Annual Report 2018

ING Bank (Australia) Limited
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A snapshot of our business

Who we are

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

2018 highlights

- More than 400,000 new customers
- Primary bank (main financial institution) customer numbers exceeded 645,000
- Launched Orange One (new-to-bank), Orange Everyday Youth and ING Personal Loan
- Orange Everyday at 1.3 million accounts
- Launched IFTTT (a set and forget savings tool) and everyday round up for home loads (to help home owners pay down their home loan quicker)

Our customers

- 1.6 million active customers
- #1 Net Promoter Score

Our people

- 1,515 employees

Our award highlights

- Money Magazine - Best Everyday Account – **Orange Everyday**, Best Digital Innovation – **IFTTT**, Best Term Deposit (long term) and Best Cheapest Flexible Home loan – **Orange Advantage**.
- Canstar - 5 star rating for ING Orange One and Orange Everyday
- Mozo Experts Choice Awards – Buildings & Contents and Home & Contents Insurance
- Superatings – Gold Super and Pension 2018

Our community

- To date we've supported more than 80 social enterprises through the ING Dreamstarter program and a number of social entrepreneurs through ING Dreamstarter scholarships.
- We continued our long-term partnership Cerebral Palsy Alliance to help empower young people who have a disability to get ahead. In 2018 we raised a record $106,000 during our CPA Steptember campaign.

Financial highlights

Net profit after tax
$401m

Cost to income ratio
40%

Capital adequacy ratio
12.9%

Savings
$43,481m

Loans
$58,606m

CEO's year in review

2018 was a positive year in terms of customer growth, with a record number of Australians choosing to bank with ING. As Australia's most recommended Bank we're helping empower more customers than ever to stay a step ahead in life and in business.

Primary Bank and core growth

We added 400,000 new-to-bank customers and grew our Primary Bank customer base by 57 per cent. These are customers who chose to make ING their primary bank by depositing their salary and using at least one other product.

Orange Everyday continued to be a popular choice in the market with more than 527,000 new accounts opened. In response to customer feedback we launched Orange Everyday Youth, our best-in-class transaction account for 15-17 year olds, helping them start out right and take control of their money.

Despite a slowing housing market, we helped more than 27,500 Australians realise their property dreams of buying a home, and provided peace of mind with 10,000 new home insurance policies. Our share of the broker market increased by more than 7 per cent and overall residential home lending grew by 9 per cent.

We continued to grow market share across savings and loans. Total savings grew by 9 per cent and lending increased by 11 per cent. Statutory net profit after tax was at $401m, an increase of 15 per cent over 2017.

In a year where trust in financial services dominated the headlines, ING continued to lead the industry in customer advocacy. We retained our number one position for Net Promoter Score (customers willing to recommend ING to family and friends). Towards the end of 2018 we were named the most trusted bank in Australia, according to the Roy Morgan Most Trusted Brands Index.

Diversification

Consumer lending saw strong growth with the launch of the Orange One credit card for new-to-bank customers and ING Personal Loan. We welcomed more than 5,000 ING Personal Loan customers and 11,500 Orange One customers in 2018. Overall balances crossed the $100 million mark.

Our Living Super superannuation product continued to perform well. More than 61,000 customers have chosen ING to help them save so they can enjoy life after retirement.

Wholesale Banking

We continued growing lending to the wholesale banking sector, supported by ING's international network and industry expertise to service our local customers. In line with our growth strategy, new sector specialists in areas such as food and agriculture joined the team in 2018. This expansion, together with the efforts from our existing teams, led to a strong performance for the year, up 36 per cent. The renewables sector continued to be a focus, with new lending facilities to the Bungala solar PV and Sunraysia solar PV projects.

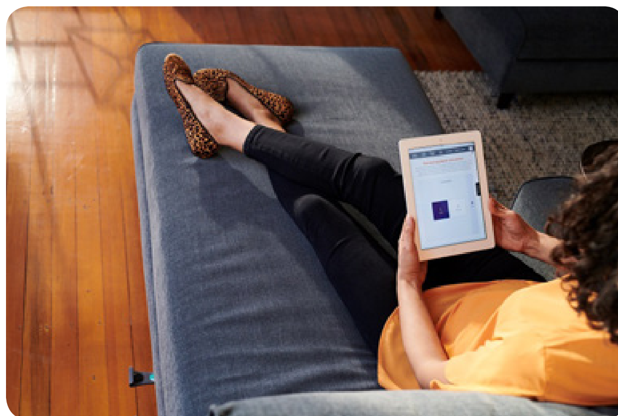
Delivering a differentiated customer experience

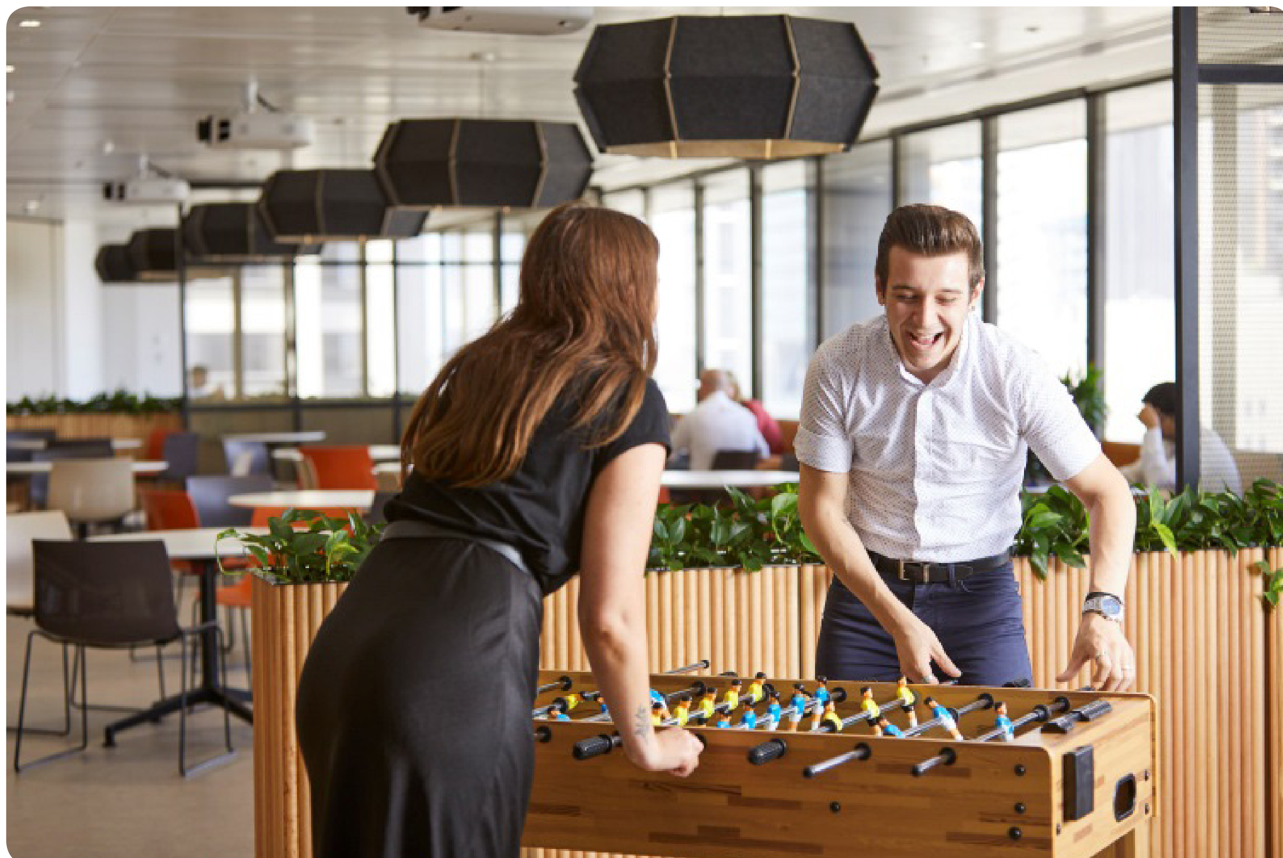
We're proud of our legacy as Australia's first fintech and continue pioneering new ways to make banking a seamless part of customers' daily lives.

ING customers were among the first to experience the New Payments Platform which enables Australians to make and receive faster and flexible payments via participating financial institutions. 1.5 million transactions are made by ING customers each month using this service.

2018 was the year we took a big step towards voice activated transactional banking, giving customers the choice to ask Siri for their bank balance. We were the first Australian bank to partner with technology company If This Then That ("IFTTT") to develop a service designed to make saving fun. It gives customers the option of setting up savings triggers to turn everyday habits into savings.

And following the success of our everyday round up savings feature, we launched *everyday round up for home loans*. Within three months 4,000 home loan customers had signed up for the service to help pay down their home loan sooner.





Building a safe and secure ING

Over the past 12 months we've taken a number of steps to ensure we continue to safeguard customer and company data while offering reliable IT services anywhere and anytime. I'm delighted we achieved Advanced Accreditation from the Australian Prudential Regulatory Authority ("APRA") for our risk management practices - the first foreign lender and first bank in Australia to do so in 10 years. We also bolstered our efforts to better understand customers through the Know Your Customer process, to make sure we only do business with people whose values reflect our own.

Royal Commission

On 30 November 2017, the Federal Government announced the establishment of a Royal Commission into the Banking, Superannuation and Financial Services Industry to "ensure the Australian financial system is resilient, efficient and fair". On 4 February 2019, the Commission submitted a final report highlighting serious shortcomings in the industry. ING welcomes the recommendations and areas of reform that will lead to better outcomes for the customer.

Our people and culture

We're committed to creating a great place to work where our people are empowered with more choices for when, where and how they work. Through our flexING program, people can select varied work hours and remote working arrangements to suit their needs.

Our investment in our people is how we attract and retain the best talent at ING. Our Winning Performance Culture survey showed we continue to have one of the strongest levels of employee engagement across ING, higher than the global average, the global financial services benchmark and the Australian country benchmark.

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

Our community

We believe we have a role to play in delivering a sustainable future for all Australians, using our platform to help our customers, our people and the community to be socially and environmentally responsible. We do this by supporting programs that empower every level of the Australian community to drive change for good, from small start-up social enterprises to long term community partners.

ING Dreamstarter

Our ING Dreamstarter program is based on the belief that every Australian can make a difference to the global challenges we face. In 2018 we empowered a further seven social enterprises to turn their ideas into reality and drive social and environmental good in their community. Our ING Dreamstarter family has grown to more than 80 social enterprises since launching in 2014, with many budding social entrepreneurs also benefiting from ING Dreamstarter scholarships.

Cerebral Palsy Alliance

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

Our ongoing funding of the Conductive Education program gives young children with a disability the best possible start in life by providing early intervention for all areas of learning and development, to help improve their potential independence in the future.

Our people volunteered their time and skills to mentor teenagers and young adults through the CPA Ignition and Emerge Mentoring programs, designed to boost self-esteem, independence and the ability to be financially self-reliant by obtaining gainful employment.

We also fundraised throughout the year with a particular focus on CPA's global Steptember campaign. In 2018 142 teams demonstrated their passion and commitment by challenging themselves to take 10,000 steps a day and helped ING set a fundraising record of more than $106,000 during the month of September.

Thank you

2018 was a standout year for ING. I'd like to say thank you to our people for their contribution to the business, to our community partners for supporting us to drive positive change and to our customers for choosing us to help them achieve their goals.

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

Our approach to sustainability

At ING our purpose is to empower people to stay a step ahead in life and in business. We believe our role as a financial institution is to support and advance economic, social and environmental progress that leads to a better quality of life. That's why sustainability is embedded in our business and forms an integral part of our everyday actions.

Our Sustainability Reporting is underpinned by materiality assessments, which help us prioritise the economic, social and environmental issues considered most important by our stakeholders and their potential impact on our organisation. Our reporting is compiled in accordance with the Global Reporting Initiative ("GRI"). An index of links to information relevant to the GRI is available here.

Our approach to materiality

Global stakeholder surveys, customer feedback systems, mortgage broker roadshows, employee engagement surveys, regular meetings with industry regulators and industry benchmarks are the key mechanisms we use to engage, listen to and act on our stakeholders' views.

The key material issues addressed in our Sustainability Reporting were determined based on input from these stakeholders. Our approach to materiality and our performance against internal targets is listed below.

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

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 positive financial decisions, now and in the future.

Confidence and trust earned through fair value for products and services

We continue to attract the highest Net Promoter Score of any Australian Bank, substantiating our position as Australia's most recommended bank. A key driver of this advocacy is that we place customers at the centre of all decision-making to ensure products deliver them long term value.

As part of our fair and transparent product offering, in 2018 we launched *everyday round up for home loans*. This feature enables eligible customers to pay off their home loans sooner by rounding up their Orange Everyday card spending to the nearest $1 or $5 and paying down their loan by that 'extra' amount. The round up amounts are available for redraw if required and the feature can be turned off and on easily.

We also launched Orange Everyday Youth, to help financially aware teenagers turn their good intentions into good financial habits. Available for those aged 15 until their 18th birthday, the new offering allows Australian teenagers to take control of their money with absolutely no everyday account fees.

We were also recognised at the 2018 Money Magazine Awards as the Gold Winner in the Cheapest Flexible Home Loan category.

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

How we did in 2018: We continued to attract the highest Net Promoter Score of any Australian Bank in 2018 (Dec17: 26.1).

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 about our approach to responsible lending.

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

How we did in 2018: Our customer default rates have remained consistently below industry benchmarks in 2018.

*ING is "Australia's most recommended bank" according to Nielsen Consumer & Media View Apr'18- Sep'18 (n = 11,516) when compared by customers of 15 other banks operating in Australia."

System availability, data security and digital innovation

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, we maintain 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 2018: We achieved 99.96% average availability in 2018 (99.96% in 2017).

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 2018: 82% of reported vulnerabilities in 2018 were remediated.

Digital innovation

Our Think Forward strategy inspires us to successfully pre-empt and respond to rapidly changing customer needs. The strategy, combined with our focus on innovation, is a key driver for continually improving the customer experience.

In an Australian banking first, we partnered with technology company If This Then That ("IFTTT") to enable our customers to set automatic savings triggers linked to their everyday lives. Customers can link IFTTT to their Orange Everyday and Savings Maximiser accounts and set up savings rules automatically triggered by specific events. For example, save for a tropical holiday by transferring $20 from your Orange Everyday to your Savings Maximiser every time the temperature drops below 19 degrees; or put $5 towards a new pair of runners every time you reach a daily step or exercise goal.

2. 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 2018 was FlexING, which empowers people with more choices for when, where and how they work.

We also reinforced our support of emerging female leaders to continue to build a more diverse workplace, through our sponsorship of the 7th Women in Banking & Financial Services Leadership Summit 2018, and Women in Tech Australia conference.

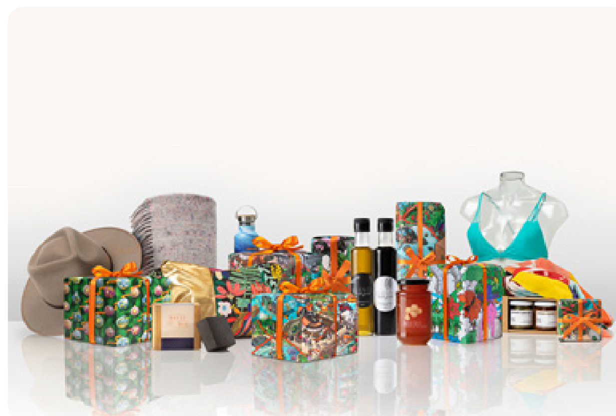
The introduction of Launchpad, our new onboarding system was another significant innovation. Launchpad empowers new employees through a positive, interactive and fun onboarding experience. It also benefits people leaders by providing tailored information, guidance and tools to set the employee up for success.

We continue to provide opportunities for global mobility, professional development, an active wellbeing program and a global Innovation Bootcamp, which is all part of empowering our people to deliver on our long term strategy. Read more about our approach to talent attraction and retention.

How we measure: We measure our employee engagement and organisational health, alternating between each bi-annually. In 2018 we measured our employee engagement using the Winning Performance Culture ("WPC") survey.

How we did in 2018: We continue to have one of the highest response rates and strongest overall sustainable engagement scores across ING, higher than the global average, the global financial services benchmark and the Australian country benchmark.

3. Help to build a strong community



Seventeen ING Dreamstarters were featured across 2018 Gifts that Give and crowdfunding campaigns.

Financial inclusion, capacity building and social impact

Our business model, commitment to fairness and value, and our prudent approach to lending support accessibility to banking services for all Australians. We have an ongoing commitment to continual improvement and to ensuring we always deliver fair products and services to our existing and potential customers anywhere, anytime. Read more about our approach to financial empowerment.

In 2018, our community investment continued to build on this strong foundation, with our two key community programs focused on empowering people to address a range of economic, social and environmental issues.

1. Through our partnership with Cerebral Palsy Alliance, we continue to enable young people with a disability to lead the most comfortable, independent and inclusive lives possible. Our involvement in award-winning programs Ignition Mentoring and Emerge Mentoring empowers teenagers and young people transitioning into the workforce to build life skills that help them pursue their education, employment and economic goals.

2. ING Dreamstarter supported the launch of seven new social enterprises this year, bringing the total to more than 80 since the program began in 2014. Through financial and capacity building, and with the support of reputable education and social entrepreneurship partners Social Enterprise Finance Australia ("SEFA") and StartSomeGood, the ING Dreamstarter program helps budding social entrepreneurs to ideate, launch, grow and scale businesses with the potential for social impact. Our innovative Gifts that Give platform continues to evolve, leveraging key gifting periods throughout the year to help raise the profile of our ING Dreamstarters, and drive engagement and sales.

Read more about our community investment.

Environmental footprint

We understand our activities impact the environment in which we operate – both directly, through the operations of our buildings, IT systems and business travel, and indirectly, through our financing portfolio and procurement supply chains. ING Australia's environmental approach is aligned to ING Groep.

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

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

Sustainable Transitions Financed ("STF"): STF describes the business ING Groep does with clients that are environmental trend setters in their sectors, or the business related to projects that deliver sustainable solutions. Our global ambition is to increase our financing of sustainable transitions to €35bn worldwide by 2020.

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

Direct impacts: We actively track and report our direct impact on the environment through our water and energy consumption, the waste we produce and other activities such as air travel and paper use. In 2018 key actions included the introduction of single stream recycling of take-away coffee cups and paper towels, which are a large contributor to contamination of recycling streams. As a result, on average, we're now diverting more than a tonne of coffee cups and paper towels from landfill each month, reducing our impact on the environment.

4. Contribute to the community by ensuring open and transparent reporting

We are committed to meeting our tax obligations and complying with taxation laws, practice and reporting requirements.

The Bank is a signatory to the Voluntary Tax Transparency Code ("TTC"), issued by the Australian Board of Taxation. Our tax transparency disclosures in this report and in the tax note of the 2018 Financial Statements are in conformance with the TTC.

Tax strategy and governance

The Bank's tax strategy is to:

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

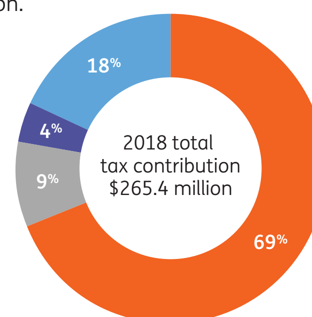
The Bank has a low tolerance for tax risks, seeks to fully cooperate with the Australian Taxation Office ("ATO") and other tax authorities and is committed to conduct any dealings in an open and transparent manner.

We do not undertake any aggressive tax planning. The commercial requirements of a transaction dictate its form and no transactions are 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 the Bank's 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 act with integrity and adhere to the ING Values when managing tax affairs.

Tax contribution summary for corporate taxes paid

The Bank's total tax contribution (paid and remitted) amounted to $265.4 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.

The Bank discloses transactions with related parties at Note 20 of its Financial Report. The main related parties transactions are with ING entities domiciled in The Netherlands, Poland and Singapore. The key business dealings relate to the 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.

Sustainability in Practice

Sustainability reporting and more importantly, its implementation in everyday activities is an important factor in empowering people to stay ahead in life and business. You can read more about our approach to sustainability (empowered customers, strong community, our people and reporting) on our website.

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 2018.

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

Directors' qualifications and special responsibilities

Michael Katz, B.Comm (Hons), Chairman

Mr Katz was appointed as Director in January 2010 and was appointed Chairman of the Group in March 2011. Mr Katz is also Chairman of the Remuneration and Nomination Committee and is a member of the Audit and Risk Committees.

Amanda Lacaze, B.A.

Ms Lacaze was appointed as Director in May 2011. Ms Lacaze is a member of the Audit, Risk and Remuneration & Nomination Committees.

Mark Newman, B.Sc (Hons)

Mr Newman was appointed as Director in April 2015. Mr Newman is a member of the Audit, Risk and Remuneration & Nomination Committees.

Aris Bogdaneris, B.Sc, B.A., M.A.

Mr Bogdaneris was appointed as Director in August 2015. Mr Bogdaneris is a member of the Audit and Risk Committees.

Nancy Fox, BA, JD (Law), FAICD

Ms Fox was appointed as Director on 3 May 2018. Ms Fox is the chair of the Risk Committee and a member of the Audit and Remuneration & Nomination Committees.

Darryl Newton, B.Comm, CA, GAICD

Mr Newton was appointed as Director on 28 August 2018. Mr Newton is the chair of the Audit Committee and a member of the Risk and Remuneration & Nomination Committees.

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.

John Masters, B.Comm (Hons), CA, Barrister-at-Law

Mr Masters was appointed as Director in January 2010 and resigned on 19 August 2018.

Dr John Francis Laker M.Sc, PHD

Dr Laker was appointed as Director on 1 January 2019. Dr Laker is a member of the Audit, Risk and Remuneration & Nomination Committees.

Company Secretaries

Robert Thie LL.M., LL.B.

Mr Thie was appointed as Company Secretary of the Group on 20 November 2018.

Clemens Röling, LL.M., LL.B.

Mr Röling was appointed as Company Secretary of the Group on 28 February 2018 and resigned on 20 November 2018. He progresses his career at ING Groep N.V.

Rodney Saville, LL.B (Hons), B.A., Solicitor

Mr Saville was appointed Company Secretary of the Group in February 2015 and resigned 2 March 2018.

Meetings of Directors

Director (eligible to attend)	Number held (eligible to attend)	Number attended
M Katz	5	5
A Lacaze	5	5
M Newman	5	3
A Bogdaneris	5	3
N Fox	4	3
D Newton	2	2
J Masters	3	3
J Laker	0	0

Committee Meetings

Director (eligible to attend)	Audit Committee		Risk Committee		R&N Committee*	
	Held**	Attended	Held**	Attended	Held**	Attended
M Katz	5	5	5	5	3	3
A Lacaze	5	5	5	5	3	3
J Masters	3	3	3	3	1	1
M Newman	5	3	5	3	3	2
A Bogdaneris	5	3	5	3	N/A	1
N Fox	4	3	4	4	2	1
D Newton	2	2	2	2	2	2
J Laker	0	0	0	0	0	0

* R&N Committee - Remuneration & Nomination Committee
** Eligible to attend

Corporate structure

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

Nature of operations and principal activities

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

Employees

The Group employed 1,262 permanent employees as at 31 December 2018 (2017: 1,178 permanent employees).

Significant changes in the state of affairs

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

Significant events after the balance date

No subsequent events have occurred since the year ended 31 December 2018, 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.

Michael Katz
Chairman

Uday Sareen
Chief Executive Officer

Sydney
11 March 2019

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 2018 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	Martin McGrath
KPMG	Martin McGrath *Partner* Sydney 11 March 2019

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

Corporate governance statement

Board responsibilities

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

Composition of the Board

At 31 December 2018 the Board comprised six 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 five times this year.

Board's 2018 governance priorities

The Board's 2018 governance priorities were:

- undertaking the board renewal;
- reviewing the findings of the APRA Prudential Inquiry into CBA and strengthen the Group's governance, risk management and culture;
- clarify the roles, accountabilities responsibilities of the Board, Board Committees and Executive Committee;
- 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 & Liability Committee, Non-Financial Risk Committee, Customer Integrity Risk Committee and the Finance & Risk Committee. All business unit level Committees are run by appropriate Senior Executives of the Group.

Audit Committee

The Audit Committee, chaired by Mr 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 & Nomination Committee

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

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

Pillar 3 Disclosures

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

Financial statements
Statements of comprehensive income

as at 31 December 2018

		Consolidated		Bank	
Amounts in millions of dollars	Note	**2018**	2017	**2018**	2017
Interest income using effective interest method		2,109	N/A	2,435	N/A
Other interest income		125	N/A	107	N/A
Total interest income		**2,234**	**2,076**	**2,542**	**2,221**
Interest expense using effective interest method		(1,178)	N/A	(1,544)	N/A
Other interest expense		(110)	N/A	(86)	N/A
Total interest expense		**(1,288)**	**(1,263)**	**(1,630)**	**(1,441)**
Net interest income		**946**	**813**	**912**	**780**
Net non-interest income		35	46	67	76
Total operating income	3	**981**	**859**	**979**	**856**
Employment expenses		(193)	(174)	(193)	(174)
Advertising expenses		(46)	(58)	(46)	(58)
Depreciation and amortisation expenses		(43)	(36)	(43)	(36)
Occupancy expenses		(16)	(16)	(16)	(16)
Technology expenses		(17)	(16)	(17)	(16)
Management expenses		(35)	(17)	(35)	(17)
Fee expenses		(10)	(9)	(8)	(6)
Other expenses		(32)	(22)	(33)	(22)
Total operating expenses		**(392)**	**(348)**	**(391)**	**(345)**
Loan impairment expense	9	(13)	(11)	(13)	(11)
Operating profit before tax		**576**	**500**	**575**	**500**
Income tax expense	4	(175)	(152)	(175)	(152)
Profit for the year		**401**	**348**	**400**	**348**
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	14	(9)	-	(9)	-
(Gains) / losses transferred to profit or loss	14	8	(1)	8	(1)
Net gains / (losses) on financial assets at FVOCI		(1)	(1)	(1)	(1)
Cash flow hedges					
Gains / (losses) arising during the year	14	(6)	39	(6)	39
(Gains) / losses transferred to profit or loss		(12)	(23)	(12)	(23)
Net gains / (losses) on cash flow hedges	8	(18)	16	(18)	16
Total amount recognised directly in equity		**(19)**	**15**	**(19)**	**15**
Total comprehensive income		**382**	**363**	**381**	**363**

Financial statements
Balance sheets

as at 31 December 2018

		Consolidated		Bank	
Amounts in millions of dollars	Note	**2018**	2017	**2018**	2017
Assets					
Cash and cash equivalents	5	1,037	980	691	800
Due from other financial institutions	6	607	311	657	373
Available for sale financial assets	7	N/A	3,961	N/A	3,961
Financial assets at FVOCI	7	2,687	N/A	2,687	N/A
Securities at amortised cost	7	1,468	N/A	1,468	N/A
Derivative assets	8	73	28	70	20
Receivables and other assets		36	128	36	94
Loans and advances	9	58,558	52,559	58,558	52,559
Amounts due from controlled entities		-	-	9,084	6,796
Deferred tax asset	4	53	41	50	33
Property, plant and equipment		85	109	85	109
Intangible assets		39	27	39	27
Total assets		**64,643**	**58,144**	**73,425**	**64,772**
Liabilities					
Derivative liabilities	8	362	340	362	340
Creditors and other liabilities		211	414	212	409
Deposits and other borrowings	10	55,844	49,823	55,962	49,966
Amounts due to controlled entities		-	-	11,182	9,794
Debt issues	12	3,603	3,301	1,084	-
Current tax liabilities		82	85	82	85
Provisions	11	17	17	17	17
Deferred tax liabilities	4	52	61	50	55
Total liabilities		**60,171**	**54,041**	**68,951**	**60,666**
Net assets		**4,472**	**4,103**	**4,474**	**4,106**
Equity					
Contributed equity	13	1,334	1,334	1,334	1,334
Reserves	14	85	123	85	123
Retained earnings		3,053	2,646	3,055	2,649
Total equity		**4,472**	**4,103**	**4,474**	**4,106**

Financial statements
Statements of changes in equity
as at 31 December 2018

Amounts in millions of dollars	Note	Contributed equity 13	Reserves 14	Retained earnings	Total equity
Consolidated					
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	14	-	(6)	6	-
Share based payment plan	14	-	2	-	2
As at 31 December 2018		**1,334**	**85**	**3,053**	**4,472**
As at 1 January 2017		1,334	107	2,296	3,737
Profit for the year		-	-	348	348
Other comprehensive income		-	15	-	15
Total comprehensive income		**-**	**15**	**348**	**363**
Transactions with owners, recorded directly in equity					
Transfers	14	-	(2)	2	-
Share based payment plan	14	-	3	-	3
As at 31 December 2017		**1,334**	**123**	**2,646**	**4,103**
Bank					
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	14	-	(6)	6	-
Share based payment plan	14	-	2	-	2
As at 31 December 2018		**1,334**	**85**	**3,055**	**4,474**
			-		
As at 1 January 2017		1,334	107	2,299	3,740
Profit for the year		-	-	348	348
Other comprehensive income		-	15	-	15
Total comprehensive income		**-**	**15**	**348**	**363**
Transactions with owners, recorded directly in equity					
Transfers	14	-	(2)	2	-
Share based payment plan	14	-	3	-	3
As at 31 December 2017		**1,334**	**123**	**2,649**	**4,106**

Financial statements
Statements of cash flow
as at 31 December 2018

Amounts in millions of dollars	Note	Consolidated 2018	Consolidated 2017	Bank 2018	Bank 2017
Cash flows from operating activities					
Operating profit before tax		576	500	575	500
Adjustments for:					
Depreciation and amortisation expenses		43	36	43	36
Loan impairment expense		13	11	13	11
Other		(50)	20	(52)	22
Taxes paid		(185)	(77)	(185)	(77)
Changes in:					
Loans and advances		(6,012)	(4,747)	(6,012)	(4,747)
Derivatives		(23)	70	(28)	57
Receivables and other assets		92	42	59	56
Creditors and other liabilities		(199)	62	(193)	62
Deposits and other borrowings		4,853	3,411	3,928	3,518
Debt Issues		9	-	9	-
Net cash flows used in operating activities		**(883)**	**(672)**	**(1,843)**	**(562)**
Cash flows from investing activities					
Payments for property, plant and equipment		(31)	(37)	(31)	(37)
Payments for securities:					
- at FVOCI		(225)	N/A	(225)	N/A
- at amortised cost		(427)	N/A	(427)	N/A
- available for sale		N/A	(1,678)	N/A	(1,678)
Proceeds from sale of securities:					
- at FVOCI		332	N/A	332	N/A
- available for sale		N/A	919	N/A	919
Proceeds from redemption of securities:					
- at FVOCI		11	N/A	11	N/A
- at amortised cost		35	N/A	35	N/A
- available for sale		N/A	462	N/A	462
(Net payments) / proceeds from discount securities		80	502	80	502
Net cash flows (used in) / from investing activities		**(225)**	**168**	**(225)**	**168**
Cash flows from financing activities					
Proceeds from other long term financing		14,546	16,755	14,546	16,755
Proceeds from debt issued		75	1,076	75	-
Proceeds from covered bond issuance		1,000	-	1,000	-
Repayment of other long term financing		(13,378)	(16,037)	(13,378)	(16,037)
Repayment of debt issued		(782)	(962)	-	-
Dividends paid		-	(100)	-	(100)
Net cash flows from financing activities		**1,461**	**732**	**2,243**	**618**
Net cash flows		353	228	175	224
Cash and cash equivalents at beginning of year[1]		1,291	1,063	1,173	949
Cash and cash equivalents at end of year[1]	5 & 6	**1,644**	**1,291**	**1,348**	**1,173**

Interest received was $2,174 million (2017: $2,079 million) and interest paid was $1,215 million (2017: $1,277 million) and is included in cash flows from operating activities.

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

Notes to the financial statements

1. Basis of preparation

1.1 Corporate information

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

The financial statements for the year ended 31 December 2018 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 and IBAL Covered Bond Trust. The financial statements were authorised for issue in accordance with a resolution of the Directors on 11 March 2019.

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

1.2 Basis of accounting

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

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

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

2. Significant accounting policies

2.1 Changes to accounting policies

AASB 9 *'Financial Instruments'*

As of 1 January 2018 the Group has applied the classification, measurement and impairment requirements of AASB 9 '*Financial Instruments*' retrospectively by adjusting the opening balance sheet and opening equity at 1 January 2018. The Group decided not to restate comparative periods as permitted by AASB 9. The Group has early adopted the amendment to AASB 9, otherwise effective 1 January 2019, which allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract, to be measured at amortised cost or at fair value through other comprehensive income.

The Group has decided to continue to apply the hedge accounting guidance of AASB 139 including the application of the carve out as explicitly permitted by AASB 9. The revised hedge accounting disclosures as required by AASB 7 *'Financial Instruments: Disclosures'* as at 1 January 2018 have been implemented by the Group.

2. Significant accounting policies (continued)

a) Impact of adoption

Transition

Changes in accounting policies resulting from the adoption of AASB 9 have been applied retrospectively, except as detailed below:

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of AASB 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of AASB 9 and therefore is not comparable to the information presented for 2018 under AASB9;
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
  - The determination of the business model within which a financial asset is held;
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at fair value through profit or loss ("FVTPL");
  - For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in other comprehensive income ("OCI") would create or enlarge an accounting mismatch in the income statement.

The Group continues to test and refine the new accounting processes, internal controls and governance framework necessitated by the adoption of AASB 9.

The following table reconciles the carrying amounts under AASB 139 to the carrying amounts under AASB 9 on transition to AASB 9 on 1 January 2018:

Reconciliation of carrying amounts of financial assets and financial liabilities on the date of initial application of AASB 9

Amounts in millions of dollars	Carrying amount 31 December 2017 AASB 139	Reclassification for AASB 9	Remeasurement for AASB 9	Reclassification of accrued interest	Carrying amount 1 January 2018 AASB 9
Cash and cash equivalents	980	-	-	1	981
Due from other financial institutions	311	-	-	-	311
Available for sale financial assets	3,961	(3,961)	-	-	-
Financial assets at FVOCI	-	2,886	-	29	2,915
Securities at amortised cost	-	1,069	-	7	1,076
Loans and advances	52,559	-	(15)	17	52,561
Derivative assets	28	-	-	51	79
Receivables and other assets	128	-	-	(105)	23
Total	**57,967**	**(6)**	**(15)**	**-**	**57,946**
Derivative liabilities	340	-	-	27	367
Deposits and other borrowings	49,823	-	-	166	49,989
Debt issues	3,301	-	-	3	3,304
Creditors and other liabilities	414	-	-	(196)	218
Total	**53,878**	**-**	**-**	**-**	**53,878**

2. Significant accounting policies (continued)

The Group's accounting policies on the classification of financial instruments under AASB 9 are set out in note 2(b). As a result of the combined application of the business model analysis and solely payments of principal and interest ("SPPI") test, the classification and measurement of the available-for-sale ("AFS") investment portfolio was split into a portfolio classified as at amortised cost ("AC") and a portfolio at fair value through other comprehensive income ("FVOCI"). The reclassification from FVOCI to AC resulted in a reduction in the unrealised revaluation loss in equity at transition date of approximately $4m million net of tax.

Furthermore, other assets and other liabilities include the impact of reclassification of accrued interest from other assets and other liabilities to the corresponding balance sheet item of the host contract (reclassification) and the remeasurement impact on deferred tax assets and liabilities relating to the AASB 9 changes.

Classification and measurement

The following table shows the original measurement categories in accordance with AASB 139 and the new measurement categories under AASB 9 for the Group's financial assets and financial liabilities as at 1 January 2018.

Classification and measurement of financial assets and financial liabilities on the date of initial application of AASB 9 as at 1 January 2018

Amounts in millions of dollars	Note	Original measurement under AASB 139	Original carrying amount under AASB 139	New carrying amount under AASB 9*	New measurement under AASB 9
Cash and cash equivalents	5	Amortised cost	980	981	Amortised cost
Due from other financial institutions	6	Amortised cost	311	311	Amortised cost
Available for sale financial assets	7	FVOCI	3,961	-	N/A
Financial assets at FVOCI	7	N/A	N/A	2,915	FVOCI
Securities at amortised cost	7	N/A	N/A	1,076	Amortised cost
Derivative assets	8	FVTPL	28	79	FVTPL
Receivables and other assets		Amortised cost	128	23	Amortised cost
Loans and advances	9	Amortised cost	52,559	52,561	Amortised cost
Total			**57,967**	**57,946**	
Derivative liabilities	9	FVTPL	340	367	FVTPL
Deposits and other borrowings	10	Amortised cost	49,823	49,989	Amortised cost
Debt issues	12	Amortised cost	3,301	3,304	Amortised cost
Creditors and other liabilities		Amortised cost	414	218	Amortised cost
Total			**53,878**	**53,878**	

* Includes the reclassification of accrued interest from other assets and other liabilities to the corresponding balance sheet item of the host contract.

Impairment

As a result of the new AASB 9 impairment requirements, the loan loss provisions ("LLP") increased by $15 million.
The following table reconciles:

- The closing impairment allowance for loans and advances as at 31 December 2017
- The opening expected credit loss ("ECL") allowance determined in accordance with AASB 9 as at 1 January 2018.

Amounts in millions of dollars	31 December 2017 AASB 139	Remeasurement	1 January 2018 AASB 9
Loans and advances	25	15	40
Total	**25**	**15**	**40**

2. Significant accounting policies (continued)

The split of the ECL to different stages of the Group's loans and advances portfolio is further detailed in the table below:

AASB 9 transition impact of loan loss provisions at 1 January 2018

Amounts in millions of dollars	AASB 139 LLP	AASB 9 impairment stages	AASB 9 ECL increase	AASB 9 ECL
Incurred but Not Reported (IBNR)	8	Stage 1 - 12 month ECL	5	13
		Stage 2 - Lifetime ECL	10	10
Individual provisions (ISFA, INSFA)	17	Stage 3 - Lifetime ECL	-	17
Total	**25**	**Total**	**15**	**40**

Presentation

AASB 9 resulted in changes to AASB 7 for the presentation of interest income for instruments calculated using the effective interest rate method. The revised presentation requires it be shown as a separate line item in the income statement. The presentation of accrued interest in the balance sheet was also changed so that it is no longer separately presented, but rather included in the corresponding balance sheet item of the host contract. The new interest presentation was applied prospectively together with the other requirements of AASB 9.

b) Accounting policies implemented

The following accounting policies have been implemented as at 1 January 2018 under AASB 9 *'Financial Instruments'*.

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

From 1 January 2018, 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.

2. Significant accounting policies (continued)

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.

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.

2. Significant accounting policies (continued)

- 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.

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 8). 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. The revised hedge accounting disclosures as required by AASB 7 as per 1 January 2018 have been implemented across the Group.

Impairment of financial assets

An ECL model is applied 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 provision, LLP) 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 LLP is the sum of these probability-weighted outcomes and the ECL estimates are unbiased and include supportable information about past events, current conditions, and forecasts of future economic conditions. The approach leveraged the existing regulatory capital models in place for the Group that use the 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.

2. Significant accounting policies (continued)

Three stage approach

Financial assets are classified in any of the below 3 Stages at a quarterly reporting date. A financial asset can move between Stages during its lifetime. The Stages are 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 associated with the probability of default events occurring within the next 12 months (12 months ECL). 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 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 life time provision.

Significant increase in credit risk

A financial asset moves from Stage 1 to Stage 2 when there is a significant increase in credit risk since initial recognition. A framework was established which incorporates quantitative and qualitative information to identify this 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.

Macroeconomic scenarios

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

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

2. Significant accounting policies (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 for defaulted financial assets which is used 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 provision.

The loan loss provision 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 etc. 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.

2. Significant accounting policies (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 provision 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 income statement in addition to loan loss provision.

AASB 15 *'Revenue from Contracts with Customers'*

AASB 15 became effective as of 1 January 2018 replacing all existing revenue requirements in Australian Accounting Standards. The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. To determine when revenue is recognised and at what amount a five-step model is applied. The adoption of AASB 15 had no significant impact on the Group's results or financial position.

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 provision (impairment) for financial assets assessed for impairment both individually and collectively. The loan loss provision for financial assets are 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 provisions 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).

2. Significant accounting policies (continued)

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 ECL. As the inclusion of forward-looking macroeconomic scenarios requires judgement, ING Groep 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; 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.

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.

- **The 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.

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	**2018**	2017	**2018**	2017
Interest income				
Cash and cash equivalents*	11	11	8	9
Due from other financial institutions*	4	5	4	5
Available for sale financial assets	N/A	113	N/A	113
Securities at FVOCI	82	N/A	82	N/A
Securities at amortised cost*	37	N/A	37	N/A
Loans and advances*	2,057	1,932	2,057	1,932
Amounts due from controlled entities*	-	-	329	148
Derivative assets	43	15	25	14
Total interest income	**2,234**	**2,076**	**2,542**	**2,221**
Interest expense				
Deposits*	1,083	1,062	1,085	1,065
Debt issues*	96	92	10	-
Derivative liabilities	109	109	86	101
Amounts due to controlled entities*	-	-	449	275
Total interest expense	**1,288**	**1,263**	**1,630**	**1,441**
Net interest income	**946**	**813**	**912**	**780**
Non-interest income/(expense)				
Account fees	39	47	39	47
Net commission income/(expense)	10	4	10	5
Customer transaction costs	(15)	(15)	(15)	(15)
Gain from sale of financial assets	-	1	-	1
Securitisation income	-	-	32	31
Other non-interest income/(expense)	1	9	1	7
Net non-interest income/(expense)	**35**	**46**	**67**	**76**
Total operating income	**981**	**859**	**979**	**856**

* In both 2018 & 2017 calculated using the effective interest 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 exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability. Contractual interest on instruments not held at amortised cost are included in interest income and expense.

3. Operating income (continued)

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

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

IBAL 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	**2018**	2017	**2018**	2017
Income Statement				
Current income tax	182	161	182	161
Deferred income tax	(7)	(9)	(7)	(9)
Income tax expense reported in Income Statement	**175**	**152**	**175**	**152**
Statement of Comprehensive Income				
Deferred income tax				
Revaluation of cash flow hedge	8	7	8	7
Revaluation of financial assets at FVOCI	2	N/A	2	N/A
Income tax expense recognised in other comprehensive income	**10**	**7**	**10**	**7**
Reconciliation of income tax expense				
Operating profit before income tax	576	500	575	500
Prima facie income tax on operating profit at 30% (2017: 30%)	173	150	173	150
Effects of amounts which are not (assessable)/deductible	2	2	2	2
Income tax expense	**175**	**152**	**175**	**152**
Effective tax rate	**30.3%**	**30.4%**	**30.3%**	**30.4%**

	Consolidated		Bank	
Amounts in millions of dollars	**2018**	2017	**2018**	2017
Reconciliation of income tax expense to income tax payable				
Opening balance	(85)	(1)	(85)	(1)
Current income tax expense for the year	(182)	(161)	(182)	(161)
Current income tax prior year adjustment	-	-	-	-
Income tax paid/(refund)	185	77	185	77
Closing balance	**(82)**	**(85)**	**(82)**	**(85)**

4. Income tax (continued)

Deferred income tax	Consolidated Balance Sheet		Consolidated Income Statement		Bank Balance Sheet		Bank Income Statement	
Amounts in millions of dollars	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Deferred income tax at 31 December relates to the following:								
Deferred tax liabilities								
Deferred lending expenses	49	46	3	6	49	46	3	6
Depreciation and amortisation expenses	1	9	(8)	(7)	1	9	(7)	(7)
Revaluation of derivatives	2	6	(4)	(1)	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total deferred tax liabilities	**52**	**61**			**50**	**55**		
Deferred tax assets								
Provisions for impairment	14	7	(3)	(2)	14	7	(3)	(2)
Revaluation of available for sale financial assets	-	1	-	-	-	1	-	-
Revaluation of financial assets at FVOCI	4	N/A	-	N/A	4	N/A	-	N/A
Revaluation of cash flow hedge	15	7	-	-	15	7	-	-
Accrued expenses	9	10	1	(6)	9	10	1	(6)
Provisions	5	5	-	1	5	5	-	1
Other	6	10	4	-	3	2	(1)	(1)
Total deferred tax assets before set/off	**53**	**41**			**50**	**33**		
Net deferred tax assets/(liabilities)	**1**	**(20)**			**-**	**(22)**		
Deferred income tax charge			**(7)**	**(9)**			**(7)**	**(9)**

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.

4. Income tax (continued)

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

Income tax paid by the 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.Cash and cash equivalents

	Consolidated		Bank	
Amounts in millions of dollars	**2018**	2017	**2018**	2017
Cash and liquid assets	315	299	314	291
Cash equivalents held by other financial institutions	722	681	377	509
Total cash and cash equivalents	**1,037**	**980**	**691**	**800**

Cash and cash equivalents – Accounting policy

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

6. Due from other financial institutions

	Consolidated		Bank	
Amounts in millions of dollars	**2018**	2017	**2018**	2017
Reverse Repos	303	-	303	-
Cash collateral	304	311	354	373
Total due from other financial institutions	**607**	**311**	**657**	**373**

Due from other financial institutions – accounting policy

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

7. 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 2018	2017[1]
Discount securities	167	-	167	247
Corporate bonds	90	839	929	489
Covered bonds	-	140	140	141
Government bonds	2,430	489	2,919	3,084
Total debt securities	**2,687**	**1,468**	**4,155**	**3,961**
Maturity analysis of debt securities				
Not longer than 3 months	117	20	137	247
Longer than 3 months and not longer than 1 year	91	30	121	63
Longer than 1 year and not longer than 5 years	1,094	991	2,085	1,461
Longer than 5 years	1,385	427	1,812	2,190
Total securities	**2,687**	**1,468**	**4,155**	**3,961**

[1] Previously classified as available for sale financial assets

8. Derivatives

Consolidated	2018			2017		
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	3,308	9	(309)	2,883	2	(299)
Total fair value hedges	**3,308**	**9**	**(309)**	**2,883**	**2**	**(299)**
Derivatives designated as cash flow hedges						
Interest rate swaps	22,600	61	(53)	20,065	17	(41)
Total cash flow hedges	**22,600**	**61**	**(53)**	**20,065**	**17**	**(41)**
Other derivatives						
Cross currency swap	7	3	-	25	9	-
Basis swaps	802	-	-	1,012	-	-
Interest rate swaps	245	-	-	414	-	-
Total other derivatives	**1,054**	**3**	**-**	**1,451**	**9**	**-**
Total recognised derivative assets/(liabilities)	**26,962**	**73**	**(362)**	**24,399**	**28**	**(340)**

8. Derivatives (continued)

Bank	2018			2017		
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	3,308	9	(309)	2,883	2	(299)
Total fair value hedges	**3,308**	**9**	**(309)**	**2,883**	**2**	**(299)**
Derivatives designated as cash flow hedges						
Interest rate swaps	22,600	61	(53)	20,065	17	(41)
Total cash flow hedges	**22,600**	**61**	**(53)**	**20,065**	**17**	**(41)**
Other derivatives						
Basis swaps	401	-	-	506	-	-
Interest rate swaps	123	-	-	207	1	-
Total other derivatives	**524**	**-**	**-**	**713**	**1**	**-**
Total recognised derivative assets / (liabilities)	**26,432**	**70**	**(362)**	**23,661**	**20**	**(340)**

	Consolidated		Bank	
Amounts in millions of dollars	2018	2017	2018	2017
Maturity analysis for derivative assets				
Not longer than 3 months	36	-	36	-
Longer than 3 months and not longer than 1 year	25	-	22	-
Longer than 1 year and not longer than 5 years	12	22	12	14
Longer than 5 years	-	6	-	6
Total derivative assets	**73**	**28**	**70**	**20**

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 Residential Mortgage-Backed Securities ("RMBS") issued and are not designated for hedge accounting purposes.

8. 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	2018					2017				
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	550	3,150	8,635	-	12,335	500	2,250	9,700	-	12,450
Average rate	2.13%	2.03%	2.07%	0.00%	2.06%	2.04%	2.23%	2.06%	0.00%	2.09%
Received Fixed										
Notional	4,100	6,150	15	-	10,265	2,800	4,800	-	15	7,615
Average rate	1.81%	1.89%	5.74%	0.00%	1.86%	1.64%	1.67%	0.00%	5.74%	1.67%
Fair value hedges										
Pay fixed										
Notional	-	40	1,050	1,618	2,708	-	50	855	1,978	2,883
Average rate	0.00%	4.75%	5.18%	4.15%	4.56%	0.00%	5.50%	5.24%	4.41%	4.68%
Received Fixed										
Notional	-	-	600	-	600	-	-	-	-	-
Average rate	0.00%	0.00%	2.76%	0.00%	2.76%	0.00%	0.00%	0.00%	0.00%	0.00%

8. 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	**2018**	2017
Floating rate assets	35,369	32,016
Floating rate liabilities	(29,451)	(26,606)

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 Income Statement. More specifically, the ineffectiveness on a cash flow hedge is accounted for by adjusting the separate component of equity associated with the hedged item to the lesser of the following (in absolute amounts):

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

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

Cashflow hedges	Consolidated		Bank	
Amounts in millions of dollars	**2018**	2017	**2018**	2017
Fair value of hedge instruments	8	(24)	8	(24)
Amount recognised in other comprehensive income during the period (net of tax)	(18)	16	(18)	16

There was no hedge ineffectiveness arising from the cash flow hedges recognised in the income statement for the period.

8. 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.

There was no hedge ineffectiveness arising from the fair value hedges recognised in the income statement for the period.

Fair value hedges	Consolidated		Bank	
Amounts in millions of dollars	**2018**	2017	**2018**	2017
Fair value of hedge instruments	(300)	(297)	(300)	(297)
Current year gains / (losses) on hedging instruments	(40)	(11)	(40)	(11)
Fair value of hedged items - Financial assets at FVOCI	2,430	3,167	2,430	3,167
Fair value of hedged items - Securities at amortised cost	584	-	584	-
Fair value of hedged items - Debt Issues	(609)	-	(609)	-
Current year gains / (losses) on hedged items attributable to the hedged risk	40	11	40	11
Net hedge ineffectiveness	-	-	-	-

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

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

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

9. Loans and advances

	Consolidated		Bank	
Amounts in millions of dollars	**2018**	2017	**2018**	2017
Retail Banking mortgages	48,921	44,828	48,921	44,828
Business Banking loans	4,512	4,037	4,512	4,037
Wholesale Banking loans	5,068	3,708	5,068	3,708
Consumer Lending	105	11	105	11
Gross loans and advances	**58,606**	**52,584**	**58,606**	**52,584**
Loan Loss Provision[1]	(48)	(25)	(48)	(25)
Total loans and advances	**58,558**	**52,559**	**58,558**	**52,559**
Maturity analysis of loans and advances				
Not longer than 3 months	348	267	348	267
Longer than 3 months and not longer than 1 year	760	768	760	768
Longer than 1 year and not longer than 5 years	5,769	4,558	5,769	4,558
Longer than 5 years	50,583	46,090	50,583	46,090
No maturity specified	1,146	901	1,146	901
Gross loans and advances	**58,606**	**52,584**	**58,606**	**52,584**

[1]Adjusted for the application of AASB 9 at 1 January 2018

Loans and Advances - Accounting policy

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

Provision for impairment

Consolidated and Bank 2018					
	Stage 1	Stage 2	Stage 3	Stage 3	
		Lifetime ECL	Lifetime ECL	Lifetime ECL	
Amounts in millions of dollars	12-month ECL	Not credit impaired	Credit impaired	Credit impaired	Total
	Collectively assessed			Individually assessed	
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 provisions (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**

9. Loans and advances (continued)

Loan impairment benefit/(expense)	Consolidated		Bank	
Amounts in millions of dollars	**2018**	2017	**2018**	2017
Income Statement				
Collective provision	N/A	(2)	N/A	(2)
Collectively assessed - stage 1 & 2	(1)	N/A	(1)	N/A
Collectively assessed - stage 3	(12)	N/A	(12)	N/A
Specific provision	N/A	(9)	N/A	(9)
Individually assessed - stage 3	-	N/A	-	N/A
Total loans loss benefit/(expense)	**(13)**	**(11)**	**(13)**	**(11)**

For the year ended 31 December 2018 the Group recognised $13 million in loan loss provisions expense (2017: $11 million in loan loss provisions expense).

The increase in loan loss provisions for the year is primarily attributable to net expenses of $9m for Retail Banking mortgages and $4m for Business and Wholesale Banking.

10. Deposits and other borrowings

	Consolidated		Bank	
Amounts in millions of dollars	**2018**	2017	**2018**	2017
Deposits				
Deposits at call	29,932	27,079	30,050	27,222
Term deposits[1]	24,871	21,909	24,871	21,909
Certificates of deposits	726	480	726	480
Securities sold under agreement to repurchase	315	355	315	355
Deposits and other borrowings	**55,844**	**49,823**	**55,962**	**49,966**
Concentration of deposits				
Retail deposits	33,770	30,328	33,770	30,328
Business deposits	9,711	9,436	9,711	9,436
Wholesale deposits	12,363	10,059	12,481	10,202
Total deposits	**55,844**	**49,823**	**55,962**	**49,966**

[1] Term deposits include funding from ING Bank N.V. (Sydney Branch) of $9,817 million (2017: $8,623 million).

Deposits and other borrowings – Accounting policy

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

11. Provisions

Provisions	Consolidated		Bank	
Amounts in millions of dollars	**2018**	2017	**2018**	2017
Annual leave	8	7	8	7
Long service leave	8	7	8	7
Other provisions	1	3	1	3
Total provisions	**17**	**17**	**17**	**17**
Provisions expected to be paid in the next 12 months	**14**	**12**	**17**	**12**

Movement in provisions	Consolidated		Bank	
Amounts in millions of dollars	**2018**	2017	**2018**	2017
Carrying amount at beginning of the year	17	121	17	121
Additional provision recognised	4	9	4	9
Amounts utilised during the year	(4)	(113)	(4)	(113)
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.

12. Debt issues

	Consolidated		Bank	
Amounts in millions of dollars	**2018**	2017	**2018**	2017
Covered Bonds	1,009	-	1,009	-
Mortgage-backed securities	2,519	3,301	-	-
Subordinated Debt	75	-	75	-
Total debt issues	**3,603**	**3,301**	**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.

12. Debt issues (continued)

Terms and Repayments Schedule		2018			2017		
Amounts in millions of dollars	Year maturity	Interest rate	Nominal value	Carrying amount	Interest rate	Nominal value	Carrying amount
Mortgage-backed securities	2018	N/A	N/A	N/A	3.05%	12	12
Mortgage-backed securities	2019	3.41%	283	283	2.53%	362	362
Mortgage-backed securities	2019	3.13%	108	108	2.66%	149	149
Mortgage-backed securities	2019	3.01%	86	86	2.78%	106	106
Mortgage-backed securities	2019	3.03%	92	92	2.81%	114	114
Mortgage-backed securities	2019	3.68%	34	34	3.03%	58	58
Mortgage-backed securities	2019	2.95%	7	7	3.18%	9	9
Mortgage-backed securities	2019	3.65%	10	10	2.36%	33	33
Mortgage-backed securities	2019	3.25%	4	4	3.20%	5	5
Mortgage-backed securities	2019	3.60%	358	357	3.17%	489	487
Mortgage-backed securities	2019	3.44%	3	3	3.21%	3	3
Mortgage-backed securities	2019	3.45%	9	9	3.38%	12	12
Mortgage-backed securities	2019	3.48%	6	6	3.31%	8	8
Mortgage-backed securities	2019	3.63%	7	7	3.36%	10	10
Mortgage-backed securities	2020	2.77%	100	100	2.64%	100	100
Mortgage-backed securities	2020	3.39%	696	695	2.70%	908	906
Mortgage-backed securities	2020	3.00%	89	89	2.95%	100	100
Mortgage-backed securities	2020	3.49%	48	48	3.15%	61	61
Mortgage-backed securities	2020	3.20%	99	99	3.16%	127	127
Mortgage-backed securities	2021	2.92%	285	285	2.69%	388	386
Mortgage-backed securities	2021	2.86%	182	182	2.71%	234	234
Mortgage-backed securities	2021	3.05%	15	15	3.36%	20	19
Covered Bonds	2021	2.57%	400	400	N/A	N/A	N/A
Covered Bonds	2023	3.00%	600	609	N/A	N/A	N/A
Subordinated Debt	2028	4.35%	75	75	N/A	N/A	N/A
Consolidated			**3,596**	**3,603**		**3,308**	**3,301**
Covered Bonds	2021	2.57%	400	400	N/A	N/A	N/A
Covered Bonds	2023	3.00%	600	609	N/A	N/A	N/A
Subordinated Debt	2028	4.35%	75	75	N/A	N/A	N/A
Bank			**1,075**	**1,084**		**-**	**-**

[1] All amounts shown in the table above are in $AUD

13. Contributed equity

	Consolidated		Bank	
Amounts in millions of dollars	**2018**	2017	**2018**	2017
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	
	2018	2017	**2018**	2017
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**

13. Contributed equity (continued)

Contributed equity – Accounting policy

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

14. Reserves

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**

2017 Consolidated and Bank

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

[1] Previously classified as available for sale reserve in 2017.

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.

15. Risk management

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

Risk	Exposure arising from	Measurement	Governance
Credit Risk	• Cash and cash equivalents • Loans and advances • Derivative financial instruments • 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 at Risk ("EaR") • Interest Rate Risk in the Banking Book ("IRRBB") stress testing • Basis Point Valuation	• Risk Management Strategy • Risk Appetite Statement • Asset & Liability Management Sub-Policy • Enterprise Wide Stress Testing • IRRBB Policy
Market Risk – Foreign Exchange Risk	• Financial assets and liabilities not denominated in Australian dollars	• Repricing analysis	• Risk management Strategy • Risk Appetite Statement • Asset & 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") • Additional liquidity triggers and risk limits • Behavioural models	• Risk management Strategy • Risk Appetite Statement • Asset & Liability Management Sub-Policy • Treasury – Securitisation Sub-Policy • Contingency Funding Plan • Funding & Liquidity Risk Policy
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

15. Risk management (continued)

Risk management framework

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

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

- 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 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 fully embedded into the Group's business processes. As a subsidiary of ING Groep N.V., the Group is also subject to the governance and control of the parent company. The Board utilises three committees to discharge its responsibilities:

- *Risk Committee* – the Board Risk Committee provides objective non-executive oversight of the implementation and operation of the Group's risk management framework. A key purpose of the Risk Committee is to help formulate the Group's risk strategy and appetite for consideration and approval by the Board.
- *Audit Committee* – the Board Audit Committee assists the Board by providing an objective non-executive review of the effectiveness of the Group's financial reporting and risk management framework. This includes internal controls to deal with both the design and effectiveness and efficiency of significant business processes, which involve safeguarding of assets, the maintenance of proper accounting records.
- *Remuneration and Nomination Committee* – the Remuneration and Nomination Committee is responsible for reviewing and making recommendations to the Board on the Group's Remuneration Policy and 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.

15. Risk management (continued)

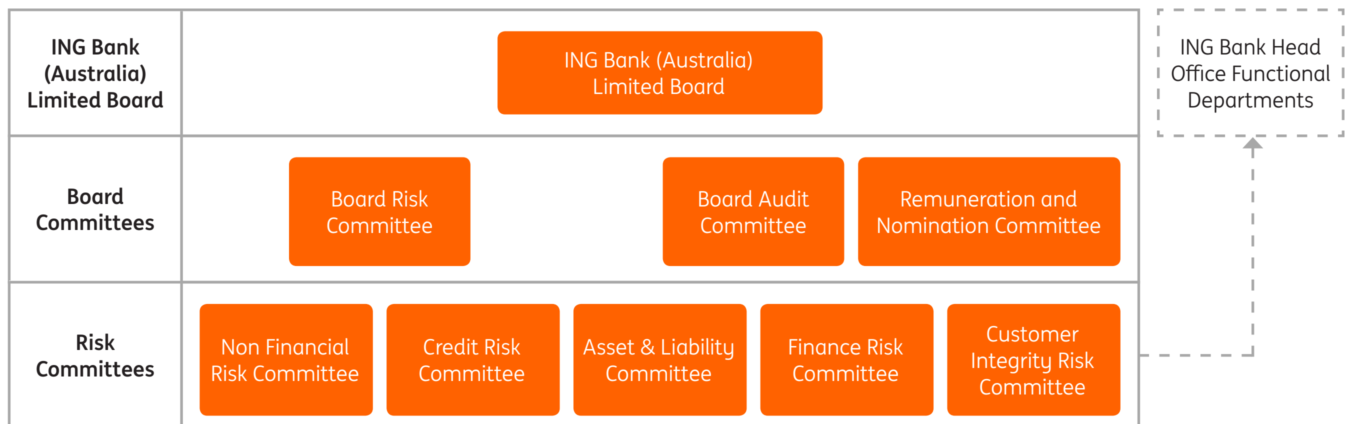
Risk management organisation

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



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.

15. Risk management (continued)

- 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.

- 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.

- 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 on the actions to be taken with regards to client integrity related elements/processes and impact for client relationship.

- The Finance and Risk Committee ("FRC") is a platform for the Chief Risk Officer ("CRO") and the Chief Financial Officer ("CFO"), to discuss and decide on issues that relate to both the finance and risk domains. The primary responsibility of this Committee is to co-ordinate the decisions that have an impact on internal and/or external reporting.

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

(a) Credit risk

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

- Retail Banking loans to individuals which are predominantly mortgage loans secured by residential property. The Group has a small portfolio of unsecured loans via the recently launched credit card 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 loans comprising Real Estate Finance ("REF"), Utilities Infrastructure & Project Finance ("UIP") and Corporate Lending, 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 investment and derivative activities. To mitigate this risk, the Group uses central clearing counterparties for its investments and enters into master netting agreements with derivative counterparties.

15. Risk management (continued)

Maximum credit risk exposure

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

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

The maximum exposure to credit risk is detailed below:

Consolidated 2018

			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	5	1,037	-	-	-	-	-	-	1,037
Due from other financial institutions	6	607	-	-	-	-	-	-	607
Receivables and other assets		36	-	-	-	-	-	-	36
Financial assets at FVOCI	7	2,687	-	-	-	-	-	-	2,687
Securities at amortised cost	7	1,468	-	-	-	-	-	-	1,468
Loans and advances	9	58,606	-	670	118,958	119,628	(61,022)	55,714	2,892
Derivative assets	8	73	1	-	-	1	(1)	51	21
Total		**64,514**	**1**	**670**	**118,958**	**119,629**	**(61,023)**	**55,765**	**8,748**
Off-Balance Sheet									
Undrawn loan commitments	19	8,324	-	-	-	-	-	-	8,324
Bank accepted guarantees	19	139	-	-	-	-	-	-	139
Total maximum credit risk exposure		**72,977**	**1**	**670**	**118,958**	**119,629**	**(61,023)**	**55,765**	**17,211**

[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)

Consolidated 2017

			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	5	980	-	-	-	-	-	-	980
Due from other financial institutions	6	311	-	-	-	-	-	-	311
Receivables and other assets		108	-	-	-	-	-	-	108
Available for sale financial assets	7	3,961	-	-	-	-	-	-	3,961
Loans and advances	9	52,584	-	522	90,231	90,753	(38,169)	50,368	2,216
Derivative assets	8	28	1	-	-	1	(1)	17	10
Total		**57,972**	**1**	**522**	**90,231**	**90,754**	**(38,170)**	**50,385**	**7,586**
Off-Balance Sheet									
Undrawn loan commitments	19	7,267	-	-	-	-	-	-	7,349
Bank accepted guarantees	19	138	-	-	-	-	-	-	138
Total maximum credit risk exposure		**65,377**	**1**	**522**	**90,231**	**90,754**	**(38,170)**	**50,385**	**15,073**

[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	**2018**	2017
Held against past due but not impaired assets	1,611	1,566
Held against impaired assets	368	351

Exposure not mitigated by collateral as a percentage of total financial assets	Consolidated	
In percentages	**2018**	2017
Retail Banking mortgages	0.2%	0.0%
Business Banking loans	0.1%	0.0%
Wholesale Banking loans	4.1%	3.8%
Consumer Lending	0.2%	0.0%
Financial assets other than loans and advances	9.3%	9.3%
Total	**13.8%**	**13.1%**

Collateral – Derivative contracts

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

Distribution of financial assets by credit quality

The table below details the distribution of credit quality of financial assets. An asset is considered to be past due when any payment under the contractual terms has been missed. 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	**2018**	2017	**2018**	2017
Neither past due nor impaired	63,402	56,908	72,187	63,555
- of which: Retail Banking mortgages	47,914	43,815	47,914	43,815
- of which: Business Banking loans	4,438	4,116	4,438	4,116
- of which: Wholesale Banking loans	4,923	3,474	4,923	3,474
- of which: Consumer Lending	102	11	102	11
- Related entities	117	105	117	105
- Financial assets other than loans and advances	5,908	5,388	14,693	12,035
Past due but not impaired gross loans and advances	894	839	894	839
Impaired loans and advances	218	224	218	224
Total	**64,514**	**57,972**	**73,299**	**64,619**

15. Risk management (continued)

Risk classes of financial assets

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

Internal Rating		Consolidated		Bank	
Amounts in millions of dollars	Risk Grading	**2018**	2017	**2018**	2017
Lower risk	1-10	41,917	39,611	50,703	39,611
Medium risk	11-17	22,097	17,846	22,097	24,493
High risk	18-19	99	106	99	106
Non-performing	20	401	408	401	408
Not rated		-	-	-	-
Total		**64,514**	**57,972**	**73,299**	**64,619**

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 2018

Internal Rating	Risk Grading	Stage 1 12-month ECL Collectively assessed	Stage 2 Lifetime ECL Not credit impaired Collectively assessed	Stage 3 Lifetime ECL Credit impaired Collectively assessed	Stage 3 Lifetime ECL Credit impaired Individually assessed	Total
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**

Bank 2018

Internal Rating	Risk Grading	Stage 1 12-month ECL Collectively assessed	Stage 2 Lifetime ECL Not credit impaired Collectively assessed	Stage 3 Lifetime ECL Credit impaired Collectively assessed	Stage 3 Lifetime ECL Credit impaired Individually assessed	Total
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**

15. Risk management (continued)

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.

Ageing analysis (past due but not impaired)

Consolidated and Bank	2018		2017	
Amounts in millions of dollars and percentages	Millions	%	Millions	%
Less than 1 payment past due	551	61.6%	566	67.4%
1 payment past due	184	20.6%	164	19.5%
2 payments past due	159	17.8%	110	13.1%
Total	**894**	**100.0%**	**839**	**100.0%**

15. Risk management (continued)

Impaired loans by economic sector

Consolidated and Bank	2018		2017	
Amounts in millions of dollars and in percentages	Millions	%	Millions	%
Retail	191	87.6%	193	86.3%
Construction & commercial real estate	-	0.0%	1	0.5%
Corporate	27	12.4%	30	13.2%
Total	**218**	**100.0%**	**224**	**100.0%**

Risk concentration: Group portfolio (by economic sector)

	Consolidated				Bank			
Amounts in millions of dollars and in percentages	2018	%	2017	%	2018	%	2017	%
Construction & commercial real estate	6,494	10.1%	5,202	9.0%	6,494	8.8%	5,202	8.0%
Corporate	2,969	4.6%	2,437	4.2%	2,969	4.1%	2,437	3.8%
Financial institutions	2,792	4.3%	2,059	3.6%	11,557	15.8%	8,706	13.5%
Retail	49,026	76.0%	44,840	77.3%	49,026	66.9%	44,840	69.4%
Public administration	3,233	5.0%	3,434	5.9%	3,233	4.4%	3,434	5.3%
Total	**64,514**	**100.0%**	**57,972**	**100.0%**	**73,299**	**100.0%**	**64,619**	**100.0%**

(b) Market risk

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

The Group operates a banking book with the underlying assumption that 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 items. 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 arises from repricing mismatches between assets and liabilities. For most purposes, repricing risk and yield curve risk are grouped together.

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

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

15. Risk management (continued)

Managing and monitoring interest rate risk

The Group performs stress testing with the existence of triggers to ensure that potential limit breaches are identified and acted upon early. Risk mitigation is also further explained in Note 8 in relation to hedging using derivatives to mitigate exposure to interest, market and foreign exchange risk.

The type and level of mismatch interest rate risk of the Group is managed and monitored from two perspectives, 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 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	**2018**	2017
HVaR		
Limit =≤ $350	(200)	(203)
EaR		
- 200bps Shock (Year 1) (2017: 200bps Shock)	(76)	(74)
+ 200bps Shock (Year 1) (2017: 200bps Shock)	76	74
Limit =< $65		

Foreign exchange risk

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

15. Risk management (continued)

(c) Liquidity and funding risk

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

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

The Group's liquidity policy has been developed in accordance with the liquidity management policies of ING 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 $5,192 million at 31 December 2018 (2017: $4,941 million). The LCR at 31 December 2018 was 123% (2017: 123%).

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 2018 was 127% (2017: 125%).

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

The Group's funding sources include retail deposits and wholesale funding. At 31 December 2018, approximately 73% of the Group's funding was provided by residential and business retail sources (2017: 71%) and 27% was provided by wholesale and other sources (2017: 29%).

15. 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 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**	**8,840**	**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**

15. Risk management (continued)

Consolidated 2017

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

Bank 2017

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

16. Capital management

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

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

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

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

The Board has set 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 Standardised Approach.

Operational risk capital

Risk weighted assets for operational risk is 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, the risk weighted asset for Market Risk are calculated with the Interest Rate in the Banking Book ("IRRBB") model comprising of Embedded Market-to-Market loss or gain, Optionality & Historical Value-at-Risk ("HVaR") to cover 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.

16. Capital management (continued)

Capital Adequacy	Consolidated	
Amounts in millions of dollars	2018	2017
Qualifying capital		
Tier 1		
Total equity	4,472	4,103
Reserve adjustments	(128)	(142)
Regulatory adjustments	(170)	(155)
Common Equity Tier 1	**4,174**	**3,806**
Additional Tier 1 Capital	-	-
Total Tier 1 qualifying capital	**4,174**	**3,806**
Tier 2		
Tier 2 subordinated debt	75	-
General reserve for credit losses		
Standardised approach[1]	40	134
International ratings-based approach[2]	-	N/A
Total Tier 2 qualifying capital	**115**	**134**
Total regulatory capital	**4,289**	**3,940**
Total risk adjusted assets and off-balance sheet exposures	**33,263**	**30,897**
Capital adequacy ratio	**12.9%**	**12.8%**

[1] Represents the total general reserve for credit losses recognised for those portfolios under the Basel III Standardised approach. Decrease in 2018 is due to change to advanced accreditation.
[2] There were no surplus provisions on non-defaulted exposures for those portfolios under the Basel III Internal ratings-based approach.

Dividend provided for or paid		
Amounts in millions of dollars	2018	2017
Franked dividend for 2018: nil (2017: nil)	-	-

Dividends - Accounting policy

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

17. Fair value of financial instruments

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

Financial instrument	Fair value techniques	Assumptions
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.

17. Fair value of financial instruments (continued)

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

Financial asset/liability	Fair value techniques	Assumptions
Cash and cash equivalents	The carrying amount is an approximation of fair value.	Short term in nature or are receivable on demand.
Due from other financial institutions	The carrying amount of amounts due from other financial institutions is an approximation of fair value.	Short term in nature and of high credit rating.
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.

17. Fair value of financial instruments (continued)

Fair value hierarchy

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

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

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

31 December 2018					
			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	2,687	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

17. Fair value of financial instruments (continued)

31 December 2017					
			Fair value hierarchy		
Amounts in millions of dollars	Carrying value total	Fair value total	Level 1	Level 2	Level 3
Consolidated					
Assets measured at fair value:					
Available for sale financial assets	3,961	3,961	3,714	247	-
Derivative assets	28	28	-	28	-
Liabilities measured at fair value:					
Derivative liabilities	340	340	-	340	-
Assets for which fair values are disclosed:					
Loans and advances - Variable[1]	35,243	-	-	-	-
Loans and advances - Fixed	17,316	17,361	-	-	17,361
Liabilities for which fair values are disclosed:					
Deposits and other borrowings - call[1]	27,079	-	-	-	-
Deposits and other borrowings - term	22,744	22,838	-	480	22,358
Debt issues - Variable[1]	3,301	-	-	-	-
Bank					
Assets measured at fair value:					
Available for sale financial assets	3,961	3,961	3,714	247	-
Derivative assets	20	20	-	20	-
Liabilities measured at fair value:					
Derivative liabilities	340	340	-	340	-
Assets for which fair values are disclosed:					
Loans and advances - Variable[1]	35,243	-	-	-	-
Loans and advances - Fixed	17,316	17,361	-	-	17,361
Liabilities for which fair values are disclosed:					
Deposits and other borrowings - call[1]	27,222	-	-	-	-
Deposits and other borrowings - term	22,744	22,838	-	480	22,358

[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.

17. Fair value of financial instruments (continued)

Quantitative information of significant unobservable inputs – Level 3				Consolidated and Bank
Description	$millions	Valuation technique	Significant unobservable inputs	Range (weighted average)
Mortgage-backed securities 31 December 2018	-	DCF Method	Weighted Average Life Credit spread	N/A
Mortgage-backed securities 31 December 2017	-	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 2018	Weighted Average Life	+/-10%	N/A
	Credit spread	+/-10%	N/A
Mortgage-backed securities 31 December 2017	Weighted Average Life	+/-10%	N/A
	Credit spread	+/-10%	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 2018	-	-
Transfers into or (out of) Level 3		
Total gains and losses		
- Other comprehensive income	-	-
Closing balance – 31 December 2018	-	-
Opening balance – 1 January 2017	1	1
Transfers into or (out of) Level 3		
Total gains and losses		
- Other comprehensive income	(1)	(1)
Closing balance – 31 December 2017	-	-

18. Share based payments

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

Share options	2018		2017	
	Number	WAEP	Number	WAEP
Outstanding at the beginning of the year	109,675	€ 11.84	173,299	€ 14.91
Lapsed or forfeited during the year	(59,674)	€ 16.62	(41,858)	€ 24.32
Exercised during the year	(1,643)	€ 2.90	(6,399)	€ 5.94
Transferred during the year	(1,085)	€ 16.50	(15,367)	€ 14.91
Outstanding at the end of the year	**49,443**	**€ 6.48**	**109,675**	**€ 11.84**
Exercisable at the end of the year	**49,443**	**€ 6.48**	**109,675**	**€ 11.84**

18. Share based payments (continued)

Performance units	2018		2017	
	Number	WAEP	Number	WAEP
Outstanding at the beginning of the year	164,550	€ 11.51	178,602	€ 10.47
Forfeited during the year	(12,417)	€ 11.60	(12,638)	€ 11.53
Granted during the year	130,120	€ 12.26	121,428	€ 13.03
Performance effect	11,538	€ 11.75	11,148	€ 10.56
Vested during the year	(129,730)	€ 12.06	(132,183)	€ 11.43
Transferred during the year	3,332	€ 11.50	(1,807)	€ 10.47
Outstanding at the end of the year	**167,393**	**€ 11.67**	**164,550**	**€ 11.51**

The outstanding balances of share options as at 31 December 2018 are:

Year of grant	2018		2017	
	Number of options	Exercise price	Number of options	Exercise price
2008	-	€ 0.00	58,589	€ 16.62
2009	9,663	€ 2.90	11,306	€ 2.90
2010	39,780	€ 7.35	39,780	€ 7.35
Total	**49,443**	**€ 6.48**	**109,675**	**€ 11.84**

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.

The outstanding balances of performance units as at 31 December 2018 are:

Year of grant	2018		2017	
	Number of Performance Units	WAGP	Number of Performance Units	WAGP
2015	-	€ 0.00	19,483	€ 12.17
2016	27,264	€ 9.33	63,105	€ 9.65
2017	50,970	€ 12.51	81,962	€ 12.78
2018	89,159	€ 11.91	-	-
Total	**167,393**	**€ 11.67**	**164,550**	**€ 11.51**

All performance units are granted in the ultimate parent entity, ING Groep N.V. and vest 3 years from the issue date at the exercise price noted above. The actual expense for share based payments for 2018 net of tax is $2m (2017: $2m).

The fair value of share options granted is recognised 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.

18. Share based payments (continued)

Share-based payment transactions – Accounting policy

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

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

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

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

Employee share option plan

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

Employee performance units plan

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

19. Commitments and contingencies

Bank	2018	2018	2017	2017
Amounts in millions of dollars	Unused	Available	Unused	Available
Liquidity facilities to related entities	220	220	212	212

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	2018	2017
Commitments to extend credit		
- undrawn loan commitments	8,324	7,267
- bank accepted guarantees	139	138
Total commitments to extend credit	**8,463**	**7,405**
Operating leases – land, buildings & cars*		
Lease payments due:		
- not later than 1 year	2	11
- later than 1 year and less than 5 years	39	36
- later than 5 years	39	45
Total minimum lease payments	**80**	**92**

*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).

19. Commitments and contingencies (continued)

Leases – Accounting Policy

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

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

The Group did not have any finance or leveraged leases in place as at 31 December 2018 (2017: nil).

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

20. Related party disclosures

Key management personnel compensation

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

Specified Directors:

Michael Katz	Director (Non-Executive)
Amanda Lacaze	Director (Non-Executive)
John Masters	Director (Non-Executive) (resigned 19 August 2018)
Mark Newman	Director (Non-Executive)
Aris Bogdaneris	Director (Non-Executive)
Nancy Fox	Director (Non-Executive) (appointed 3 May 2018)
Darryl Newton	Director (Non-Executive) (appointed 28 August 2018)
Uday Sareen	Director (Executive)

Specified Executives:

Alan Lee	Chief Financial Officer
Ulrich Heitbaum	Chief Risk Officer
Adriana Sheedy	Executive Director, Operations
Aniruddha Paul	Chief Information Officer
Melanie Evans	Head of Retail Banking
Fiona Monfrooy	Executive Director, Human Resources
Michael Witts	Treasurer
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	2018	2017
Short-term employee benefits[1]	6,381	6,533
Other long-term benefits	728	580
Share-based payments	1,083	763
Termination benefits	-	394
Post-employment benefits	-	-
Total compensation[1]	**8,192**	**8,270**

[1]Short-term employee benefits and total compensation for the year ended 31 December 2017 have been restated.

20. Related party disclosures (continued)

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

Transactions with entities in the wholly owned group

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

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

Consolidated				
Amounts in millions of dollars	2018[1]	For the period[2]	2017[1]	For the period[2]
Aggregate amounts receivable from related parties in the wholly owned group	673	12	424	17
Aggregate amounts payable to the ultimate controlling entity	(102)	(33)	-	(15)
Aggregate amounts payable to related parties in the wholly owned group	(10,407)	(267)	(9,220)	(220)
Total	**(9,836)**	**(288)**	**(8,796)**	**(218)**

Transactions with controlled entities

Bank				
Amounts in millions of dollars	2018[1]	For the period[2]	2017[1]	For the period[2]
Aggregate amounts receivable from controlled entities	9,252	497	6,796	318
Aggregate amounts due to controlled entities	(11,182)	(449)	(9,794)	(275)
Total	**(1,930)**	**48**	**(2,998)**	**43**

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

21. Auditor's remuneration

	Consolidated		Bank	
Amounts in thousands of dollars	2018	2017	2018	2017
Amounts paid or due and payable for audit of the consolidated financial report by the auditor	526	596	331	416
Amounts paid or due and payable for other services to the auditor:				
Regulatory services	169	299	169	299
Taxation services	-	-	-	-
Other services	190	239	140	239
Total	**885**	**1,134**	**640**	**954**

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

22. Subsequent events

No subsequent events or transactions have occurred since the year ended 31 December 2018, or are pending, that would have a material effect on the Financial Statements.

23. Other accounting policies and accounting standard developments

The following Australian Accounting standards have been issued but are not yet effective, they are available for early adoption but have not been adopted by the Group for the annual reporting period ending 31 December 2018:

AASB 16 – Leases

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

For lessee accounting, the new standard removes the distinction between operating or finance leases. All leases will be recognised on the statement of financial position with the 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). A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The main reason for this change is that this approach will result in a more comparable representation of a lessee's assets and liabilities in relation to other companies and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed.

The standard permits a lessee to choose either a full retrospective or a modified retrospective transition approach. Furthermore the standard provides some practical expedients and exemptions to ease the costs of transition. The Group has decided to elect the modified retrospective approach and will make use of several practical expedients and exemptions. Lessor accounting remains substantially unchanged. The Group will adopt the standard as per 1 January 2019 and determined the impact of the implementation of this standard.

As per 31 December 2018 the Group has a number of lease contracts for buildings and cars that are currently accounted for under AASB 117 as operating leases. As a result of the new AASB16 requirements, ING expects that the assets and liabilities are expected to increase by approximately the amount close to the net present value of future lease payments, representing between $66m and $68m. The impact of the adoption of AASB16 on shareholders' equity is nil following ING's implementation decision to equal the right-of-use asset to the lease liability adjusted for adjusted for any previously recognised prepaid or accrued lease payments on that lease contract.

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

During the year the Bank established a Covered Bonds Programme to raise and diversify funding 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.

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

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.

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	2018	2017
Residential mortgages	11,186	9,840
Total	**11,186**	**9,840**

Facilities used in securitisation programmes

Amounts in millions of dollars	2018	2017
Liquidity facilities	220	212
Total	**220**	**212**

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.

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

Property, plant and equipment

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

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

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

Major depreciation and amortisation periods are:

Category	2018	2017
Computer software	3-5 years	3-5 years
Computer hardware	3-5 years	3-5 years
Leasehold improvements	Term of lease	Term of lease
Personal computers	3 years	3 years

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

Derecognition of fixed assets

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

Intangible assets

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

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, we state that:

In the opinion of the Directors:

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

   i) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the year ended on that date; and

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

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

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

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

Michael Katz
Chairman

Uday Sareen
Director

Sydney
11 March 2019

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 2018 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 2018;
- 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 annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

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

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

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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.

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/ar7.pdf. This description forms part of our Auditor's Report.

KPMG

Martin McGrath
Partner
Sydney
11 March 2019

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