption of AASB 16 on the Group's Net Result, Comprehensive income and Shareholders' equity on transition. This follows the Group's implementation decision where the value of the right-of-use asset is based on the value of the lease liability, adjusted for any previously recognised prepaid and/or accrued lease payments on that lease contract, as is permitted under the Standard.

On transition to AASB 16, the Group recognised lease liabilities of $68m and right-of-use assets of $66m equal to the lease liability adjusted for any previously recognised prepaid or accrued lease payments on that lease.

The weighted average incremental borrowing rate applied to lease liabilities recognised in the statement of financial position at the date of initial application is 3.03%.

The following table reconciles the future rental commitments for operating lease contracts under AASB 117 to the lease liability under AASB 16 on transition to AASB 16 as of 1 January 2019:

Consolidated and Bank

Amounts in millions of dollars	1 January 2019
Future rental commitments for operating lease contract disclosed under AASB 117 as at 31 December 2018	**80**
(Less) discounting effect using ING's incremental borrowing rate at 1 January 2019	(10)
(Less) recognition exemption for short-term leases	(2)
(Less) recognition exemption for low value assets	-
(Less) non-lease components of a contract	-
Add extension and termination options reasonably certain to be exercised	-
(Less) variable lease payments based on an index or a rate	-
Lease liability recognised under AASB 16 at 1 January 2019	68

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the Standard:

- Reliance on previous assessments whether a contract is, or contains a lease at the date of initial application;
- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessments on whether leases are onerous;
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

AASB 16 'Leases' - Accounting policies applied from 1 January 2019

The Group as the lessee

A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a corresponding liability representing its obligation to make lease payments at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance costs are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

2. Significant accounting policies (continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. This rate is approximated by using the risk free rate applicable to the lease term, the currency of the lease payment and jurisdiction, with the Fund Transfer Pricing ("FTP") rate as an add-on. The FTP rate is used to transfer interest rate risk and funding and liquidity risk positions between the Group business and treasury departments. It is determined by either the Group or Local Asset and Liability Committee ("ALCO").

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date less any lease incentives received and any initial direct costs and restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise mainly IT-equipment (for example mobile phones or laptops) and small items of office furniture.

The right-of-use asset is included in the statement of financial position line-item 'Property and equipment', the lease liability is included in the statement of financial position line-item 'Creditors and other liabilities'.

The Group as the lessor

When the Group acts as a lessor, a distinction should be made between finance leases and operating leases. For the Group as a lessor these are mainly finance leases. The present value of the lease payments is recognised as a receivable under Loans and advances to customers or Loans and advances to banks. The difference between the gross receivable and the present value of the receivable is unearned finance lease income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

Operating leases for lessees prior to 1 January 2019 under AASB 117

The comparative figures presented are accounted for using the previous Standard, AASB 117 'Leases'. Under this Standard a distinction was made between finance leases and operating leases. A lease was considered a finance lease if it transfers substantially all of the risks and rewards from the ownership of the asset. All other leases are operating leases.

Leases entered into by the Group as a lessee were primarily operating leases. The total payments under operating leases were recognised in the statement of profit or loss on a straight-line basis over the period of the lease.

2. Significant accounting policies (continued)

2.2 Significant estimates and judgements

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

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

Impairment of financial assets

Considerable judgement is exercised in determining the extent of the loan loss allowance for financial assets assessed for impairment both individually and collectively. The loan loss allowance for financial assets is based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period. Changes in such judgements and analyses may lead to changes in the loan loss allowance over time. The key judgement areas are the assumptions used to measure expected credit losses, including the use of forward-looking and macro-economic information for individual and collective impairment assessment.

Individually assessed loans (Stage 3): Individual provisions are calculated using the discounted expected future cash flow method. To determine expected future cash flows, one or more scenarios are used. Each scenario is analysed based on the probability of occurrence and including forward looking information. In determining the scenarios, all relevant factors impacting the future cash flows are taken into account. These include expected developments in credit quality, business and economic forecasts, and estimates of if/when recoveries will occur, taking into account the structure of the financial asset and the Group's restructuring/recovery strategy. The macroeconomic forecast is captured, as the expected future macroeconomic situation serves as a basis for the cash flows in the scenarios. For the individual assessment, with granular (company or deal-specific) scenarios, specific factors can have a larger impact on the future cash flows than macroeconomic factors (i.e. for the country as a whole).

Collectively assessed loans (Stages 1 to 3): 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. Expected 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. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The outcome of the models reflects forward looking and macro-economic information.

The use of different assumptions could produce significantly different estimates of Expected Credit Loss ("ECL"). As the inclusion of forward-looking macroeconomic scenarios requires judgement, ING Groep N.V. has established a quarterly process whereby forward-looking macroeconomic scenarios are developed for ECL calculation purposes. This process is based on using a third party provider – Oxford Economics ("OE") – that delivers the forecast macroeconomic scenarios using key impairment drivers such as GDP, unemployment and house prices.

Two internal groups have been established by ING Groep N.V.; the Macroeconomic Scenarios Team and the Macroeconomic Scenarios Expert Panel, which are responsible for ensuring the scenarios received from OE are in line with ING's view on the macro economy. The Macroeconomics Scenarios Team is responsible for the macroeconomic scenarios used for AASB 9 ECL purposes with a challenge by the Macroeconomic Scenarios Expert Panel. This ensures that the macroeconomic scenarios are sufficiently challenged and that key economic risks, including immediate short term risks, are taken into consideration when developing the macroeconomic scenarios used in the calculation of ECL.

2. Significant accounting policies (continued)

The following criteria and definitions are applied for impairment:

- **The criteria for identifying a significant increase in credit risk**
  When determining whether the credit risk on a financial asset has increased significantly, the Group considers reasonable and supportable information available to compare the risk of default occurring at the quarterly reporting date with the risk of a default occurring at initial recognition of the financial asset. Significant judgement is required to determine the criteria for a significant increase in credit risk.
- **Definition of default**
  Judgement is exercised in management's evaluation of whether there is objective evidence that an impairment loss on an asset has been incurred. Significant judgement is required in assessing evidence of credit-impairment and estimation of the amount and timing of future cash flows when determining expected credit losses. Refer to 'Note 12 - Impairment of financial assets' for the group's definition of default.

Financial instruments fair value

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the Group establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. Valuation techniques are subjective in nature and involve various assumptions regarding pricing factors.

3. Operating income

	Consolidated		Bank	
Amounts in millions of dollars	2019	2018	2019	2018
Interest income				
Cash and cash equivalents*	9	11	6	8
Due from other financial institutions*	5	4	5	4
Securities at FVOCI	80	82	80	82
Securities at amortised cost*	39	37	39	37
Loans and advances*	2,121	2,057	2,121	2,057
Amounts due from controlled entities*	-	-	415	329
Derivative assets	39	43	39	25
Total interest income	**2,293**	**2,234**	**2,705**	**2,542**
Interest expense				
Deposits*	1,046	1,083	1,048	1,085
Debt issues*	90	96	33	10
Derivative liabilities	124	109	120	86
Lease Liabilities	2	-	2	-
Amounts due to controlled entities*	-	-	510	449
Total interest expense	**1,262**	**1,288**	**1,713**	**1,630**
Net interest income	**1,031**	**946**	**992**	**912**
Non-interest income / (expense)				
Account fees	31	39	31	39
Net commission income/(expense)	66	10	66	10
Customer transaction costs	(22)	(15)	(22)	(15)
Gain from sale of financial assets	3	-	3	-
Securitisation income	-	-	38	32
Gain from sale of loans	-	-	-	-
Other non-interest income/(expense)	1	1	2	1
Net non-interest income/(expense)	**79**	**35**	**118**	**67**
Total operating income	**1,110**	**981**	**1,110**	**979**

* Calculated using the effective interest rate method

Income and expense recognition – Accounting policy

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

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

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

4. Income tax

The Bank is a signatory to the Voluntary Tax Transparency Code. Information provided in this note is also for the purposes of Part A of the Voluntary Tax Transparency Code disclosures.

	Consolidated		Bank	
Amounts in millions of dollars	2019	2018	2019	2018
Income Statement				
Current income tax	215	182	215	182
Deferred income tax	(23)	(7)	(23)	(7)
Income tax expense reported in Income Statement	**192**	**175**	**192**	**175**
Statement of Comprehensive Income				
Deferred income tax				
Revaluation of cash flow hedge	(30)	8	(30)	8
Revaluation of financial assets at FVOCI	-	2	-	2
Income tax expense recognised in other comprehensive income	**(30)**	**10**	**(30)**	**10**
Reconciliation of income tax expense				
Operating profit before income tax	632	576	632	575
Prima facie income tax on operating profit at 30%	190	173	190	173
Effects of amounts which are not (assessable)/deductible	2	2	2	2
Income tax expense	**192**	**175**	**192**	**175**
Effective tax rate	**30.3%**	**30.3%**	**30.3%**	**30.3%**

	Consolidated		Bank	
Amounts in millions of dollars	2019	2018	2019	2018
Reconciliation of income tax expense to income tax payable				
Opening balance	(82)	(85)	(82)	(85)
Current income tax expense for the year	(215)	(182)	(215)	(182)
Income tax paid/(refund)	274	185	274	185
Closing balance	**(23)**	**(82)**	**(23)**	**(82)**

4. Income tax (continued)

Deferred income tax	Consolidated Balance Sheet		Consolidated Income Statement		Bank Balance Sheet		Bank Income Statement	
Amounts in millions of dollars	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Deferred income tax at 31 December relates to the following:								
Deferred tax liabilities								
Deferred lending expenses	49	49	-	3	49	49	-	3
Depreciation and amortisation expenses	-	1	(1)	(8)	-	1	(1)	(7)
Revaluation of derivatives	2	2	-	(4)	-	-	-	-
Other	1	-	1	-	1	-	1	-
Total deferred tax liabilities	**52**	**52**			**50**	**50**		
Deferred tax assets								
Provisions for impairment	23	14	(8)	(3)	23	14	(8)	(3)
Deferred lending income	3	-	(3)	-	3	-	(3)	-
Revaluation of financial assets at FVOCI	4	4	-	-	4	4	-	-
Revaluation of cash flow hedge	45	15	-	-	45	15	-	-
Depreciation and amortisation expenses	8	-	(8)	-	8	-	(8)	-
Accrued expenses	9	9	-	1	9	9	-	1
Provisions	5	5	-	-	5	5	-	-
Other	11	6	(4)	4	7	3	(4)	(1)
Total deferred tax assets before set- off	**108**	**53**			**104**	**50**		
Net deferred tax assets / (liabilities)	**56**	**1**			**54**	**-**		
Deferred income tax charge			**(23)**	**(7)**			**(23)**	**(7)**

Income tax – Accounting policy

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

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

Deferred tax assets and liabilities are recognised based on temporary differences between the tax base and the accounting carrying amount of an asset or liability in the Balance Sheet, or when a benefit arises due to unused tax losses. They are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable amounts will be available to utilise those temporary differences or tax losses.

Tax consolidation

ING Bank (Australia) Limited and other wholly owned subsidiaries of ING Groep N.V. in Australia formed a tax consolidated group from 1 January 2004 and are taxed as a single entity from that date. The tax consolidated group does not include ING Bank (Australia) Limited's controlled entities with the exception of IBAL Covered Bond Trust.

Members of the tax consolidated group have entered into a tax sharing deed which sets out the funding obligations and allocation of income tax payable to group members. This allocation is calculated on a stand-alone taxpayer approach. The amounts receivable or payable under the tax sharing deed are due upon receipt of the funding advice from the Head Entity, which is issued as soon as practicable after the end of each financial year. The Head Entity may also require payment of interim funding amounts to assist with its obligations to pay income tax instalments. The Head Entity of the tax consolidated group is ING Australia Holdings Limited. Each member of the tax consolidated group is separately managed and responsible for ensuring it meets its tax obligations.

Income tax paid by members of the tax consolidated group gives rise to a credit in the franking account. The Head Entity maintains one franking account which is available to pay franked dividends.

5. Financial instruments

Financial instruments - Accounting policy

The financial assets of the Group include cash and cash equivalents, due from other financial institutions, financial assets at FVOCI, securities at amortised cost, derivative assets, receivables and other assets, amounts due from controlled entities and loans and advances. The financial liabilities of the Group include derivative liabilities, deposits and other borrowings, creditors and other liabilities, amounts due to controlled entities and debt issues.

Recognition and derecognition of financial instruments

The Group recognises a financial asset or financial liability in its balance sheet when the Group becomes a party to the contractual provisions of the instrument. This is usually on the trade date, being the date the Group commits itself to purchase or sell an asset. Loans and advances, and repurchase agreements are recognised using settlement date accounting, the date at which the asset is delivered by the Group.

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or where the Group has transferred substantially all risks and rewards of ownership. If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, it derecognises the financial asset if it no longer has control over the asset. The difference between the carrying amount of a financial asset that has been extinguished and the consideration received is recognised in the income statement.

Financial liabilities are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial instrument that has been extinguished and the consideration paid is recognised in the income statement.

Financial assets

General classification framework and initial measurement

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss); and
- those to be measured at amortised cost ("AC").

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in the income statement.

Debt Instruments

The classification is dependent upon the Group's business model for managing the financial assets and the contractual terms of the cash flows at initial recognition.

5. Financial instruments

Business models
Business models are classified as either Hold to Collect ("HtC"), Hold to Collect & Sell ("HtC&S") or Other depending on how a portfolio of financial instruments as a whole is managed. The Group's business models are based on the existing management structure of the Bank, and refined based on an analysis of how businesses are evaluated and reported, how their specific business risks are managed and on historic and expected future sales.

Sales are permissible in a HtC business model when these are due to an increase in credit risk, take place close to the maturity date, are insignificant in value (both individually and in aggregate) or are infrequent.

Contractual cash flow characteristics
The contractual cash flows of a financial asset are assessed to determine whether the instrument gives rise to cash flows that are solely payments of principal and interest ("SPPI"). Principal is defined as the fair value of the financial asset on initial recognition. Interest includes consideration for the time value of money, credit risk and also consideration for liquidity risk and costs associated with holding the financial assets for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending agreement. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instruments. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, terms such as the following are considered:

- Prepayment terms; for example a prepayment of an outstanding principal amount plus a penalty capped to 3 or 6 months of interest;
- Leverage features; which increase the variability of the contractual cash flows with the result that they do not have the economic characteristics of interest. An example is a Libor contract with a multiplier of 1.3;
- Terms that limit the Group's claim to cash flows from specified assets e.g. non-recourse asset arrangements. This could be the case if payments of principal and interest are met solely by the cash flows generated by the underlying asset, for example in real estate, shipping and aviation financing; and
- Features that modify consideration for the time value of money. These are contracts with, for example, an interest rate which is reset every month to a one-year rate. The Group performs either a qualitative or quantitative benchmark test on a financial asset with a modified time value of money element. A qualitative test is performed when it is clear with little or no analysis whether the contractual cash flows solely represent SPPI.

There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost; debt instruments that are held for collection of contractual cash flows under a HtC business model where those cash flows represent SPPI are measured at amortised cost. Interest income from these financial assets is included in interest income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the income statement. Impairment losses are presented as a separate line item in the income statement.
- FVOCI; debt instruments that are held for collection of contractual cash flows and for selling the financial assets under a HtC&S business model, where the assets' cash flows represent SPPI, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in the income statement. On derecognition, the cumulative gain or loss previously recognised in OCI is reclassified from equity to the income statement. Interest income from these financial assets is included in interest income using the effective interest rate method. Impairment losses are presented as a separate line item in the income statement.
- FVTPL; debt instruments that do not meet the criteria for amortised cost or FVOCI are measured and can be designated at FVTPL. The contractual interest result on a debt instrument that is part of a hedged relationship, but not subject to hedge accounting, is recognised in the income statement and presented within interest income or interest expense in the period in which it arises. The Group may in some cases, on initial recognition, irrevocably designate a financial asset that otherwise meets the requirements to be measured at AC or at FVOCI as at FTVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Group reclassifies debt investments when, and only when, its business model for managing those assets changes.

5. Financial instruments (continued)

Financial liabilities

Financial liabilities are classified and subsequently measured at amortised cost unless the Group is required to measure liabilities at FVTPL such as derivative liabilities.

Derivatives and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and subsequently measured at fair value. Fair values are obtained from quoted market prices in active markets, including market transactions and valuation techniques (such as discounted cash flow models and option pricing models), as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities where their fair value is negative.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and if so, the nature of the item being hedged when the conditions of AASB 139 'Financial Instruments: Recognition and measurement' are met (see note 9). For those derivatives not designated for hedge accounting purposes, changes in fair value are recorded in the income statement.

The Group decided to continue to apply the hedge accounting guidance of AASB 139 as explicitly permitted by AASB 9.

6. Cash and cash equivalents

	Consolidated		Bank	
Amounts in millions of dollars	**2019**	2018	**2019**	2018
Cash and liquid assets	172	315	132	314
Cash equivalents held by other financial institutions	730	722	293	377
Total cash and cash equivalents	**902**	**1,037**	**425**	**691**

Cash and cash equivalents – Accounting policy

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

7. Due from other financial institutions

	Consolidated		Bank	
Amounts in millions of dollars	**2019**	2018	**2019**	2018
Reverse Repos	710	303	710	303
Cash collateral	561	304	626	354
Total due from other financial institutions	**1,271**	**607**	**1,336**	**657**

Due from other financial institutions – Accounting policy

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

8. Financial assets at fair value through other comprehensive income and securities at amortised cost

Consolidated and Bank

Amounts in millions of dollars	Financial assets at FVOCI	Securities at amortised cost	Total 2019	Financial assets at FVOCI	Securities at amortised cost	Total 2018
Discount securities	-	-	-	167	-	167
Corporate bonds	-	865	865	90	839	929
Covered bonds	-	112	112	-	140	140
Government bonds	2,915	539	3,454	2,430	489	2,919
Total debt securities	**2,915**	**1,516**	**4,431**	**2,687**	**1,468**	**4,155**
Maturity analysis of debt securities						
Not longer than 3 months	-	50	50	117	20	137
Longer than 3 months and not longer than 1 year	122	246	368	91	30	121
Longer than 1 year and not longer than 5 years	1,696	797	2,493	1,094	991	2,085
Longer than 5 years	1,097	423	1,520	1,385	427	1,812
Total securities	**2,915**	**1,516**	**4,431**	**2,687**	**1,468**	**4,155**

Refer to "Note 5 – Financial Instruments" for accounting policy on debt instruments amortised cost and FVOCI

9. Derivatives

Consolidated	2019			2018		
Amounts in millions of dollars	Notional	Fair value asset	Fair value liability	Notional	Fair value asset	Fair value liability
Derivatives designated as fair value hedges						
Interest rate swaps	4,228	31	(434)	3,308	9	(309)
Total fair value hedges	**4,228**	**31**	**(434)**	**3,308**	**9**	**(309)**
Derivatives designated as cash flow hedges						
Interest rate swaps	21,830	61	(160)	22,600	61	(53)
Total cash flow hedges	**21,830**	**61**	**(160)**	**22,600**	**61**	**(53)**
Other derivatives						
Cross currency swap	-	-	-	7	3	-
Basis swaps	504	-	-	802	-	-
Interest rate swaps	102	-	(1)	245	-	-
Total other derivatives	**606**	**-**	**(1)**	**1,054**	**3**	**-**
Total recognised derivative assets/(liabilities)	**26,664**	**92**	**(595)**	**26,962**	**73**	**(362)**

Bank	2019			2018		
Amounts in millions of dollars	Notional	Fair value asset	Fair value liability	Notional	Fair value asset	Fair value liability
Derivatives designated as fair value hedges						
Interest rate swaps	4,228	31	(434)	3,308	9	(309)
Total fair value hedges	**4,228**	**31**	**(434)**	**3,308**	**9**	**(309)**
Derivatives designated as cash flow hedges						
Interest rate swaps	21,830	61	(160)	22,600	61	(53)
Total cash flow hedges	**21,830**	**61**	**(160)**	**22,600**	**61**	**(53)**
Other derivatives						
Basis swaps	252	-	-	401	-	-
Interest rate swaps	51	-	-	123	-	-
Total other derivatives	**303**	**-**	**-**	**524**	**-**	**-**
Total recognised derivative assets / (liabilities)	**26,361**	**92**	**(594)**	**26,432**	**70**	**(362)**

9. Derivatives (continued)

	Consolidated		Bank	
Amounts in millions of dollars	**2019**	2018	**2019**	2018
Maturity analysis for derivative assets				
Not longer than 3 months	46	36	46	36
Longer than 3 months and not longer than 1 year	11	25	11	22
Longer than 1 year and not longer than 5 years	35	12	35	12
Longer than 5 years	-	-	-	-
Total derivative assets	**92**	**73**	**92**	**70**

Derivatives – Accounting policy

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

The Group designates certain interest rate swaps as hedges of the fair value of recognised assets or liabilities (fair value hedges) or hedges of highly probable cash flows attributable to a recognised asset or liability (cash flow hedges).

Other derivatives are cross currency, interest rate and basis swaps that the Group entered into economically to hedge basis risk and Residential Mortgage-Backed Securities ("RMBS") issued and are not designated for hedge accounting purposes.

9. Derivatives (continued)

Hedging – Accounting policy

Risk Management Strategy

The Group's hedging strategy is to minimise the exposure to interest rate fluctuations. The Group enters into derivative transactions which are designated and qualify as either fair value or cash flow hedges for recognised assets or liabilities. The amounts in this note are exactly the same across the Group and the Bank.

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

The following table shows the notional of the hedging derivatives in time bands together with the average fixed interest rates.

Consolidated and Bank	2019					2018				
Amounts in millions of dollars	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Cash flow hedges										
Pay Fixed										
Notional	1,250	4,275	5,765	75	11,365	550	3,150	8,635	-	12,335
Average Rate	2.00%	2.04%	1.78%	1.44%	1.90%	2.13%	2.03%	2.07%	-	2.06%
Receive Fixed										
Notional	4,400	6,050	15	-	10,465	4,100	6,150	15	-	10,265
Average Rate	1.30%	0.90%	5.74%	-	1.07%	1.81%	1.89%	5.74%	-	1.86%
Fair value hedges										
Pay Fixed										
Notional	-	120	1,682	1,326	3,128	-	40	1,050	1,618	2,708
Average *Rate*	-	2.79%	5.42%	3.58%	4.54%	-	4.75%	5.18%	4.15%	4.56%
Receive Fixed										
Notional	-	-	1,100	-	1,100	-	-	600	-	600
Average Rate	-	-	2.30%	-	2.30%	-	-	2.76%	-	2.76%

9. Derivatives (continued)

Derivatives designated and accounted for as hedging instruments

Cash flow hedges

The operations of the Group are subject to the risk of interest rate fluctuations to the extent of the repricing profile of the Group's balance sheet. The Group uses interest rate swaps to minimise the variability in cash flows from interest earning assets and interest-bearing liabilities. The Group manages the interest risk exposure on a portfolio basis for the following hedged items:

- Floating rate loans by entering into shorter term pay floating / receive fixed interest rate swaps
- Floating rate deposits by entering into longer term pay fixed / receive floating interest rate swaps

The following table shows the amount of assets / liabilities considered in each pool.

Consolidated		
Amounts in millions of dollars	**2019**	2018
Floating rate assets	39,969	35,369
Floating rate liabilities	(32,632)	(29,451)

Cash flow hedge accounting involves designating derivatives as hedges of the variability in highly probable forecast future cash flows arising from a recognised asset or liability. The gain or loss on the derivative associated with the effective portion of the hedge is initially recognised in comprehensive income in the cash flow hedge reserve and reclassified into the Income Statement when the hedged item is brought to account.

The gain or loss relating to the ineffective portion of the hedge is recognised immediately in the profit or loss. More specifically, the ineffectiveness on a cash flow hedge is accounted for by adjusting the separate component of equity associated with the hedged item to the lesser of the following (in absolute amounts):

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

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

Cash flow hedges	Consolidated		Bank	
Amounts in millions of dollars	**2019**	2018	**2019**	2018
Fair value of hedge instruments	(100)	8	(100)	8
Amount recognised in other comprehensive income during the perioud (net of tax)	(70)	(18)	(70)	(18)

The Group determines the economic relationship between the hedged item and hedging instrument for the purpose of assessing hedge effectiveness through matched terms of the contracts and also the relationship between the 1 month BBSW reference rate and variable rate products whereby pricing is reviewed monthly.

There was no hedge ineffectiveness arising from the cash flow hedges recognised in the profit or loss for the period and the swaps were fully collateralized.

See Reserves Note 21 for the cash flow hedge reserve movement schedule.

9. Derivatives (continued)

Fair value hedges

The Group's fair value hedges are used to limit exposure to changes in the fair value of fixed rate interest earning assets and interest bearing liabilities. Specific exposures are managed on a one to one basis for:

- Debt securities investments by entering into a pay fixed / receive floating interest rate swap
- Covered bond issuance by entering into pay floating / receive fixed interest rate swap

The following table shows each category of hedged items. Note in the prior period all investment securities were valued at fair value through other comprehensive income. In the current period fair value hedge adjustments are applicable to balance sheet items held at amortised cost being the investments in the hold to collect portfolio and the covered bond issuance.

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

The Group determines the economic relationship between the hedged item and hedging instrument for the purpose of assessing hedge effectiveness through matched terms of the contracts.

There was no hedge ineffectiveness arising from the fair value hedges recognised in the profit or loss for the period and the swaps were fully collateralized.

Fair value hedges	Consolidated		Bank	
Amounts in millions of dollars	**2019**	2018	**2019**	2018
Fair value of hedge instruments	29	(300)	29	(300)
Current year gains / (losses) on hedging instruments	(84)	(40)	(84)	(40)
Fair value of hedged items - Financial assets at FVOCI	2,914	2,430	2,914	2,430
Fair value of hedged items - securities at amortised cost	634	584	634	584
Fair value of hedged items - Debt Issues	(1,130)	(609)	(1,130)	(609)
Current year gains / (losses) on hedged items attributable to the hedged risk	84	40	84	40
Net hedge ineffectiveness	-	-	-	-

9. Derivatives (continued)

Offsetting

The Group presents the fair value of its derivative assets and derivative liabilities on a gross basis. However, certain derivative assets and liabilities are subject to netting arrangements. The Group relies on the specific CSAs (Credit Support Annex) appended to the global market product specific ISDA (International Swaps and Derivatives Association) Master Agreement. The Group does not have any financial assets or liabilities which are offset on the face of the balance sheet in accordance with AASB 132 Financial Instruments:

Consolidated	Effects of offsetting on the balance sheet			Related amounts not offset		
Amounts in millions of dollars	Gross amount	Amounts set-off in the balance sheet	**Amount presented in the balance sheet**	Amount subject to netting arrangements	Financial instrument collateral	**Net Amount**
31 December 2019						
Financial assets						
Derivative financial instruments	92	-	92	(91)	-	1
Total	**92**	**-**	**92**	**(91)**	**-**	**1**
Financial liabilities						
Derivative financial instruments	(595)	-	(595)	91	561	57
Total	**(595)**	**-**	**(595)**	**91**	**561**	**57**
31 December 2018						
Financial assets						
Derivative financial instruments	73	-	73	(51)	(1)	21
Total	**73**	**-**	**73**	**(51)**	**(1)**	**21**
Financial liabilities						
Derivative financial instruments	(362)	-	(362)	51	323	12
Total	**(362)**	**-**	**(362)**	**51**	**323**	**12**

Bank	Effects of offsetting on the balance sheet			Related amounts not offset		
Amounts in millions of dollars	Gross amount	Amounts set-off in the balance sheet	**Amount presented in the balance sheet**	Amount subject to netting arrangements	Financial instrument collateral	**Net Amount**
31 December 2019						
Financial assets						
Derivative financial instruments	92	-	92	(91)	-	1
Total	**92**	**-**	**92**	**(91)**	**-**	**1**
Financial liabilities						
Derivative financial instruments	(594)	-	(594)	91	561	58
Total	**(594)**	**-**	**(594)**	**91**	**561**	**58**
31 December 2018						
Financial assets						
Derivative financial instruments	70	-	70	(51)	(1)	18
Total	**70**	**-**	**70**	**(51)**	**(1)**	**18**
Financial liabilities						
Derivative financial instruments	(362)	-	(362)	51	323	12
Total	**(362)**	**-**	**(362)**	**51**	**323**	**12**

10. Property and equipment

Consolidated and Bank		
Amounts in millions of dollars	**2019**	2018
Data processing equipment	66	82
Fixtures and fitting and other equipments	2	3
Right-of-use assets	72	-
Total	**140**	**85**

Consolidated and Bank	Data processing equipment		Fixtures and fitting and other equipment		Right-of-use assets		Total	
Amounts in millions of dollars	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Opening balance	82	104	3	5	-	-	85	109
Transition impact of AASB16	-	-	-	-	66	-	66	-
Additions	16	20	1	1	15	-	32	21
Depreciation	(32)	(32)	(2)	(3)	(9)	-	(43)	(35)
Other changes	-	(10)	-	-	-	-	-	(10)
Closing balance	**66**	**82**	**2**	**3**	**72**	**-**	**140**	**85**
Gross carrying amount	264	247	29	27	81	-	374	275
Accumulated depreciation	(198)	(165)	(27)	(24)	(9)	-	(234)	(190)
Net carrying value as at 31 December	**66**	**82**	**2**	**3**	**72**	**-**	**140**	**85**

Right-of-use assets

As the Group has implemented AASB 16 Leases without restating comparatives, no Right-of-use assets were recognised in 2018. Reference is made to Note 2 'Accounting policies', AASB 16 'leases' – Impact of adoption. Right-of-use assets relate primarily to leased buildings and staff cars under novated lease arrangements.

Property and equipment

Property and equipment is measured at historical cost and depreciated or amortised on a straight-line basis over the estimated useful life of the assets. Leasehold improvements are amortised over the remaining term of the lease

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

Major depreciation and amortisation periods are:

Category	2019	2018
Data processing equipment	3 - 5 years	3 - 5 years
Fixtures and fitting and other equipment	3 years	3 years
Right-of-use assets	Term of lease	Term of lease

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

Derecognition of fixed assets

An item of property 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.

11. Loans and advances

		Consolidated		Bank	
Amounts in millions of dollars		**2019**	2018	**2019**	2018
Retail Banking mortgages		51,989	48,921	51,989	48,921
Business Banking loans		4,925	4,512	4,925	4,512
Wholesale Banking loans		5,743	5,068	5,743	5,068
Consumer Lending		301	105	301	105
Gross loans and advances		**62,958**	**58,606**	**62,958**	**58,606**
Loan Loss Provision	12	(75)	(48)	(75)	(48)
Total loans and advances		**62,883**	**58,558**	**62,883**	**58,558**
Maturity analysis of loans and advances					
Not longer than 3 months		480	348	480	348
Longer than 3 months and not longer than 1 year		1,032	760	1,032	760
Longer than 1 year and not longer than 5 years		6,779	5,769	6,779	5,769
Longer than 5 years		53,582	50,583	53,582	50,583
No maturity specified		1,085	1,146	1,085	1,146
Gross loans and advances		**62,958**	**58,606**	**62,958**	**58,606**

Loans and Advances - Accounting policy

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

12. Impairment of financial assets

The Group applies an ECL model to on-balance sheet financial assets accounted for at amortised cost and FVOCI such as loans and debt securities, as well as off-balance sheet items such as undrawn loan commitments, certain financial guarantees, and undrawn committed revolving credit facilities. Under the ECL model the Group calculates the allowance for credit losses (loan loss allowance, "LLA") by considering on a discounted basis the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability of each scenario occurring. The LLA applies an unbiased probability-weighted method and the ECL estimates include supportable information about past events, current conditions, and forecasts of future economic conditions. The approach leveraged the existing Advanced Internal Ratings Based (AIRB) models for regulatory purposes. For other portfolios that use the Standardised Approach ("SA") to calculate regulatory capital, the Group uses simplified ECL models.

Three stage approach

Financial assets are classified in any of the below three Stages at a quarterly reporting date. A financial asset can move between stages at any point during its lifetime. The stages classification is based on changes in credit quality since initial recognition and defined as follows:

- Stage 1: 12 month ECL
  Financial assets that have not had a significant increase in credit risk since initial recognition (i.e. no Stage 2 or 3 triggers apply). Assets are classified as stage 1 upon initial recognition (with the exception of purchased or originated credit impaired (POCI) assets) and a provision for ECL is based on a 12 month horizon. For those financial assets with a remaining maturity of less than 12 months, a PD is used that corresponds to the remaining maturity;
- Stage 2: Lifetime ECL not credit impaired
  Financial assets showing a significant increase in credit risk since initial recognition. A provision is made for the life time ECL representing losses over the remaining life of the financial instrument (lifetime ECL); or
- Stage 3: Lifetime ECL credit impaired
  Financial instruments that move into Stage 3 once credit impaired require a provision reflecting the remaining lifetime.

Significant increase in credit risk

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

- delta in the lifetime probability of default;
- forbearance status;
- watch list status. Loans on the watch list are individually assessed for Stage 2 classification;
- intensive care management;
- internal rating;
- arrears; and
- more than 30 days past due backstop for Stage 1 to Stage 2 transfers.

The delta in lifetime probability of default is one of the main triggers for movement between Stage 1 and Stage 2. The trigger compares lifetime probability of default at origination versus lifetime probability of default at reporting date, considering the remaining maturity. Assets can move in both directions, meaning that they will move back to Stage 1 or Stage 2 when the Stage 2 or Stage 3 triggers are not applicable anymore. The stage allocation is implemented in the central credit risk systems.

12. Impairment of financial assets (continued)

Macroeconomic scenarios

The introduction AASB 9, with its inherent complexities and potential impact on the carrying amounts of the Group's assets and liabilities, represents a key source of estimation uncertainty. In particular, the Group's reportable ECL numbers are most sensitive to the forward-looking macroeconomic forecasts used as model inputs, the probability-weights applied to each of the three scenarios, and the criteria for identifying a significant increase in credit risk. As such, these crucial components require consultation and management judgement, and are subject to extensive governance.

Forward-looking macroeconomics used as model inputs

As a baseline for AASB 9, the Group use the consensus outlook for economic variables. The Group uses data from a leading provider, Oxford Economics' Global Economic Model (OEGEM), to complement the consensus with consistent projections for variables for which there are no consensus estimates available (most notably House Price Index (HPI) and unemployment), and to ensure general consistency of the scenarios.

Probability weights applied to each of the three scenarios

The alternative scenarios are based on the forecast errors of the OEGEM. To understand the baseline level of uncertainty around any forecast, Oxford Economics keeps track of all its forecast errors of the past 20 years. The distribution of forecast errors for GDP, unemployment, house prices and share prices is applied to the baseline forecast creating a broad range of alternative outcomes.

For the downside scenario, the Group has chosen for the 90th percentile of that distribution because this corresponds with how within risk management earnings at risk is being defined. The upside scenario is represented by the 10th percentile of the distribution. The distribution of the scenarios for economic growth, taking into account the applicable percentile of the distribution, is resulting in the upside scenario to be weighted at 20%, the downside scenario to be weighted at 20% and consequently, the base case scenario to be weighted at 60%.

Based on the above two sources of estimation uncertainty, analysis on the sensitivity of key forward-looking macroeconomic inputs used in the ECL collective-assessment modelling process and the probability-weights applied to each of the three scenarios is presented below. The Group also observes that, in general, the Wholesale Banking business is more sensitive to the impact of forward-looking macroeconomic scenarios.

Real GPD, the Unemployment rate and HPI (in that order) are considered the variables with the largest impact on the ECL. This is supported by statistical analysis. These forward-looking macroeconomics (amongst others) are used in the calculation of the Group's un-weighted ECLs, which are applied the probability-weightings as disclosed, to arrive at the reportable ECL for collectively-assessed assets. Whilst the table does give a high-level indication of the sensitivity of the outputs to the different scenarios, it does not provide insight on the interdependencies and correlations between different macroeconomic variable inputs. Furthermore, in addition to forward-looking macroeconomics, there are a number of other model inputs and processes which contribute to the calculation of un-weighted ECLs. Any sensitivity analysis which relies on this data should consider these complexities.

Sensitivity Analysis 1,2,3

		2020	2021	2022	Un-weighted ECL $m	Probability weighting	Reportable ECL $m
Upside scenario	Real GDP [1]	3.0%	3.2%	3.2%			
	Unemployment [2]	4.8%	4.1%	3.8%	68	20%	
	HPI [3]	6.5%	3.6%	3.2%			
Baseline scenario	Real GDP [1]	2.4%	2.6%	2.8%			
	Unemployment [2]	5.2%	5.1%	4.9%	74	60%	75
	HPI [3]	1.6%	2.3%	3.9%			
Downside scenario	Real GDP [1]	1.3%	1.6%	2.3%			
	Unemployment [2]	6.0%	6.3%	6.4%	84	20%	
	HPI [3]	-3.2%	0.9%	4.7%			

[1] Real GDP, % year-on-year change.
[2] Unemployment, % of total labour force (quarterly average).
[3] House price index, % year-on-year change.

12. Impairment of financial assets (continued)

Measurement of ECL

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

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

Definition of default

The Group uses the definition of default for internal risk management purposes and has aligned the definition of credit impaired under AASB 9 (Stage 3) with the definition of default for prudential purposes.

The definition of default may differ across products and considers both quantitative and qualitative factors, such as the terms of financial covenants and days past due. For retail and wholesale borrowers default occurs when the borrower is more than 90 days past due on any material obligation to the Group, and/or the Group considers the borrower unlikely to make its payments in full without recourse action on the Group's part, such as taking formal possession of any collateral held.

Credit impaired financial assets (Stage 3)

Financial assets are assessed for credit-impairment at each reporting date and more frequently when circumstances warrant further assessment. Evidence of credit-impairment may include indications that the borrower is experiencing significant financial difficulty, a breach of contract, probability of bankruptcy or other financial reorganisation, as well as a measurable decrease in the estimated future cash flows evidenced by the adverse changes in the payment status of the borrower or economic conditions that correlate with defaults.

An asset that is in stage 3 will move back to stage 2 when, as at the reporting date, it is no longer considered to be credit-impaired. The asset will migrate back to stage 1 when its credit risk at the reporting date is no longer considered to have increased significantly from initial recognition.

When a financial asset has been identified as credit-impaired, expected credit losses are measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the instrument's original effective interest rate. For impaired financial assets with drawn and undrawn components, expected credit losses also reflect any credit losses related to the portion of the loan commitment that is expected to be drawn down over the remaining life of the instrument. When a financial asset is credit-impaired, interest ceases to be recognised on the regular accrual basis, which accrues income based on the gross carrying amount of the asset. Rather, interest income is calculated by applying the original effective interest rate to the amortised cost of the asset, which is the gross carrying amount less the related loan loss allowance.

The loan loss allowance for credit-impaired loans in Stage 3 are established at the borrower level, where losses related to impaired loans are identified on individually significant loans, or collectively assessed and determined through the use of portfolio-based rates, without reference to particular loans.

Individually assessed loans (Stage 3)

The Group estimates individual impairment provisions for individually significant credit impaired financial assets within Stage 3. Individual provisions are calculated using the discounted expected future cash flow method. To determine expected future cash flows, one or more scenarios are used. Each scenario is analysed based on the probability of occurrence and including forward looking information.

The best estimate of loan loss is calculated as the weighted average of the shortfall (gross carrying amount minus discounted expected future cash flow using the original effective interest rate) per scenario. The expected future cash flows are based on the restructuring officers' best estimate when recoveries are likely to occur. Recoveries can be from different sources including repayment of the loan, additional drawing, collateral recovery, asset sale. Cash flows from collateral and other credit enhancements are included in the measurement of the expected credit losses of the related financial asset when it is part of or integral to the contractual terms of the financial asset and the credit enhancement is not recognised separately. The estimation of future cash flows are subject to significant estimation uncertainty and assumptions.

12. Impairment of financial assets (continued)

Collectively assessed loans (Stages 1 to 3)

Loans that are collectively assessed are grouped on the basis of similar risk characteristics, taking into account loan type, industry, geographic location, collateral type, past due status and other relevant factors. The collectively-assessed loan loss allowance reflects: (i) the expected amount of principal and interest calculated under the terms of the original loan agreement that will not be recovered, and (ii) the impact of time delays in collecting principal and/or interest (time value of money).

Write-off and debt forgiveness

Loans and the related ECL are written off, either partially or in full, when there is no realistic prospect of recovery.
Write-offs are made:

- after a restructuring has been completed and there is a high improbability of recovery of part of the remaining loan exposure (including partial debt waivers);
- in a bankruptcy liquidation scenario (not as a result of a reorganisation);
- when there is a high improbability of recovery of the remaining loan exposure or certainty that no recovery can be realised;
- after divestment or sale of a credit facility at a discount;
- upon conversion of a credit facility into equity; or
- The Group releases a legal (monetary) claim it has on its customer.

Presentation of impairment

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is recognised in other comprehensive income, instead of deducting the carrying amount of the asset. Impairment losses on debt securities measured at amortised cost is presented in the profit or loss in addition to loan loss allowance.

12. Impairment of financial assets (continued)

Loan impairment benefit/(expense)

Amounts in millions of dollars	Stage 1 12-mth ECL	Stage 2 Lifetime ECL Not credit impaired Collectively assessed	Stage 3 Lifetime ECL Credit impaired Collectively assessed	Lifetime ECL Credit impaired Individually assessed	Total
As at 1 January 2019	**15**	**9**	**19**	**5**	**48**
Changes due to financial assets that have:					
Transferred to 12-month ECL - collectively assessed	-	(9)	(2)	-	(11)
Transferred to Lifetime ECL not credit impaired - collectively assessed	-	17	(7)	-	10
Transferred to Lifetime ECL credit impaired - collectively assessed	-	(2)	19	-	17
Transferred to Lifetime ECL credit impaired - individually assessed	-	-	-	-	-
New and increased loss allowance (net of releases)	8	3	5	-	16
Write-back of individual provisions	-	-	-	-	-
Bad debts written-off	-	-	(5)	-	(5)
As at 31 December 2019	**23**	**18**	**29**	**5**	**75**

Loan impairment benefit/(expense)

Amounts in millions of dollars	Stage 1 12-mth ECL	Stage 2 Lifetime ECL Not credit impaired Collectively assessed	Stage 3 Lifetime ECL Credit impaired Collectively assessed	Lifetime ECL Credit impaired Individually assessed	Total
As at 31 December 2017	**8**	**-**	**12**	**5**	**25**
Adjustment for initial application of AASB 9	6	9	-	-	15
As at 1 January 2018	**14**	**9**	**12**	**5**	**40**
Changes due to financial assets that have:					
Transferred to 12-month ECL - collectively assessed	-	(3)	-	-	(3)
Transferred to Lifetime ECL not credit impaired - collectively assessed	-	6	(4)	-	2
Transferred to Lifetime ECL credit impaired - collectively assessed	-	-	7	-	7
Transferred to Lifetime ECL credit impaired - individually assessed	-	-	-	-	-
New and increased loss allowance (net of releases)	1	(3)	9	-	7
Write-back of individual provisions	-	-	-	-	-
Bad debts written-off	-	-	(5)	-	(5)
As at 31 December 2018	**15**	**9**	**19**	**5**	**48**

12. Impairment of financial assets (continued)

Loan impairment expense	Consolidated		Bank	
Amounts in millions of dollars	2019	2018	2019	2018
Income Statement				
Collectively assessed - stage 1 & 2	(17)	(1)	(17)	(1)
Collectively assessed - stage 3	(15)	(12)	(15)	(12)
Individually assessed - stage 3	-	-	-	-
Total loans loss benefit/(expense)	**(32)**	**(13)**	**(32)**	**(13)**

For the year ended 31 December 2019 the Group recognised $32 million in loan loss allowances expense (2018: $13 million in loan loss allowances expense).

The increase in loan loss allowances for the year is in line with the increase in the portfolio balance.

13. Creditors and other liablities

Creditors and other liabilities by type	Consolidated		Bank	
Amounts in millions of dollars	2019	2018	2019	2018
Other staff-related liabilities	19	13	19	13
Other taxation and social security contributions	2	1	2	1
Interest received in advance	2	3	2	3
Amounts to be settled	71	143	71	143
Lease liabilities	82	-	82	-
Other	68	51	68	52
Total	**244**	**211**	**244**	**212**

Lease liabilities

As the Group has implemented AASB 16 Leases without restating comparatives, no Lease liabilities were recognised in 2018. Reference is made to Note 2 'Significant accounting policies', AASB 16 'Leases' – Impact of adoption.

14. Deposits and other borrowings

	Consolidated		Bank	
Amounts in millions of dollars	**2019**	2018	**2019**	2018
Deposits				
Deposits at call	33,270	29,932	33,390	30,050
Term deposits[1]	24,573	24,871	24,573	24,871
Certificates of deposits	808	726	808	726
Securities sold under agreement to repurchase	316	315	316	315
Deposits and other borrowings	**58,967**	**55,844**	**59,087**	**55,962**
Concentration of deposits				
Retail deposits	37,112	33,770	37,112	33,770
Business deposits	7,729	9,711	7,729	9,711
Wholesale deposits[1]	14,126	12,363	14,246	12,481
Total deposits	**58,967**	**55,844**	**59,087**	**55,962**

[1] Term and wholesale deposits include funding from ING Bank N.V. (Sydney Branch) of $9,837 million (2018: $9,817 million).

Deposits and other borrowings – Accounting policy

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

15. Debt issues

	Consolidated		Bank	
Amounts in millions of dollars	2019	2018	2019	2018
Covered Bonds	1,777	1,009	1,777	1,009
Mortgage-backed securities	3,358	2,519	-	-
Subordinated Debt	75	75	75	75
Total debt issues	**5,210**	**3,603**	**1,852**	**1,084**

Debt issues – Accounting policy

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

Terms and Repayment Schedule		2019			2018		
Instrument	Year Maturity	Interest Rate	Nominal Value	Carrying Amount	Interest Rate	Nominal Value	Carrying Amount
Mortgage Backed Securities	2019	-	-	-	3.01%	86	86
Mortgage Backed Securities	2019	-	-	-	3.41%	7	7
Mortgage Backed Securities	2019	-	-	-	3.44%	10	10
Mortgage Backed Securities	2020	2.36%	2	2	3.53%	3	3
Mortgage Backed Securities	2020	2.34%	3	3	3.45%	4	4
Mortgage Backed Securities	2020	2.19%	4	4	3.25%	34	34
Mortgage Backed Securities	2020	2.47%	5	5	3.63%	6	6
Mortgage Backed Securities	2020	2.50%	5	5	3.65%	7	7
Mortgage Backed Securities	2020	2.54%	7	7	3.60%	9	9
Mortgage Backed Securities	2020	2.29%	35	35	3.39%	48	48
Mortgage Backed Securities	2020	2.09%	70	70	3.20%	89	89
Mortgage Backed Securities	2020	1.96%	77	77	3.13%	92	92
Mortgage Backed Securities	2020	2.32%	81	81	3.48%	99	99
Mortgage Backed Securities	2020	1.80%	84	84	2.95%	108	108
Mortgage Backed Securities	2020	1.80%	100	100	2.86%	100	100
Mortgage Backed Securities	2020	1.86%	518	518	2.92%	696	695
Mortgage Backed Securities	2021	2.51%	12	12	3.68%	15	15
Mortgage Backed Securities	2021	1.86%	147	147	3.03%	182	182
Mortgage Backed Securities	2021	1.67%	206	206	2.77%	282	282
Mortgage Backed Securities	2021	1.84%	220	219	3.00%	285	285
Mortgage Backed Securities	2021	2.32%	266	265	3.49%	358	358
Mortgage Backed Securities	2022	1.84%	1,518	1,518	-	-	-
Covered Bonds	2021	1.47%	400	399	2.57%	400	399
Covered Bonds	2023	3.00%	600	632	3.00%	600	610
Covered Bonds	2024	1.55%	250	250	-	-	-
Covered Bonds	2024	1.45%	500	496	-	-	-
Subordinated Debt	2023	3.29%	75	75	4.35%	75	75
Consolidated			**5,185**	**5,210**		**3,595**	**3,603**
Covered Bonds	2021	1.47%	400	399	2.57%	400	399
Covered Bonds	2023	3.00%	600	632	3.00%	600	610
Covered Bonds	2024	1.55%	250	250	-	-	-
Covered Bonds	2024	1.45%	500	496	-	-	-
Subordinated Debt	2023	3.29%	75	75	4.35%	75	75
Bank			**1,825**	**1,852**		**1,075**	**1,084**

All Amounts shown in the table above are in $AUD millions

16. Risk management

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

Risk	Exposure arising from	Measurement	Governance
Credit Risk	• Cash and cash equivalents • Due from other financial institutions • Loans and advances • Derivative financial instruments • Financial assets at FVOCI • Securities at amortised cost • Undrawn loan commitments • Bank accepted guarantees	• Aging analysis • Credit ratings • Arrears analysis • Internal ratings models • Stress testing • Financial analysis • Covenant measures • Loan to Value • Loan to Income serviceability	• Risk Management Strategy • Risk Appetite Statement • Retail Credit Policy • Wholesale Banking and Bank Treasury Credit Policy • Commercial Real Estate Credit Policy • Large Exposures Policy • Enterprise Wide Stress Testing Framework Sub-Policy
Market Risk – Interest Rate Risk	• Loans and advances • Deposits and other borrowings • Financial assets at FVOCI • Securities at amortised cost • Debt issues	• Historical Value-at-Risk ("HVaR") • Earnings and Net Interest Income at Risk ("EaR" ;"NIIaR") • Interest Rate Risk in the Banking Book ("IRRBB") stress testing • Basis Point Value sensitivity	• Risk Management Strategy • Risk Appetite Statement • Asset and Liability Management Sub-Policy • IRRBB Stress Testing Methodology • IRRBB Policy and Minimum Standards for Measurement
Market Risk – Foreign Exchange Risk	• Financial assets and liabilities not denominated in Australian dollars	• Sensitivity analysis	• Risk Management Strategy • Risk Appetite Statement • Asset and Liability Management Sub-Policy
Liquidity and funding risk	• Deposits and other borrowings • Debt issues • Undrawn loan commitments	• Scenario analysis and stress testing • Liquidity Coverage Ratio ("LCR") • Net Stable Funding Ratio ("NSFR") • Behavioural models	• Risk Management Strategy • Risk Appetite Statement • Asset and Liability Management Sub-Policy • Treasury – Securitisation Sub-Policy • Contingency Funding Plan • Funding and Liquidity Risk Policy • Liquidity Stress Testing Framework
Non-Financial Risk (i.e. operational, compliance and legal risk)	• Inadequate or failed internal processes, people and systems • Failure or perceived failure to comply with relevant laws, regulations, the Group's policies	• Risk and Control Self-Assessment • Non-Financial Risk Score • Incident reporting • Scenario analysis • Business Environment Analysis	• Risk Management Strategy • Risk Appetite Statement • Operational Risk Management Framework • Financial Crimes Policy • Compliance Framework • Conflicts of Interest Policy • Anti-Bribery and Corruption Policy • AML/CTF Compliance Program Policy • Enterprise Wide Stress Testing Framework

16. Risk management (continued)

Risk management framework

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

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

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

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

Risk governance framework

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

Risk Management Strategy

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

- *Risk Committee* – the Board Risk Committee provides objective non-executive oversight of the implementation and operation of the Group's risk management framework. A key purpose of the Risk Committee is to help formulate the Group's risk strategy and appetite for consideration and approval by the Board.
- *Audit Committee* – the Board Audit Committee assists the Board by providing an objective non-executive review of the effectiveness of the Group's financial reporting and risk management framework. This includes internal controls to deal with both the design and effectiveness and efficiency of significant business processes, which involve safeguarding of assets, the maintenance of proper accounting records.
- *Remuneration and Nomination Committee* – the Remuneration and Nomination Committee is responsible for reviewing and making recommendations to the Board on the Group's Remuneration Policy and specifically in relation to remuneration of the CEO, his direct reports, other persons whose activities may affect the financial soundness of the Group and those persons covered by the Remuneration Policy.
- *Customer Experience Committee* – the Customer Experience Committee is responsible for reviewing and monitoring customer experience with the Group, including customer complaints, resolution and closure of customer outcomes.
- *Technology and Transformation Committee* – the Technology and Transformation Committee is responsible for reviewing the Group's technology strategy and planning, including priorities, budgets, deliverables and operational plans. In addition, it oversees and monitors the Group's strategic transformation initiatives, including technology, data and business transformation.

16. Risk management (continued)

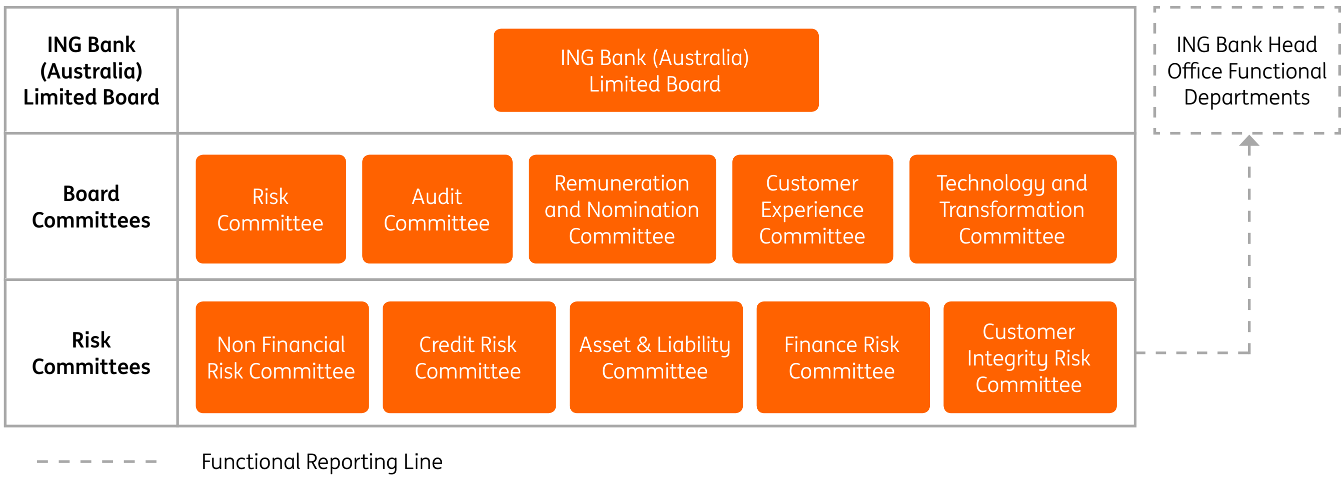
Risk management organisation

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

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

Risk management function

The Risk Management function as the second line of defence, is responsible for the measurement, monitoring and control of risk.



Risk committees

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

- Non-Financial Risk Committee ("NFRC") – the overall responsibility of the NFRC is to identify, measure and monitor the operational and compliance risk profile of the Group with appropriate quality of coverage and to ensure these risks are managed in accordance with the Risk Management Framework and Risk Appetite. The NFRC acts as an escalation point for issues that impact the Group's operational and compliance risk profile and ensures that the appropriate management action is taken. The NFRC is chaired by the CRO.
- Credit Risk Committee ("CRC") – oversees the credit risk management framework, key policies, Group's credit profile and performance against credit risk appetite and metrics, and identifies emerging credit risks and appropriate actions to address these. The CRC reviews and monitors the on-going level of credit risk capital and the individual and collective loan loss provisioning for the Group. The CRC is chaired by the CRO.
- Asset and Liability Committee ("ALCO") – oversees and defines the policies regarding balance sheet risks such as funding, liquidity, interest rate risk and solvency of the Group. ALCO provides governance to ensure that the Group's risk profile is commensurate with the Group's overall risk appetite and risk policy framework. Its responsibilities include setting limits for and monitoring solvency of the balance sheet, deciding on transfer pricing methods, and monitoring developments on the balance sheet that fall within its scope. The ALCO is chaired by the CRO.
- Customer Integrity Risk Committee ("CIRC") - acts as the approval vehicle that serves to ensure that clients with a higher degree of integrity risk are adequately discussed and evaluated. The CIRC decides and approves the actions to be taken with regards to client integrity related elements/processes and impact for client relationship. The CIRC is chaired by the CRO.
- The Finance and Risk Committee ("FRC") is a platform for the Chief Risk Officer and the Chief Financial Officer, to discuss and decide on issues that relate to both the finance and risk domains. The primary responsibility of this Committee is to co-ordinate the finance and risk decisions that have an impact on internal and/or external reporting. The FRC is chaired by the CRO and CFO.

The FRC meets on a quarterly basis while the other risk committees meet monthly

16. Risk management (continued)

16.1 Credit risk

Credit risk arises from the Group's lending activities, pre-settlement and investment activities. Credit risk is the potential loss arising from customer or counterparty failure to meet contractual obligations as and when they fall due. Credit risk management is supported by dedicated credit risk information systems and internal rating methodologies for debtors and counterparties. The Group's credit exposure mainly relates to:

- Retail Banking loans to individuals which are predominantly mortgage loans secured by residential property. The Group also has a portfolio of unsecured loans via its credit card and personal loan products.
- Business Banking loans consisting of Commercial Property Finance ("CPF") and Priority Commercial Mortgages (PCM) secured by predominantly commercial properties.
- Wholesale Banking comprises Real Estate Finance, Infrastructure, Utilities, Power and Corporate Lending amongst other segments, which is generally made up of secured exposures or where unsecured, with corporate guarantees and negative pledges.
- Wholesale investments and securities are marketable liquid assets which are mainly unsecured and used for liquidity management.

Pre-settlement risk arises from the Group's derivative activities. To mitigate this risk, the Group uses central clearing counterparties for its derivatives and enters into CSAs with derivative counterparties.

Maximum credit risk exposure

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

16. Risk management (continued)

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

The maximum exposure to credit risk for the Group and the Bank is managed on a consolidated basis and is detailed below:

Consolidated 2019

			FV of collateral and credit enhancements held						
Amounts in millions of dollars	Note	Maximum exposure to credit risk	Cash	Other[4]	Property	Total	Surplus collateral[1]	Net collateral[2]	Net exposure[3]
Financial assets									
Cash and cash equivalents	6	902	-	-	-	-	-	-	902
Due from other financial institutions	7	1,271	-	-	-	-	-	-	1,271
Receivables and other assets		69	-	-	-	-	-	-	69
Financial assets at FVOCI	8	2,915	-	-	-	-	-	-	2,915
Securities at amortised cost	8	1,516	-	-	-	-	-	-	1,516
Loans and advances	11	62,958	-	912	121,537	122,449	(59,491)	59,780	3,178
Derivative assets	9	92	1	-	-	1	(1)	91	1
Total		**69,723**	**1**	**912**	**121,537**	**122,450**	**(59,492)**	**59,871**	**9,852**
Off-Balance Sheet						-			-
Undrawn loan commitments	23	8,728	-	-	-	-	-	-	8,728
Bank accepted guarantees	23	368	-	-	-	-	-	-	368
Total maximum credit risk exposure		**78,819**	**1**	**912**	**121,537**	**122,450**	**(59,492)**	**59,871**	**18,947**

[1] 'Surplus collateral' represents the fair value of collateral or credit enhancements which exceed the asset balances they secure
[2] 'Net collateral' therefore reflects the balance of secured financial assets
[3] 'Net exposure' represents unsecured financial assets
[4] 'Other' includes letters of credit, parent guarantees, bank guarantees, negative pledges, verbal support and assignments of floating receivables

16. Risk management (continued)

Consolidated 2018

Amounts in millions of dollars	Note	Maximum exposure to credit risk	FV of collateral and credit enhancements held: Cash	Other[4]	Property	Total	Surplus collateral[1]	Net collateral[2]	Net exposure[3]
Financial assets									
Cash and cash equivalents	6	1,037	-	-	-	-	-	-	1,037
Due from other financial institutions	7	607	-	-	-	-	-	-	607
Receivables and other assets		36	-	-	-	-	-	-	36
Financial assets at FVOCI	8	2,687	-	-	-	-	-	-	2,687
Securities at amortised cost	8	1,468	-	-	-	-	-	-	1,468
Loans and advances	11	58,606	-	670	118,958	119,628	(61,022)	55,714	2,892
Derivative assets	9	73	1	-	-	1	(1)	51	22
Total		**64,514**	**1**	**670**	**118,958**	**119,629**	**(61,023)**	**55,765**	**8,749**
Off-Balance Sheet									
Undrawn loan commitments	23	8,324	-	-	-	-	-	-	8,324
Bank accepted guarantees	23	139	-	-	-	-	-	-	139
Total maximum credit risk exposure		**72,977**	**1**	**670**	**118,958**	**119,629**	**(61,023)**	**55,765**	**17,212**

[1] 'Surplus collateral' represents the fair value of collateral or credit enhancements which exceed the asset balances they secure
[2] 'Net collateral' therefore reflects the balance of secured financial assets
[3] 'Net exposure' represents unsecured financial assets
[4] 'Other' includes letters of credit, parent guarantees, bank guarantees, negative pledges, verbal support and assignments of floating receivables

15. Risk management (continued)

Collateral – Lending activities

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

Collateral	Consolidated	
Amounts in millions of dollars	**2019**	2018
Held against past due but not impaired assets	1,287	1,611
Held against impaired assets	312	368

Exposure not mitigated by collateral as a percentage of total financial assets	Consolidated	
In percentages	**2019**	2018
Retail Banking mortgages	0.1%	0.2%
Business Banking loans	0.0%	0.1%
Wholesale Banking loans	4.1%	4.1%
Consumer Lending	0.4%	0.2%
Financial assets other than loans and advances	9.6%	9.3%
Total	**14.2%**	**13.8%**

Collateral – Derivative contracts

Under Australian Prudential Regulatory Authority ("APRA") Standard CPS226, The Group is required to clear OTC derivatives through an Australian Securities and Investment Commission ("ASIC") approved clearing house, all new derivative transactions completed by the Group are cleared with central counterparties. Derivatives placed before central clearing The Group uses existing "Credit Support Annex" agreements. These agreements allow The Group to issue margin calls on the net mark-to-market amount of derivative positions held between the Group and individual wholesale counterparties. These agreements and subsequent collateral calls negate the credit risk with these counterparties as the mark-to-market value increases.

Distribution of financial assets by credit quality

The table below details the distribution of credit quality of financial assets. An asset is considered to be past due when any payment under the contractual terms has been missed. An asset is considered to be impaired when there is doubt on the full collection of the loans based on an assessment of the customer's outlook, cash flow and the net realisable value of collateral held, including those loans that are formally restructured.

	Consolidated		Bank	
Amounts in millions of dollars	**2019**	2018	**2019**	2018
Neither past due nor impaired	68,718	63,402	79,074	72,187
- of which: Retail Banking mortgages	51,167	47,914	51,159	47,915
- of which: Business Banking loans	4,838	4,438	4,838	4,438
- of which: Wholesale Banking loans	5,707	4,923	5,707	4,923
- of which: Consumer Lending	292	102	292	102
- Related entities	549	117	11,319	9,201
- Financial assets other than loans and advances	6,165	5,908	5,759	5,608
Past due but not impaired gross loans and advances	765	894	765	894
Impaired loans and advances	240	218	240	218
Total	**69,723**	**64,514**	**80,079**	**73,299**

16. Risk management (continued)

Risk classes of financial assets

Risk classes are defined based upon the quality of the exposures in terms of creditworthiness, varying from investment grade to problem grade.

Internal Rating		Consolidated		Bank	
Amounts in millions of dollars	Risk Grading	2019	2018	2019	2018
Lower risk	1-10	46,591	41,917	56,947	50,702
Medium risk	11-17	22,245	22,097	22,245	22,097
High risk	18-19	427	99	427	99
Non-performing	20	460	401	460	401
Not rated		-	-	-	-
Total		**69,723**	**64,514**	**80,079**	**73,299**

The tables below show exposures to credit risk by risk classes for those financial assets for which the expected credit loss model is applied:

Consolidated 2019						
		Stage 1	Stage 2	Stage 3		
			Lifetime ECL	Lifetime ECL	Lifetime ECL	
Internal Rating	Risk Grading	12-month ECL	Not credit impaired	Credit impaired	Credit impaired	Total
		Collectively assessed			Individually assessed	
Amounts in millions of dollars						
Lower risk	1-10	46,503	88	-	-	46,591
Medium risk	11-17	20,463	1,782	-	-	22,245
High risk	18-19	-	427	-	-	427
Non-performing	20	-	-	431	29	460
Not rated		-	-	-	-	-
Total		**66,966**	**2,297**	**431**	**29**	**69,723**

Consolidated 2018						
		Stage 1	Stage 2	Stage 3		
			Lifetime ECL	Lifetime ECL	Lifetime ECL	
Internal Rating	Risk Grading	12-month ECL	Not credit impaired	Credit impaired	Credit impaired	Total
		Collectively assessed			Individually assessed	
Amounts in millions of dollars						
Lower risk	1-10	41,367	550	-	-	41,917
Medium risk	11-17	20,585	1,512	-	-	22,097
High risk	18-19	-	99	-	-	99
Non-performing	20	-	-	374	27	401
Not rated		-	-	-	-	-
Total		**61,952**	**2,161**	**374**	**27**	**64,514**

16. Risk management (continued)

Bank 2019						
		Stage 1	Stage 2	Stage 3		
			Lifetime ECL	Lifetime ECL	Lifetime ECL	
Internal Rating	Risk Grading	12-month ECL	Not credit impaired	Credit impaired	Credit impaired	Total
		Collectively assessed			Individually assessed	
Amounts in millions of dollars						
Lower risk	1-10	56,859	88	-	-	56,947
Medium risk	11-17	20,463	1,782	-	-	22,245
High risk	18-19	-	427	-	-	427
Non-performing	20	-	-	431	29	460
Not rated		-	-	-	-	-
Total		**77,322**	**2,297**	**431**	**29**	**80,079**

Bank 2018						
		Stage 1	Stage 2	Stage 3		
			Lifetime ECL	Lifetime ECL	Lifetime ECL	
Internal Rating	Risk Grading	12-month ECL	Not credit impaired	Credit impaired	Credit impaired	Total
		Collectively assessed			Individually assessed	
Amounts in millions of dollars						
Lower risk	1-10	50,152	550	-	-	50,702
Medium risk	11-17	20,585	1,512	-	-	22,097
High risk	18-19	-	99	-	-	99
Non-performing	20	-	-	374	27	401
Not rated		-	-	-	-	-
Total		**70,737**	**2,161**	**374**	**27**	**73,299**

Impaired loans – Accounting Policy

The Group continually measures its portfolio in terms of payment arrears. The impairment levels on the business and wholesale loans are monitored on an individual basis. The impairment levels on the retail portfolios are monitored each month on a portfolio basis to determine if there are any significant changes in the level of arrears. An obligation is considered 'past-due' if a payment of interest or principal is more than one day late. 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 transferred to the collections business unit. In order to reduce the number of arrears, the Group requires obligors to set up automatic debits from their accounts to ensure timely payments.

The facilities in respect of which there is doubt on the full collection of principal and interest based on an assessment of the customer's outlook, cash flow, and the net realisation of value of assets to which recourse is held are classified as Impaired including those that are formally restructured.

Ageing analysis (past due but not impaired)

Consolidated and Bank	2019		2018	
Amounts in millions of dollars and percentages	Millions	%	Millions	%
Less than 1 payment past due	443	57.9%	551	61.6%
1 payment past due	143	18.7%	184	20.6%
2 payments past due	179	23.4%	159	17.8%
Total	**765**	**100.0%**	**894**	**100.0%**

16. Risk management (continued)

Impaired loans by economic sector

Consolidated and Bank	2019		2018	
Amounts in millions of dollars and in percentages	Millions	%	Millions	%
Retail	212	88.2%	191	87.6%
Construction & commercial real estate	-	0.0%	-	0.0%
Corporate	28	11.8%	27	12.6%
Total	**240**	**100.0%**	**218**	**100.0%**

Risk concentration: Group portfolio (by economic sector)

	Consolidated				Bank			
Amounts in millions of dollars and in percentages	2019	%	2018	%	2019	%	2018	%
Construction & commercial real estate	5,695	8.2%	6,494	10.1%	5,695	7.1%	6,494	8.8%
Corporate	3,432	4.9%	2,969	4.6%	3,432	4.3%	2,969	4.1%
Financial institutions	3,089	4.4%	2,792	4.3%	13,445	16.8%	11,557	15.8%
Retail	53,882	77.3%	49,026	76.0%	53,882	67.3%	49,026	66.9%
Public administration	3,625	5.2%	3,233	5.0%	3,625	4.5%	3,233	4.4%
Total	**69,723**	**100.0%**	**64,514**	**100.0%**	**80,079**	**100.0%**	**73,299**	**100.0%**

16.2 Market risk

Market risk is defined as unexpected adverse movements in income or value due to changes in market conditions. For the Group, this covers interest rate risk and foreign exchange risk.

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

Interest rate risk in the banking book

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

- **Repricing risk** - the risk of loss in earnings or economic value caused by a change in the overall level of interest rates. This risk arises from mismatches in the repricing dates of banking book assets and liabilities. The repricing date of an asset, liability or other banking book item is the date on which the principal of that item is repaid (in whole or part) to, or by the Bank or on which the interest rate on that principal is reset, if earlier.
- **Yield curve risk** - the risk of loss in earnings or economic value caused by a change in the relative levels of interest rates for different tenors (that is, a change in the slope or shape of the yield curve). Yield curve risk also arises from repricing mismatches between assets and liabilities, so, for most purposes these are grouped together.
- **Basis risk** - the risk of loss in earnings or economic value of the banking book arising from imperfect correlation in the adjustment of the interest rates earned and paid on different instruments with otherwise similar repricing characteristics.
- **Optionality risk** - the risk of loss in earnings or economic value due to the existence of stand-alone or embedded options to the extent that the potential for those losses is not included in the measurement of repricing, yield curve or basis risks. An option provides the holder the right but not the obligation to buy, sell or in some manner alter the cash flow of an instrument or financial contract. In the case of options embedded in customer products, losses from optionality risk will arise from customers exercising choices that cause the actual repricing dates to deviate from those specified by the repricing assumptions.

16. Risk management (continued)

Managing and monitoring interest rate risk

The Group performs stress testing with the existence of triggers to ensure that potential limit breaches are identified and acted upon early. Risk mitigation is also further explained in Note 9 in relation to hedging using derivatives to mitigate exposure to interest, market and foreign exchange risk.

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

- HVaR is a measure of potential profit or loss to the Group resulting from changes in interest rates. The process of calculating HVaR involves simulating the potential profit or loss in different interest rate environments based on 10 year historical movements in the market.
- EaR estimates the amount of change in future earnings of the Group that may result from a change in market interest rates. This measure is to ensure that the amount of potential diminution of future earnings resulting from changes in market rates is within the risk appetite determined by the Board. The EaR perspective considers how changes in interest rates will affect the Group's reported earnings due to the current and forecast mismatch interest rate positions. The Group undertakes a number of scenarios to measure the potential change in earnings.

Interest rate risk analysis

Amounts in millions of dollars	**2019**	2018
HVaR		
Limit =≤ $350	(113)	(200)
EaR		
- 200bps Shock (Year 1)	(42)	(76)
+ 200bps Shock (Year 1)	42	76
Limit =< $65		

Impact of IBOR

Due to the Group using BBSW as the interest rate benchmark for financial products and contracts the proposed IBOR transition will have minimal impact.

Foreign exchange risk

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

16. Risk management (continued)

16.3 Liquidity and funding risk

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

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

The Group's liquidity policy has been developed in accordance with the liquidity management policies of ING Groep N.V. and APRA prudential standards. APRA Prudential Standard APS 210 Liquidity includes the liquidity coverage ratio ("LCR") that measures the Bank's ability to sustain a 30-day pre-defined liquidity stress scenario. The current internal policy requires the Group to maintain a buffer of marketable liquid assets throughout the year. The level of cash and debt securities was $5,333 million at 31 December 2019 (2018: $5,192 million). The average LCR for the quarter ended 31 December 2019 was 134% (2018: 126%).

The net stable funding ratio ("NSFR"), which became effective 1 January 2018, established a minimum stable funding requirement based on the liquidity profile of the Bank's assets and off balance sheet activity over a one year horizon. The Group's NSFR was above the regulatory minimum of 100% at balance date and a prudent buffer is in place as at 1 January 2018. The NSFR as at 31 December 2019 was 128% (2018: 127%).

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

The Group's funding sources include retail deposits and wholesale funding. At 31 December 2019, approximately 70% of the Group's funding was provided by residential and business retail sources (2018: 73%) and 30% was provided by wholesale and other sources (2018: 27%).

16. Risk management (continued)

Maturity analysis of financial liabilities

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

Consolidated 2019

Amounts in millions of dollars	Carrying amount	At call	Not later than 1 month	later than 1 month and not later than 3 months	later than 3 months and not later than 1 year	later than 1 year and not later than 5 years	Greater than 5 years	Total contractual cashflows
Financial liabilities								
Deposits and other borrowings	58,967	33,133	1,917	5,807	10,817	6,316	1,550	59,540
Derivative liabilities	595	-	1	2	38	355	199	595
Creditors and other liabilities	162	-	122	32	7	-	1	162
Lease liabilities	82	-	3	1	8	43	28	83
Debt issues	5,210	-	235	85	781	4,365	-	5,466
Total	**65,016**	**33,133**	**2,278**	**5,927**	**11,651**	**11,079**	**1,778**	**65,846**
Undrawn loan commitments	8,728	-	385	15	212	1,500	6,616	8,728
Bank accepted guarantees	368	368	-	-	-	-	-	368
Total	**74,112**	**33,501**	**2,663**	**5,942**	**11,863**	**12,579**	**8,394**	**74,942**

Bank 2019

Amounts in millions of dollars	Carrying amount	At call	Not later than 1 month	later than 1 month and not later than 3 months	later than 3 months and not later than 1 year	later than 1 year and not later than 5 years	Greater than 5 years	Total contractual cashflows
Financial liabilities								
Deposits and other borrowings	59,087	33,254	1,917	5,807	10,817	6,316	1,550	59,661
Derivative liabilities	594	-	1	2	38	355	199	595
Creditors and other liabilities	162	-	122	32	7	-	1	162
Lease liabilities	82	-	3	1	8	43	28	83
Debt issues	1,852	-	25	6	28	1,934	-	1,993
Amounts due to controlled entities	13,591	13,591	-	-	-	-	-	13,591
Total	**75,368**	**46,845**	**2,068**	**5,848**	**10,898**	**8,648**	**1,778**	**76,085**
Undrawn loan commitments	8,728	-	385	15	212	1,500	6,616	8,728
Bank accepted guarantees	368	368	-	-	-	-	-	368
Total	**84,464**	**47,213**	**2,453**	**5,863**	**11,110**	**10,148**	**8,394**	**85,181**

16. Risk management (continued)

Consolidated 2018

Amounts in millions of dollars	Carrying amount	At call	Not later than 1 month	later than 1 month and not later than 3 months	later than 3 months and not later than 1 year	later than 1 year and not later than 5 years	Greater than 5 years	Total contractual cashflows
Financial liabilities								
Deposits and other borrowings	55,844	29,784	1,279	4,847	12,867	6,022	1,982	56,781
Derivative liabilities	362	-			9	172	181	362
Creditors and other liabilities	211	-	191	4	14	1	1	211
Debt issues	3,603	-	373	112	618	2,645	91	3,839
Total	**60,020**	**29,784**	**1,843**	**4,963**	**13,508**	**8,839**	**2,255**	**61,193**
Undrawn loan commitments	8,324	-	421	7	135	1,223	6,538	8,324
Bank accepted guarantees	139	139	-	-	-	-	-	139
Total	**68,483**	**29,923**	**2,264**	**4,970**	**13,643**	**10,063**	**8,793**	**69,656**

Bank 2018

Amounts in millions of dollars	Carrying amount	At call	Not later than 1 month	later than 1 month and not later than 3 months	later than 3 months and not later than 1 year	later than 1 year and not later than 5 years	Greater than 5 years	Total contractual cashflows
Financial liabilities								
Deposits and other borrowings	55,962	29,902	1,279	4,847	12,867	6,022	1,982	56,898
Derivative liabilities	362				9	172	181	362
Creditors and other liabilities	212	-	191	4	14	1	1	211
Debt issues	1,084	-	8	5	24	1,102	91	1,230
Amounts due to controlled entities	11,182	11,182	-	-	-	-	-	11,182
Total	**68,802**	**41,084**	**1,479**	**4,857**	**12,914**	**7,297**	**2,255**	**69,884**
Undrawn loan commitments	8,324	-	421	7	135	1,223	6,538	8,324
Bank accepted guarantees	139	139	-	-	-	-	-	139
Total	**77,265**	**41,223**	**1,900**	**4,864**	**13,049**	**8,520**	**8,793**	**78,347**

17. Capital management

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

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

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

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

The Board has set additional internal limits on top of the prudential requirements to manage the capital ratio.

Credit risk capital

In accordance with APRA's methodology, measuring credit risk requires one of a number of risk weights to be applied to each asset on the Balance Sheet and to off-Balance Sheet obligations. The risk weights are applied based on APRA's Internal Ratings-Based Approach for the Residential Mortgage book and Treasury, while Wholesale Banking, Business Lending, Credit Cards and Personal Loans apply the Standardised Approach.

Operational risk capital

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

Market risk

Under the Advanced Accreditation from APRA, risk weighted assets for Market Risk are calculated using a set of approved models (Embedded Mark-to-Market loss or gain, Optionality & Historical Value-at-Risk) to quantify the potential risks associated with the interest rate risk in the banking book.

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

17. Capital management (continued)

Capital Adequacy	Consolidated	
Amounts in millions of dollars	2019	2018
Qualifying capital		
Tier 1		
Total equity	4,843	4,472
Reserve adjustments	(114)	(128)
Regulatory adjustments	(167)	(170)
Common Equity Tier 1	**4,562**	**4,174**
Additional Tier 1 Capital	-	-
Total Tier 1 qualifying capital	**4,562**	**4,174**
Tier 2		
Tier 2 subordinated debt	75	75
General reserve for credit losses		
Standardised approach[1]	61	40
International ratings-based approach[2]	-	-
Total Tier 2 qualifying capital	**136**	**115**
Total regulatory capital	**4,698**	**4,289**
Total risk adjusted assets and off-balance sheet exposures	**34,524**	**33,263**
Capital adequacy ratio	**13.6%**	**12.9%**

[1] Represents the total general reserve for credit losses recognised for those portfolios under the Basel III Standardised approach.
[2] There were no surplus provisions on non-defaulted exposures for those portfolios under the Basel III Internal ratings-based approach.

Dividends - Accounting policy

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

18. Fair value of financial instruments

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

Dividend provided for or paid		
Amounts in millions of dollars	2019	2018
Franked dividend for 2019: nil (2018: nil).	-	-

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

18. Fair value of financial instruments (continued)

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

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

18. Fair value of financial instruments (continued)

Fair value hierarchy

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

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

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

31 December 2019

			Fair value hierarchy		
Amounts in millions of dollars	Carrying value total	Fair value total	Level 1	Level 2	Level 3
Consolidated					
Assets measured at fair value:					
Financial assets at FVOCI	2,915	2,915	2,915	-	-
Derivative assets	92	92	-	92	-
Liabilities measured at fair value:					
Derivative liabilities	595	595	-	595	-
Assets for which fair values are disclosed:					
Securities at amortised cost	1,516	1,572	1,572	-	-
Loans and advances - Variable[1]	43,613	43,613	-	-	-
Loans and advances - Fixed	19,270	19,349	-	-	19,349
Liabilities for which fair values are disclosed:					
Deposits and other borrowings - call[1]	33,270	33,270	-	-	-
Deposits and other borrowings - term	25,697	25,743	-	403	25,341
Debt issues - Variable[1]	4,085	4,090	-	4,090	-
Debt issues - Fixed	1,125	1,130	-	1,130	-
Bank					
Assets measured at fair value:					
Financial assets at FVOCI	2,915	2,915	2,915	-	-
Derivative assets	92	92	-	92	-
Liabilities measured at fair value:					
Derivative liabilities	594	594	-	594	-
Assets for which fair values are disclosed:					
Securities at amortised cost	1,516	1,572	1,572	-	-
Loans and advances - Variable[1]	43,613	43,613	-	-	-
Loans and advances - Fixed	19,270	19,349	-	-	19,349
Liabilities for which fair values are disclosed:					
Deposits and other borrowings - call[1]	33,390	33,390	-	-	-
Deposits and other borrowings - term	25,697	25,743	-	403	25,341
Debt issues - Variable[1]	728	4,016	-	4,016	-
Debt issues - Fixed	1,125	1,130	-	1,130	-

[1] The carrying amount of these financial assets and liabilities are an approximation of fair value.

18. Fair value of financial instruments (continued)

31 December 2018

Amounts in millions of dollars	Carrying value total	Fair value total	Fair value hierarchy Level 1	Level 2	Level 3
Consolidated					
Assets measured at fair value:					
Financial assets at FVOCI	2,687	2,687	2,520	167	-
Derivative assets	73	73	-	73	-
Liabilities measured at fair value:					
Derivative liabilities	362	362	-	362	-
Assets for which fair values are disclosed:					
Securities at amortised cost	1,468	1,490	1,490	-	-
Loans and advances - Variable[1]	39,021	-	-	-	-
Loans and advances - Fixed	19,537	19,583	-	-	19,583
Liabilities for which fair values are disclosed:					
Deposits and other borrowings - call[1]	29,926	-	-	-	-
Deposits and other borrowings - term	25,918	25,978	-	737	25,241
Debt issues - Variable[1]	2,994	-	-	-	-
Debt issues - Fixed	609	610	-	610	-
Bank					
Assets measured at fair value:					
Financial assets at FVOCI	2,687	2,687	2,520	167	-
Derivative assets	70	70	-	70	-
Liabilities measured at fair value:					
Derivative liabilities	362	362	-	362	-
Assets for which fair values are disclosed:					
Securities at amortised cost	1,468	1,490	1,490	-	-
Loans and advances - Variable[1]	39,021	-	-	-	-
Loans and advances - Fixed	19,537	19,583	-	-	19,583
Liabilities for which fair values are disclosed:					
Deposits and other borrowings - call[1]	30,044	-	-	-	-
Deposits and other borrowings - term	25,918	25,978	-	737	25,241
Debt issues - Variable[1]	475	-	-	-	-
Debt issues - Fixed	609	610	-	610	-

[1] The carrying amount of these financial assets and liabilities are an approximation of fair value.

Transfers between Level 1 and Level 2

There have been no transfers during the year.

Valuation process for Level 3 valuations

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

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

There were no changes in valuation techniques during the year.

18. Fair value of financial instruments (continued)

Quantitative information of significant unobservable inputs – Level 3				Consolidated and Bank
Description	$millions	Valuation technique	Significant unobservable inputs	Range (weighted average)
Mortgage-backed securities 31 December 2019	-	DCF Method	Weighted Average Life Credit spread	N/A
Mortgage-backed securities 31 December 2018	-	DCF Method	Weighted Average Life Credit spread	N/A

Sensitivity analysis to significant changes in unobservable inputs within Level 3 hierarchy			Consolidated and Bank
Description	Input	Sensitivity used	Effect on fair value $m
Mortgage-backed securities 31 December 2019	Weighted Average Life Credit spread	+/-10% +/-10%	N/A N/A
Mortgage-backed securities 31 December 2018	Weighted Average Life Credit spread	+/-10% +/-10%	N/A N/A

Level 3 reconciliation

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

Mortgage-backed securities		
Amounts in millions of dollars	Consolidated	Bank
Opening balance – 1 January 2019	-	-
Transfers into or (out of) Level 3		
Total gains and losses		
- Other comprehensive income	-	-
Closing balance – 31 December 2019	**-**	**-**
Opening balance – 1 January 2018	-	-
Transfers into or (out of) Level 3		
Total gains and losses		
- Other comprehensive income	-	-
Closing balance – 31 December 2018	**-**	**-**

19. Provisions

Provisions	Consolidated		Bank	
Amounts in millions of dollars	2019	2018	2019	2018
Annual leave	9	8	9	8
Long service leave	8	8	8	8
Other provisions	-	1	-	1
Total provisions	**17**	**17**	**17**	**17**
Provisions expected to be paid in the next 12 months	**10**	**7**	**10**	**7**

Provisions	Consolidated		Bank	
Amounts in millions of dollars	2019	2018	2019	2018
Carrying amount at beginning of the year	17	17	17	17
Additional provision recognised	10	7	10	7
Amounts utilised during the year	(10)	(7)	(10)	(7)
Carrying amount at end of year	**17**	**17**	**17**	**17**

Provisions – Accounting policy

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

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

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

20. Contributed equity

	Consolidated		Bank	
Amounts in millions of dollars	2019	2018	2019	2018
Issued and fully paid equity				
Ordinary voting shares	1,284	1,284	1,284	1,284
Ordinary non-voting shares	50	50	50	50
Total contributed equity	**1,334**	**1,334**	**1,334**	**1,334**

	Consolidated		Bank	
Amounts in millions of dollars	2019	2018	2019	2018
Issued capital	# of Shares	# of Shares	# of Shares	# of Shares
Balance at beginning of financial year	1,334,000,004	1,334,000,004	1,334,000,004	1,334,000,004
Issue of shares	-	-	-	-
Balance at end of financial year	**1,334,000,004**	**1,334,000,004**	**1,334,000,004**	**1,334,000,004**

Contributed equity – Accounting policy

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

21. Reserves

2019 Consolidated and Bank

Amounts in millions of dollars	General reserve for credit losses	Share based payments reserve	Cash flow hedge reserve	Fair Value reserve[1]	Total
Opening balance	110	18	(35)	(8)	85
Revaluation movement for the year, net of tax	-	2	(45)	(17)	(60)
Transferred to Other Comprehensive Income Statement - net interest income	-	-	(36)	16	(20)
Tax on amounts transferred to Other Comprehensive Income Statement	-	-	11	-	11
Transfer (to)/from retained earnings	(16)	-	-	-	(16)
Closing balance	**94**	**20**	**(105)**	**(9)**	**-**

2018 Consolidated and Bank

Amounts in millions of dollars	General reserve for credit losses	Share based payments reserve	Cash flow hedge reserve	Fair Value reserve[1]	Total
Opening balance	127	16	(17)	(3)	123
Opening balance adjustment for AASB 9	(11)	-	-	(4)	(15)
Restated balance as at 1 January 2018	**116**	**16**	**(17)**	**(7)**	**108**
Revaluation movement for the year, net of tax	-	2	(6)	(9)	(13)
Transferred to Other Comprehensive Income Statement - net interest income	-	-	(18)	8	(10)
Tax on amounts transferred to Other Comprehensive Income Statement	-	-	6	-	6
Transfer (to)/from retained earnings	(6)	-	-	-	(6)
Closing balance	**110**	**18**	**(35)**	**(8)**	**85**

Reserves – Accounting policy

General reserve for credit losses
The general reserve for credit losses ("GRCL") is an APRA requirement under prudential standard APS 220, which represents life time expected losses. The Group has leveraged AASB 9 models for calculating GRCL.

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

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

Fair value reserve
Gains and losses arising from subsequent changes in fair value of financial assets at FVOCI are recognised directly in the fair value 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.

22. Share based payments

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

Share options	2019		2018	
	Number	WAEP	Number	WAEP
Outstanding at the beginning of the year	49,443	€ 6.48	109,675	€ 11.84
Lapsed or forfeited during the year	(3,016)	€ 2.90	(59,674)	€ 16.62
Exercised during the year	(40,173)	€ 6.68	(1,643)	€ 2.90
Transferred during the year	(951)	€ 4.65	1,085	€ 16.50
Outstanding at the end of the year	**5,303**	**€ 7.35**	**49,443**	**€ 6.48**
Exercisable at the end of the year	**5,303**	**€ 7.35**	**49,443**	**€ 6.48**

The outstanding balances of share options as at 31 December 2019 are:

Year of grant	2019		2018	
	Number of options	Exercise price	Number of options	Exercise price
2009	-	€ 0.00	9,663	€ 2.90
2010	5,303	€ 7.35	39,780	€ 7.35
Total	**5,303**	**€ 7.35**	**49,443**	**€ 6.48**

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

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

Performance units	2019		2018	
	Number	WAEP	Number	WAEP
Outstanding at the beginning of the year	167,393	€ 11.67	164,550	€ 11.51
Forfeited during the year	(1,911)	€ 11.38	(12,417)	€ 11.60
Granted during the year	75,688	€ 9.96	130,120	€ 12.26
Performance effect	-	€ 0.00	11,538	€ 11.75
Vested during the year	(106,119)	€ 11.41	(129,730)	€ 12.06
Transferred during the year	(13,503)	€ 11.40	3,332	€ 11.50
Outstanding at the end of the year	**121,548**	**€ 10.87**	**167,393**	**€ 11.67**

22. Share based payments (continued)

The outstanding balances of performance units as at 31 December 2019 are:

Year of grant	2019		2018	
	Number of Performance Units	WAGP	Number of Performance Units	WAGP
2016	-	€ 0.00	27,264	€ 9.33
2017	23,910	€ 12.25	50,970	€ 12.51
2018	45,965	€ 11.58	89,159	€ 11.91
2019	51,673	€ 9.59	-	€ 0.00
Total	**121,548**	**€ 10.87**	**167,393**	**€ 11.67**

All performance units are granted in the ultimate parent entity, ING Groep N.V. and vest 3 years from the issue date at the exercise price noted above. The actual expense for share based payments for 2019 net of tax is $2m (2018: $2m).

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

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

Share-based payment transactions – Accounting policy

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

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

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

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

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

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

23. Commitments and contingencies

Bank	2019	2019	2018	2018
Amounts in millions of dollars	Unused	Available	Unused	Available
Liquidity facilities to related entities	210	210	220	220

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

Consolidated		
Amounts in millions of dollars	2019	2018
Commitments to extend credit		
- undrawn loan commitments	8,728	8,324
- bank accepted guarantees	368	139
Total commitments to extend credit	**9,096**	**8,463**
Operating leases – land, buildings & cars*		
Lease payments due:		
- not later than 1 year	-	2
- later than 1 year and less than 5 years	-	39
- later than 5 years	-	39
Total minimum lease payments	**-**	**80**

*Operating leases include the leases of the premises the Group occupies at 60 Margaret Street (Sydney), 273 George Street (Sydney), 3 Reliance Drive (Tuggerah), 114 William Street (Melbourne), 121 King William Street (Adelaide), 60 Edward Street (Brisbane) and 5 Mill Street (Perth).

Leases – Accounting Policy

As the Group has implemented AASB 16 Leases without restating comparatives, lease liabilities were recognised in 2019 and lease commitments were disclosed in 2018. Reference is made to Note 2 'Significant accounting policies', AASB 16 'Leases' - Impact of Adoption

24. Related party disclosures

Key management personnel compensation

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

Specified Directors:

Michael Katz*	Director (Non-Executive) (until 1st January 2020)
Dr. John Laker**	Director (Non-Executive)
Aris Bogdaneris	Director (Non-Executive)
Nancy Fox	Director (Non-Executive)
Amanda Lacaze	Director (Non-Executive)
Mark Newman	Director (Non-Executive)
Darryl Newton	Director (Non-Executive)
Uday Sareen	Director (Executive)

*Michael Katz was a director and chairman of the board throughout the 2019 year and resigned effective date 1st January 2020.
**Dr John Laker was a director throughout the 2019 year and was appointed chairman effective date 1st January 2020.

Specified Executives:

Alan Lee	Chief Financial Officer
Michael Witts	Acting Chief Risk Officer from 1st October 2019 and Treasurer (until 30th September 2019)
Ulrich Heitbaum	Chief Risk Officer (until 30th September 2019)
Adriana Sheedy	Executive Director, Operations (until 20th December 2019)
Tim Newman	Executive Director, Operations (from 20th December 2019)
Aniruddha Paul	Chief Information Officer (until 9th December 2019)
Linda Da Silva	Chief Information Officer (from 9th December 2019)
Melanie Evans	Head of Retail Banking
Fiona Monfrooy	Executive Director, Human Resources
Charles Ho	Head of Wholesale Banking

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

Amounts in thousands of dollars	2019	2018
Short-term employee benefits	6,415	6,381
Other long-term benefits	545	728
Share-based payments	555	1,083
Termination benefits	-	-
Post-employment benefits	-	-
Total compensation	**7,515**	**8,192**

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

24. Related party disclosures (continued)

Transactions with entities in the wholly owned group

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

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

Consolidated				
Amounts in millions of dollars	**2019[1]**	**For the period[2]**	2018[1]	For the period[2]
Aggregate amounts receivable from related parties in the wholly owned group	868	10	673	12
Aggregate amounts payable to the ultimate controlling entity	(75)	(38)	(102)	(33)
Aggregate amounts payable to related parties in the wholly owned group	(11,473)	(225)	(10,407)	(267)
Total	**(10,680)**	**(253)**	**(9,836)**	**(288)**

Transactions with controlled entities

Bank				
Amounts in millions of dollars	**2019[1]**	**For the period[2]**	2018[1]	For the period[2]
Aggregate amounts receivable from controlled entities	10,770	415	9,084	329
Aggregate amounts due to controlled entities	(13,591)	(510)	(11,182)	(449)
Total	**(2,821)**	**(95)**	**(2,098)**	**(120)**

[1] Positions as at the respective reporting date
[2] Transactions during the year

25. Auditor's remuneration

	Consolidated		Bank	
Amounts in thousands of dollars	**2019**	2018	**2019**	2018
Amounts paid or due and payable for audit of the consolidated financial report by the auditor	522	526	342	331
Amounts paid or due and payable for other services to the auditor:				
Regulatory services	298	223	298	223
Taxation services	-	-	-	-
Other services	190	190	190	140
Total	**1,010**	**939**	**830**	**694**

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

26. Subsequent events

No subsequent events or transactions have occurred since the year ended 31 December 2019, or are pending, that would have a material effect on the Financial Statements.

27. Other accounting policies and accounting standard developments

The following Australian Accounting standards have been issued but are not yet effective, they are available for early adoption but have not been adopted by the Group for the annual reporting period ending 31 December 2019:

AASB has also issued AASB 117 'Insurance Contracts' expected to be effective in 2022 however it is not expected to be applicable for the Group. The original effective date of AASB 117 as proposed in the Standard was 1 January 2021, however in June 2019 the AASB has published an Exposure Draft 'Amendments to AASB 117' in which a 1 January 2022 effective date is proposed

Consolidation

Subsidiaries

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

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

Securitisation

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

The investors in the securities issued by the Trusts have full recourse to the assets transferred to the Trusts. The Bank receives the residual income distributed by the Trusts after all payments due to investors and associated costs of the program have been met. In addition to this, the Bank retains the junior notes issued by the Trusts and interest rate risk from the Trusts is transferred back to the Bank by way of interest rate swaps. Hence, the Bank is considered to retain the risks and rewards of these cash flows. Accordingly, the original sale of the mortgages from the Bank to the Trusts does not meet the derecognition criteria set out in AASB 9.

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

Covered Bonds

The Covered Bonds Programme raises and diversifies funding for the Bank in its primary markets. Net loans and advances include residential mortgages assigned to a bankruptcy remote Trust established for the covered bonds program. The mortgages provide security for the obligations payable on the issued covered bonds.

The covered bond holders have dual recourse to the Bank as the issuer and the cover pool of assets. The issuer cannot otherwise pledge or dispose of the transferred assets, however, subject to legal arrangements it may repurchase and substitute assets as long as the required cover is maintained.

The Bank is required to maintain the cover pool at a level sufficient to cover the bond obligations. In addition the Bank is entitled to any residual income of the Covered Bond Trust and enters into derivatives with the Trust. The Bank retains the majority of the risks and rewards of the residential mortgages and continues to recognise the mortgages as financial assets. The obligation to pay this amount to the Trust is recognised as a financial liability of the Bank.

The Bank is exposed to variable returns from its involvement with the Covered Bond Trust and has the ability to affect those returns through its power over the Trust's activities. The Trust is therefore consolidated by the Group. The covered bonds issued externally are included within debt issues.

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

Structured entities

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

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

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

Assets used in securitisation and covered bonds programmes

Amounts in millions of dollars	2019	2018
Residential mortgages	13,595	11,186
Total	**13,595**	**11,186**

Facilities used in securitisation programmes

Amounts in millions of dollars	2019	2018
Liquidity facilities	210	220
Total	**210**	**220**

Foreign currencies

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

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

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.

Intangible assets

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

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

Goods and services tax

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

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

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

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

Creditors and other liabilities

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

Operating expenses

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

Reclassification of comparatives

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

Directors' declaration

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

In the opinion of the Directors:

a) The Financial Statements and notes of the Bank and its controlled entities (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 2019 and of its financial performance for the year ended on that date; and

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

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

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

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

Dr John Laker
Chairman

Uday Sareen
Director

Sydney
4 March 2020

Independent Auditor's Report

To the shareholders of ING Bank (Australia) Limited

Opinion

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

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

- giving a true and fair view of the ***Group*** and Company's financial position as at 31 December 2019 and of their financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated Balance Sheets as at 31 December 2019;
- Consolidated Statements of Comprehensive Income, Consolidated Statements of Changes in Equity, Consolidated Statements of Cash Flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

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

Basis for opinion

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

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

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

Other Information

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

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

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

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

KPMG

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our Auditor's Report.

KPMG

KPMG

Brendan Twining
Partner
Sydney
4 March 2020

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