

A close-up photograph of a person's hand holding a pen, poised to write on a document. In the foreground, a smartphone is visible, and in the background, a laptop keyboard is partially visible. The scene is set outdoors, with a blurred background of greenery and a bright, sunny sky.

# Pillar 3 Capital Adequacy & Risk Disclosures

December 2019

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ING Bank Australia Limited (IBAL), trading as ING, is an Authorised Deposit-taking Institution subject to regulation by the Australian Prudential Regulation Authority (APRA) and is a part of ING Groep N.V.

The following information is presented in accordance with the APRA Prudential Standard APS 330, 'Public Disclosure'. Effective 1 April 2018, IBAL was accredited by APRA to determine its regulatory capital requirements using an internal market risk model and internal credit risk models for selected portfolios. The disclosures herein reflect reporting requirements applicable to banks utilising the internal ratings-based approach (IRB) to capital measurement.

All credit exposures are managed in Sydney, Australia.

All amounts are stated in AUD.

**Qualitative disclosures:****Capital disclosures**

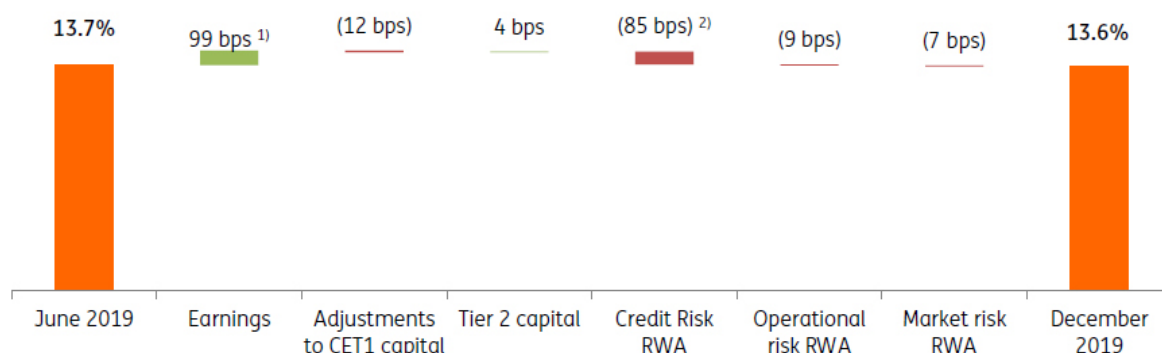
IBAL's capital management strategy aims to ensure adequate capital levels to protect deposit holders and to maximise shareholder returns. IBAL's capital is measured and managed in line with Prudential Standards and minimum regulatory capital requirements for banks established by APRA. APRA has set minimum 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. IBAL has complied with the capital requirements imposed by APRA throughout the year.

IBAL 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 IBAL's Capital Management Policy, which defines the framework for defining, measuring, management, monitoring and governance of IBAL'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 payouts. 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 IBAL'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.

**Executive summary: Total Capital Ratio**

IBAL's total capital ratio decreased by 10bps for the six months to December 2019, due to the following:

- 1) An increase in earnings of \$0.2b (+99bps) driven by strong portfolio growth.
- 2) An increase in Credit Risk RWA of \$1.6b (-85bps) mostly driven by portfolio growth (\$2.2b), offset by improved asset quality (\$0.3b) and the introduction of new counterparty credit risk requirements per APS 180 Capital Adequacy: Counterparty Credit Risk (\$0.3b).

### **Credit risk capital**

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

### **Operational risk capital**

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

### **Market risk capital**

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

Under the Internal-ratings based approach, IBAL holds sufficient capital to cover interest rate risk in the banking book. IBAL 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. IBAL 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 IBAL resulting from short-term movements in market interest rates.

## Risk disclosures

### Risk type

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

| Risk   | Exposure arising from   | Measurement  | Governance   |
|--|---|--|--|
| Credit Risk  | <ul style="list-style-type: none"> <li>• Cash and cash equivalents</li> <li>• Due from other financial institutions</li> <li>• Loans and advances</li> <li>• Derivative financial instruments</li> <li>• Financial Assets at FVOCI</li> <li>• Securities at amortised cost</li> <li>• Undrawn loan commitments</li> <li>• Bank-accepted guarantees</li> </ul> | <ul style="list-style-type: none"> <li>• Aging analysis</li> <li>• Credit ratings</li> <li>• Arrears analysis</li> <li>• Internal ratings models</li> <li>• Stress testing</li> <li>• Financial analysis</li> <li>• Covenant measures</li> <li>• Loan-to-value</li> <li>• Loan-to-income serviceability</li> </ul> | <ul style="list-style-type: none"> <li>• Risk Management Strategy</li> <li>• Risk Appetite Statement</li> <li>• Retail Credit Policy</li> <li>• Wholesale Banking and Bank Treasury Credit Policy</li> <li>• Commercial Real Estate Credit Policy</li> <li>• Large Exposures Policy</li> <li>• Enterprise Wide Stress Testing Framework Sub-Policy</li> </ul>  |
| Market Risk – Interest Rate Risk                                 | <ul style="list-style-type: none"> <li>• Loans and advances</li> <li>• Deposits and other borrowings</li> <li>• Financial assets at FVOCI</li> <li>• Securities at amortised cost</li> <li>• Debt issues</li> </ul>   | <ul style="list-style-type: none"> <li>• Historical Value-at-Risk (“HVaR”)</li> <li>• Earnings and Net Interest Income at Risk (“EaR”; “NIIaR”)</li> <li>• Interest Rate Risk in the Banking Book (“IRRBB”) stress testing</li> <li>• Basis Point Value sensitivity</li> </ul>                                     | <ul style="list-style-type: none"> <li>• Risk Management Strategy</li> <li>• Risk Appetite Statement</li> <li>• Asset and Liability Management Sub-Policy</li> <li>• Enterprise Wide Stress Testing</li> <li>• IRRBB Stress Testing Methodology</li> <li>• IRRBB Policy and Minimum Standards for Measurement</li> </ul>   |
| Market Risk – Foreign Exchange Risk                              | <ul style="list-style-type: none"> <li>• Financial assets and liabilities not denominated in Australian dollars</li> </ul>  | <ul style="list-style-type: none"> <li>• Sensitivity analysis</li> </ul>   | <ul style="list-style-type: none"> <li>• Risk Management Strategy</li> <li>• Risk Appetite Statement</li> <li>• Asset and Liability Management Sub-Policy</li> </ul>   |
| Liquidity and funding risk                                       | <ul style="list-style-type: none"> <li>• Deposits and other borrowings</li> <li>• Debt issues</li> <li>• Undrawn loan commitments</li> </ul>  | <ul style="list-style-type: none"> <li>• Scenario analysis and stress testing</li> <li>• Liquidity Coverage Ratio (“LCR”)</li> <li>• Net Stable Funding Ratio (“NSFR”)</li> <li>• Behavioral models</li> </ul>   | <ul style="list-style-type: none"> <li>• Risk Management Strategy</li> <li>• Risk Appetite Statement</li> <li>• Asset and Liability Management Sub-Policy</li> <li>• Treasury – Securitisation Sub-Policy</li> <li>• Contingency Funding Plan</li> <li>• Funding and Liquidity Risk Policy</li> <li>• Liquidity Stress Testing Framework</li> </ul>  |
| Non-Financial Risk (i.e. operational, compliance and legal risk) | <ul style="list-style-type: none"> <li>• Inadequate or failed internal processes, people and systems</li> <li>• Failure or perceived failure to comply with relevant laws, regulations, the Group's policies</li> </ul>   | <ul style="list-style-type: none"> <li>• Risk and Control self-Assessment</li> <li>• Non-Financial Risk Score</li> <li>• Incident reporting</li> <li>• Scenario analysis</li> <li>• Business Environment Analysis</li> </ul>   | <ul style="list-style-type: none"> <li>• Risk Management Strategy</li> <li>• Risk Appetite Statement</li> <li>• Operational Risk Management Framework</li> <li>• Financial Crimes Policy</li> <li>• Compliance Framework</li> <li>• Conflicts of Interest Policy</li> <li>• Anti-Bribery and Corruption Policy</li> <li>• AML/CTF Compliance Program Policy</li> <li>• Enterprise Wide Stress Testing Framework</li> </ul> |

## Risk Management Framework

Taking risk is inherent in IBAL's business activities. To ensure prudent risk-taking across the organisation, IBAL 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 IBAL's financial strength is safeguarded. IBAL's risk management framework incorporates the requirements of APRA's prudential standard *CPS 220 Risk Management*.

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

- the risk management objectives are linked to IBAL'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 IBAL is compliant with all relevant legal and regulatory obligations, together with internal policy.

IBAL 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

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

## Risk Management Strategy

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

- **Risk Committee** – the Board Risk Committee provides objective non-executive oversight of the implementation and operation of IBAL's risk management framework. A key purpose of the Risk Committee is to help formulate IBAL'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 IBAL'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 and 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 IBAL's Remuneration Policy and making recommendations in relation to remuneration of the CEO, direct reports of the CEO, other persons whose activities may affect the financial soundness of IBAL and those persons covered by the Remuneration Policy.
- **Customer Experience Committee** – the Customer Experience Committee is responsible for reviewing and monitoring customer experience with IBAL, including customer complaints, resolution and closure of customer outcomes.
- **Technology and Transformation Committee** – the Technology and Transformation Committee is responsible for reviewing IBAL's technology strategy and planning, including priorities, budgets, deliverables and operational plans. In addition, it oversees and monitors IBAL's strategic transformation initiatives, including technology, data and business transformation.

## Risk Management Organisation

IBAL 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 for business departments’ risk-taking activities.
- **Line 3** – Corporate Audit Services provides independent assurance regarding the adequacy and effectiveness of IBAL’s system of internal controls, risk management procedures and governance processes.

## Risk Management Function

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

## Risk Committees

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

- **Non-Financial Risk Committee (“NFRC”)** – the overall responsibility of the NFRC is to identify, measure and monitor the operational and compliance risk profile of IBAL 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 which impact IBAL’s operational and compliance risk profile and ensures that the appropriate management action is taken.
- **Credit Risk Committee (“CRC”)** – oversees the credit risk management framework, key policies, IBAL’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 IBAL.
- **Asset and Liability Committee (“ALCO”)** – oversees and defines the policies regarding balance sheet risks such as funding, liquidity, interest rate risk and solvency of IBAL. ALCO provides governance to ensure that IBAL’s risk profile is commensurate with IBAL’s overall risk appetite and risk policy framework. Its responsibilities include setting limits for and monitoring solvency of the balance sheet, deciding on transfer price 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 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 the FRC is to co-ordinate the finance and risk 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.



## Provisioning

IBAL uses the definition of default for internal risk management purposes and has aligned the definition of credit impaired under AASB 9 (Stage 3) with the definition of default for prudential purposes. The definition of default may differ across products and considers both quantitative and qualitative factors, such as the terms of financial covenants and days past due.

For the purposes of Table 7f, Past Due is defined as those that are 90 days or more past due. The facilities in respect of which there is doubt on the full collection of principal and interest, based on an assessment of the customer's outlook, cash flow and the net realisation of value of assets to which recourse is held, are classified as Impaired, including those that are formally restructured.

Financial assets are assessed for credit-impairment at each reporting date and more frequently when circumstances warrant further assessment. The loan loss provision for loans in Stage 3 are established at the borrower or facility level, where losses related to impaired or past due loans are identified on individually significant loans, or collectively assessed.

## General Reserve for Credit Losses (GRCL)

APS 220 Credit Quality requires that IBAL report specific provisions and a General Reserve for Credit Loss (GRCL). All individually assessed provisions raised under AASB 9 are classified as specific provisions. All collectively assessed provisions raised under AASB 9 are either classified as specific provisions or GRCL.

Eligible GRCL is included in Tier 2 capital.

## Portfolios subject to Standardised Approach

As at 31 December 2019, exposures subject to the standardised approach are:

- Property Finance, which consists of Commercial Real Estate (CRE) loans from three business lines: Commercial Property Finance (CPF), Priority Commercial Mortgages (PCM) and Real Estate Finance (REF).
- Corporate includes financing activities for Institutional Clients in respect of the following sectors - Infrastructure Finance, Energy, Technology Media & Telecommunications, Commodities, Diversified Corporates and Structured Acquisition Finance. Exposures generally comprise secured exposures or where unsecured, have benefit of corporate guarantees and negative pledges.
- Other Retail exposures, including the Credit Card and Personal Loan products.
- Legacy Residential mortgages, such as the loans to Self-Managed Superannuation Funds.

Risk weights are applied in accordance with APS 112 Capital Adequacy: Standardised Approach to Credit Risk.

The Wholesale Banking portfolio and the Commercial Property Finance portfolio are subject of an application to APRA for modified capital treatments. The Diversified Corporates component of the Wholesale Banking portfolio is expected to transition to a Foundation Internal Rating Based (FIRB) approach, with the remaining portions of the Wholesale Bank portfolio and the Commercial Property Finance portfolio expected to transition to application of the Slotting Approach.

## Portfolios subject to Internal Ratings-Based approach

Effective from 1 April 2018, IBAL was accredited to use Internal Ratings-Based (IRB) approaches to calculate its capital requirements under APRA Prudential Standard APS 113 'Capital Adequacy: Internal Ratings-based Approach to Credit Risk'. IBAL is approved to use the Advanced Internal Ratings-Based (AIRB) approach for the Residential mortgages portfolio, and the Foundation Internal Ratings-Based (FIRB) approach for the Sovereign and Bank portfolios for regulatory capital purposes.

There are different elements that drive the determination of risk-weighted assets under the IRB approach.

**Probability of Default (PD):** an estimate of a counterparty or facility's likelihood to go into default within the next 12 months.

**Loss Given Default (LGD):** measures the portion of the exposure expected to be lost in the event of default.

**Exposure at Default (EAD):** estimates of the outstanding amount at the moment of default. For a defaulted exposure, it is the exposure at observation.

The following paragraphs explain how these are derived for IBAL's portfolios.

### **Internal Ratings-Based approach for Residential Mortgages**

PD is derived by mapping a score to a risk class with an assigned PD. The score is calculated using a statistical scorecard with static (origination) and dynamic (behavioural) attributes at a facility level.

LGD is estimated as the net present value of the post-default loss, including an allowance for direct and indirect costs, expressed as a percentage of the EAD. Adjustments based on external and internal data are made to the LGD of a facility for a downturn in the economic cycle. This is applied by varying the cure and recovery rates.

EAD is based on the limit and the estimated credit limit excess (CLE).

### **Foundation Internal Ratings-Based approach for Sovereign and Bank exposures**

Each Sovereign and Bank counterparty is assigned a PD derived from a risk rating that is based on a variety of qualitative and quantitative risk drivers. Each facility is assigned an LGD per the FIRB approach which is set out in APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk. EAD is calculated in accordance with the supervisory estimates for on-balance sheet components and off-balance sheet exposures, which are converted to on-balance sheet equivalents using the FIRB conversion factors detailed in APS 112 Capital Adequacy: Standardised Approach to Credit Risk.

The outcomes of the different PD models are mapped to a 'Master scale' of 22 risk ratings (1=highest rating; 22=lowest rating). The 22 grades are composed of the following categories:

- Lower risk (Risk Rating 1-10);
- Medium risk (Risk Rating 11-17);
- High risk (Risk Rating 18-19); and
- Non-performing (Risk Rating 20-22).

### **Credit Risk Mitigation**

The following section describes the approach that IBAL takes in relation to Bank exposures and credit risk mitigation.

#### **Collateral - Derivatives**

IBAL documents and manages its counterparty credit risk exposure in respect of its hedging activities via standalone Credit Support Annexes (CSAs) and clearing of eligible trades via Central Counterparties (CCPs). IBAL re-values the mark-to-market of derivatives positions and the resultant net exposure position against the various Bank counterparties, on a daily basis. IBAL collateralises the derivative portfolio with Cash only.

#### **Collateral**

IBAL has entered into various collateralisation arrangements (documented via the CSAs) with all individual Bank counterparties which allow IBAL to issue margin (collateral) calls in support of any adverse mark-to-market adjustments on the aggregate value of outstanding derivative positions between IBAL and the individual Bank counterparties. CSAs require individual counterparties to post collateral when mark-to-market positions exceed agreed thresholds. IBAL has policies and procedures in place for the acceptance of collateral for the purposes of mitigating credit risk, and only accepts cash collateral in respect of obligations under the CSAs and bonds in respect of any repurchase agreements.

IBAL has formal processes in place to ensure that calls for collateral top-up or exposure reductions are made promptly. However, the collateral is not recognised as credit risk mitigation for regulatory reporting purposes.

#### **Netting**

IBAL does not use Master Netting Arrangements and instead relies on the specific CSAs appended to the global market product specific ISDA (International Swaps and Derivatives Association) Master Agreement.

Close-out netting is not used by IBAL for the off-balance sheet financial market transactions when calculating credit risk exposure.

### **Guarantor Creditworthiness**

IBAL does not accept any other forms of credit risk mitigation (apart from cash) and the purchase of credit derivatives and / or guarantees from eligible counterparties is not accepted as an eligible credit risk mitigant for the purposes of regulatory reporting.

### **Concentrations**

IBAL manages counterparty (or groups of related counterparties) credit risk concentrations in accordance with its Large Exposure Policy. The Large Exposure Policy is reviewed annually.

### **Counterparty Credit Risk**

Counterparty credit risk arises in respect of IBAL's derivatives and liquidity portfolios. IBAL's exposure to individual counterparties is measured using the Standardised Approach to Counterparty Credit Risk. This method is the sum of current credit exposure and potential future credit exposure (the add-on) of these contracts. Current credit exposure is defined as the sum of the positive mark-to-market value (or replacement cost) of these contracts.

The credit approval process for counterparty credit risk limits is completed and limits are approved on an uncommitted and unadvised basis following a bespoke assessment of the creditworthiness of each counterparty / group of related counterparties. Capital (and if required, credit provisions) is allocated in respect of individual counterparties in accordance with their Risk Rating, Exposure and Collateral (if any).

### **Wrong Way Risk**

Wrong way risk is a description of the positive correlation between the level of exposure and the default probability of a counterparty. In respect of collateral, wrong way risk describes the negative correlation between the value of the collateral that is held and the default probability of the counterparty that the collateral is held in respect of. IBAL's Wrong Way Risk (WWR) Policy provides a framework of regulatory and IBAL specific minimum standards for identifying, monitoring and managing WWR for Financial Markets transactions.

The policy identifies two sources of WWR:

- Over-the-counter (OTC) derivatives, both cleared and centrally cleared, where there is a correlation between exposures – driving risk factors and the counterparty default probability.
- Financial Collateral : Variation margin, initial margin, OTC margin collateral and securities financing transactions (SFT) collateral where there is a correlation between the counterparty default and the liquidation value of collateral. Tri-Party SFTs are also in scope of this policy.

Where exposure is identified, available avenues of remediation include (but are not limited to) reduction in limits, acceptance of substitute collateral or purchase of credit insurance.

### **Consequence of a Downgrade in IBAL's credit rating**

Downgrades in IBAL's credit rating may trigger a requirement for IBAL to post additional collateral in respect of a range of obligations under its CSA obligations. The impact of a downgrade of the IBAL credit rating has been calculated at \$106m. This is the same across a 1, 2 or 3 notches downgrade due to the fact that the collateral amount does not vary once the minimum rating requirement is triggered.

### 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 IBAL as a result of movements in market interest rates. The term “interest rate risk” can be classified into four main categories:

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

### Managing and monitoring interest rate risk

IBAL performs stress testing with the existence of triggers to ensure that potential limit breaches are identified and acted upon early.

The type and level of mismatch interest rate risk of IBAL 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 IBAL 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 IBAL 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 IBAL’s reported earnings due to the current and forecast mismatch interest rate positions. IBAL undertakes a number of scenarios to measure the potential change in earnings.

## Securitisation disclosures

Securitisation is the process of transferring assets into a Special Purpose Vehicle ("SPV") and then using those assets as collateral for the issuance of debt securities. The cash flow from the pool of assets is used to make payments of interest and principal to the holders of the debt securities. There are generally at least two classes of securities issued by an SPV, with each class being exposed to a different degree of credit risk.

### Securitisation Activities

IBAL uses securitisation for the management of its funding and liquidity requirements. IBAL equitably assigns residential mortgages that it has originated to SPVs which in turn issue notes.

The IDS Trust 2008-1 is IBAL's internal securitisation transaction. The IDOL program is IBAL's external securitisation program. IBAL provides interest rate swaps, basis swaps, redraw facilities, liquidity facilities and bank accounts to the various IDOL trusts as well as IDS 2008-1. IBAL does not sponsor any SPVs which are used to securitise loans originated by other lenders. Nor does IBAL provide facilities which are sponsored by other ADIs. IBAL does not invest in Residential Mortgage-Backed or Asset-Backed Securities issued by other entities.

### Risk Assessment

When providing various facilities to the IDOL trusts and IDS Trust 2008-1, IBAL does take on some market risk and liquidity risks. The relevant risks are considered at the inception of each trust and the transactions are recorded in the relevant systems against approved limits. Exposures are monitored on an ongoing basis.

IBAL does not employ credit risk mitigation techniques such as guarantees and credit derivatives.

When calculating Regulatory Capital applicable to IBAL's securitised loans, IBAL takes a look-through approach. Due to the retention of junior notes, IBAL does not achieve capital relief when it securitises its loans.

When a new securitisation trust is established, IBAL conducts a full self-assessment against APS 120 to ensure that it is in compliance with the standard.

### Accounting Policies

IBAL's securitisation arrangements have resulted in continued recognition of the securitised residential mortgages on the Balance Sheet of IBAL, as the sale has not resulted in transferring substantially all the risk and rewards of ownership. A liability is recognised on IBAL's standalone Balance Sheet which represents the obligation to repay the securitised entity on the equitable assignment of loans. This is known as the imputed loan approach.

## Liquidity disclosures

### Liquidity coverage ratio

The Liquidity Coverage Ratio (LCR), as defined in APRA Prudential Standard APS 210, measures the Bank's ability to sustain a 30-day pre-defined liquidity stress scenario.

IBAL's LCR for the quarter ended 31 December 2019 was calculated as daily averages excluding weekends and public holidays.

Liquid assets comprise High Quality Liquid Assets (HQLA) and Alternative Liquid Assets (ALA). ALA comprises qualifying assets held in the Committed Liquidity Facility (CLF) as approved by the Reserve Bank of Australia (RBA). The average HQLA for the quarter consists of Level 1 assets including balances held with the RBA, Australian Semi Government and Commonwealth Government securities.

The main funding sources for IBAL were deposits from retail and small business customers. Funding was also sourced from the wholesale market in the form of corporate and bank deposits, Residential Mortgage-Backed Securities (RMBS), Covered Bonds and bond issuances. The weighted outflows from each of these funding sources were based on APRA determined run-off factors.

Derivatives exposures, potential collateral calls and any contingent funding requirements are taken into account in the daily calculation of LCR as per the requirements in APS 210.

### Net stable funding ratio (NSFR)

The net stable funding ratio (NSFR) aims to ensure that the types (and diversity) of liabilities providing funding, and their maturity profile, adequately meet the funding needs arising from assets (and off-balance sheet commitments), their respective maturity profiles and liquidity (under both normal and stress conditions).

The NSFR is calculated by dividing available stable funding (ASF), which represents all own funds and liabilities reported on the balance sheet, by required stable funding (RSF), which represents all assets reported on the balance sheet and selected off-balance sheet commitments.

Short-term assets are assumed to require less stable funding than long-term assets because banks would be able to allow some proportion of those assets to mature instead of rolling them over. All items are presented as maturing on the closer of their maturity date and the earliest date at which they can contractually be called. In case repayments occur in instalments, each instalment is reported in the appropriate time bucket to reflect the effective tenor of the funding.

## Quantitative disclosures:

## Capital

## APS 330 Table 6b to 6f - Capital requirements in terms of risk-weighted assets

|   | December 2019 | June 2019     |
|---|---------------|---------------|
| Amounts in millions of dollars                      |               |               |
| <b>Subject to AIRB approach</b>                     |               |               |
| Residential mortgages                               | 16,187        | 15,680        |
| <b>Total RWA subject to AIRB approach</b>           | <b>16,187</b> | <b>15,680</b> |
| <b>Subject to FIRB approach</b>                     |               |               |
| Banks & other financial institutions <sup>1</sup>   | 378           | 589           |
| Sovereign   | 513           | 493           |
| <b>Total RWA subject to FIRB approach</b>           | <b>891</b>    | <b>1,082</b>  |
| <b>Subject to standardised approach</b>             |               |               |
| Residential mortgages                               | 80            | 84            |
| Property finance <sup>2</sup>                       | 6,447         | 8,125         |
| Corporate <sup>2</sup>                              | 6,889         | 4,028         |
| Other retail  | 302           | 206           |
| Other assets  | 149           | 126           |
| <b>Total RWA subject to standardised approach</b>   | <b>13,867</b> | <b>12,569</b> |
| Securitisation                                      | -             | -             |
| Credit valuation adjustment <sup>1</sup>            | 5             | 49            |
| Central counterparties                              | -             | -             |
| <b>Total credit risk RWA</b>                        | <b>30,950</b> | <b>29,380</b> |
| Interest rate risk in the banking book <sup>3</sup> | 125           | -             |
| Operational risk                                    | 3,449         | 3,293         |
| <b>Total RWA</b>                                    | <b>34,524</b> | <b>32,673</b> |

## APS 330 Table 6g - Capital ratios

|                                    | December 2019 | June 2019    |
|------------------------------------|---------------|--------------|
| Common equity tier 1 capital ratio | 13.2%         | 13.3%        |
| Tier 1 capital ratio               | 13.2%         | 13.3%        |
| <b>Total capital ratio</b>         | <b>13.6%</b>  | <b>13.7%</b> |

## Credit risk

APS 330 Table 7b - Credit risk exposure by portfolio type

| December 2019                        |                  |                   |                    |               |                 |
|--------------------------------------|------------------|-------------------|--------------------|---------------|-----------------|
| Amounts in millions of dollars       | On-balance sheet | Off-balance sheet |                    | Total         | 6-month average |
|                                      |                  | Market related    | Non-market related |               |                 |
| Residential mortgages                | 51,826           | -                 | 7,594              | 59,420        | 58,448          |
| Property finance <sup>2</sup>        | 5,696            | -                 | 775                | 6,471         | 8,147           |
| Corporate <sup>2</sup>               | 4,975            | -                 | 1,985              | 6,960         | 4,714           |
| Banks & other financial institutions | 1,731            | 864               | -                  | 2,595         | 2,392           |
| Sovereign                            | 3,772            | -                 | -                  | 3,772         | 3,692           |
| Securitisation                       | -                | -                 | -                  | -             | -               |
| Other retail                         | 302              | -                 | 134                | 436           | 380             |
| Other assets                         | 149              | -                 | -                  | 149           | 176             |
| <b>Total credit exposures</b>        | <b>68,451</b>    | <b>864</b>        | <b>10,488</b>      | <b>79,803</b> | <b>77,949</b>   |

| June 2019                            |                  |                   |                    |               |                 |
|--------------------------------------|------------------|-------------------|--------------------|---------------|-----------------|
| Amounts in millions of dollars       | On-balance sheet | Off-balance sheet |                    | Total         | 6-month average |
|                                      |                  | Market related    | Non-market related |               |                 |
| Residential mortgages                | 49,569           | -                 | 7,054              | 56,623        | 56,612          |
| Property finance                     | 7,019            | -                 | 1,198              | 8,217         | 7,798           |
| Corporate                            | 3,063            | -                 | 965                | 4,028         | 4,053           |
| Banks & other financial institutions | 2,344            | 206               | -                  | 2,550         | 2,880           |
| Sovereign                            | 3,342            | -                 | -                  | 3,342         | 3,216           |
| Securitisation                       | -                | -                 | -                  | -             | -               |
| Other retail                         | 206              | -                 | 103                | 309           | 258             |
| Other assets                         | 126              | -                 | -                  | 126           | 132             |
| <b>Total credit exposures</b>        | <b>65,669</b>    | <b>206</b>        | <b>9,320</b>       | <b>75,195</b> | <b>74,949</b>   |



APS 330 Table 7d – Credit risk exposure by portfolio type and industry sector

| December 2019                        |                   |              |              |                  |                 |                 |              |               |
|--------------------------------------|-------------------|--------------|--------------|------------------|-----------------|-----------------|--------------|---------------|
| Amounts in millions of dollars       | Counterparty type |              |              |                  |                 |                 |              | Total         |
|                                      | Retail            | Bank         | Sovereign    | Property finance | Infra-structure | Utility & Power | Other        |               |
| Residential mortgages                | 59,420            | -            | -            | -                | -               | -               | -            | 59,420        |
| Property finance <sup>2</sup>        | -                 | -            | -            | 6,471            | -               | -               | -            | 6,471         |
| Corporate <sup>2</sup>               | -                 | -            | -            | 124              | 1,337           | 1,545           | 3,954        | 6,960         |
| Banks & other financial institutions | -                 | 2,595        | -            | -                | -               | -               | -            | 2,595         |
| Sovereign                            | -                 | -            | 3,772        | -                | -               | -               | -            | 3,772         |
| Securitisation                       | -                 | -            | -            | -                | -               | -               | -            | -             |
| Other retail                         | 436               | -            | -            | -                | -               | -               | -            | 436           |
| Other assets                         | -                 | -            | -            | -                | -               | -               | 149          | 149           |
| <b>Total credit exposures</b>        | <b>59,856</b>     | <b>2,595</b> | <b>3,772</b> | <b>6,595</b>     | <b>1,337</b>    | <b>1,545</b>    | <b>4,103</b> | <b>79,803</b> |

| June 2019                            |                   |              |              |                  |                 |                 |              |               |
|--------------------------------------|-------------------|--------------|--------------|------------------|-----------------|-----------------|--------------|---------------|
| Amounts in millions of dollars       | Counterparty type |              |              |                  |                 |                 |              | Total         |
|                                      | Retail            | Bank         | Sovereign    | Property finance | Infra-structure | Utility & Power | Other        |               |
| Residential mortgages                | 56,623            | -            | -            | -                | -               | -               | -            | 56,623        |
| Property finance                     | -                 | -            | -            | 8,217            | -               | -               | -            | 8,217         |
| Corporate                            | -                 | -            | -            | -                | 1,203           | 1,070           | 1,755        | 4,028         |
| Banks & other financial institutions | -                 | 2,550        | -            | -                | -               | -               | -            | 2,550         |
| Sovereign                            | -                 | -            | 3,342        | -                | -               | -               | -            | 3,342         |
| Securitisation                       | -                 | -            | -            | -                | -               | -               | -            | -             |
| Other retail                         | 309               | -            | -            | -                | -               | -               | -            | 309           |
| Other assets                         | -                 | -            | -            | -                | -               | -               | 126          | 126           |
| <b>Total credit exposures</b>        | <b>56,932</b>     | <b>2,550</b> | <b>3,342</b> | <b>8,217</b>     | <b>1,203</b>    | <b>1,070</b>    | <b>1,881</b> | <b>75,195</b> |

APS 330 Table 7e – Credit risk exposure by portfolio type and residual contractual maturity

| December 2019                        |              |                       |                      |               |                          |               |
|--------------------------------------|--------------|-----------------------|----------------------|---------------|--------------------------|---------------|
| Amounts in millions of dollars       | <=3 months   | >3 months<br><=1 year | >1 year<br><=5 years | >5 years      | No maturity<br>specified | Total         |
| Residential mortgages                | 1            | 1                     | 35                   | 58,701        | 682                      | 59,420        |
| Property finance <sup>2</sup>        | 377          | 756                   | 4,785                | 552           | 1                        | 6,471         |
| Corporate <sup>2</sup>               | 157          | 573                   | 3,845                | 2,380         | 5                        | 6,960         |
| Banks & other financial institutions | 1,265        | 512                   | 818                  | -             | -                        | 2,595         |
| Sovereign                            | 320          | 122                   | 1,812                | 1,518         | -                        | 3,772         |
| Securitisation                       | -            | -                     | -                    | -             | -                        | -             |
| Other retail                         | -            | 3                     | 242                  | -             | 191                      | 436           |
| Other assets                         | -            | -                     | -                    | -             | 149                      | 149           |
| <b>Total credit exposures</b>        | <b>2,120</b> | <b>1,967</b>          | <b>11,537</b>        | <b>63,151</b> | <b>1,028</b>             | <b>79,803</b> |

| June 2019                            |              |                       |                      |               |                          |               |
|--------------------------------------|--------------|-----------------------|----------------------|---------------|--------------------------|---------------|
| Amounts in millions of dollars       | <=3 months   | >3 months<br><=1 year | >1 year<br><=5 years | >5 years      | No maturity<br>specified | Total         |
| Residential mortgages                | 1            | -                     | 34                   | 55,862        | 726                      | 56,623        |
| Property finance                     | 360          | 980                   | 4,911                | 1,959         | 7                        | 8,217         |
| Corporate                            | 53           | 380                   | 2,594                | 1,001         | -                        | 4,028         |
| Banks & other financial institutions | 1,268        | 132                   | 1,129                | 21            | -                        | 2,550         |
| Sovereign                            | 358          | 21                    | 1,392                | 1,571         | -                        | 3,342         |
| Securitisation                       | -            | -                     | -                    | -             | -                        | -             |
| Other retail                         | -            | -                     | 165                  | -             | 144                      | 309           |
| Other assets                         | -            | -                     | -                    | -             | 126                      | 126           |
| <b>Total credit exposures</b>        | <b>2,040</b> | <b>1,513</b>          | <b>10,225</b>        | <b>60,414</b> | <b>1,003</b>             | <b>75,195</b> |

APS 330 Table 7f - Impaired and past due by portfolio type

| Amounts in millions of dollars | Past due facilities | Impaired facilities | Specific provisions | December 2019                 |            |
|--------------------------------|---------------------|---------------------|---------------------|-------------------------------|------------|
|                                |                     |                     |                     | Half-year movement            |            |
|                                |                     |                     |                     | Charge to specific provisions | Write offs |
| Residential mortgages          | 200                 | 211                 | 29                  | 3                             | 1          |
| Property finance <sup>2</sup>  | 7                   | -                   | -                   | (2)                           | -          |
| Corporate <sup>2</sup>         | 7                   | 28                  | 5                   | -                             | -          |
| Banks & other financial insti- | -                   | -                   | -                   | -                             | -          |
| Sovereign                      | -                   | -                   | -                   | -                             | -          |
| Securitisation                 | -                   | -                   | -                   | -                             | -          |
| Other retail                   | -                   | 1                   | 1                   | -                             | -          |
| Other assets                   | -                   | -                   | -                   | -                             | -          |
| <b>Total</b>                   | <b>214</b>          | <b>240</b>          | <b>35</b>           | <b>1</b>                      | <b>1</b>   |

| Amounts in millions of dollars | Past due facilities | Impaired facilities | Specific provisions | June 2019                     |            |
|--------------------------------|---------------------|---------------------|---------------------|-------------------------------|------------|
|                                |                     |                     |                     | Half-year movement            |            |
|                                |                     |                     |                     | Charge to specific provisions | Write offs |
| Residential mortgages          | 204                 | 199                 | 26                  | 8                             | 1          |
| Property finance               | 15                  | -                   | 2                   | -                             | -          |
| Corporate                      | -                   | 28                  | 5                   | -                             | -          |
| Banks & other financial insti- | -                   | -                   | -                   | -                             | -          |
| tutions                        | -                   | -                   | -                   | -                             | -          |
| Sovereign                      | -                   | -                   | -                   | -                             | -          |
| Securitisation                 | -                   | -                   | -                   | -                             | -          |
| Other retail                   | -                   | 1                   | 1                   | -                             | 2          |
| Other assets                   | -                   | -                   | -                   | -                             | -          |
| <b>Total</b>                   | <b>219</b>          | <b>228</b>          | <b>34</b>           | <b>8</b>                      | <b>3</b>   |

## APS 330 Table 7h - Movement in collective and individual provisions

| Movement in collective provisions  | December 2019 | June 2019  |
|--|---------------|------------|
| Amounts in millions of dollars   |               |            |
| Opening balance  | 64            | 43         |
| Net charge against profit and loss                                       | 7             | 24         |
| Recoveries   | -             | -          |
| Write-offs   | (1)           | (3)        |
| Less collective provisions transferred to specific provisions            | -             | -          |
| <b>Total collective provisions</b>                                       | <b>70</b>     | <b>64</b>  |
| Less collective provisions treated as specific provisions for regulatory | (30)          | (28)       |
| Additional GRCL requirement  | 94            | 98         |
| <b>General reserve for credit losses</b>                                 | <b>134</b>    | <b>134</b> |

| Movement in individual provisions                 | December 2019 | June 2019 |
|---|---------------|-----------|
| Amounts in millions of dollars                    |               |           |
| Opening balance                                   | 5             | 5         |
| New and increase provisioning                     | -             | -         |
| Write back of provisions no longer required       | -             | -         |
| Write-offs  | -             | -         |
| Discount unwind to interest income                | -             | -         |
| Add collective provisions transferred to specific | -             | -         |
| <b>Total individual provisions</b>                | <b>5</b>      | <b>5</b>  |

APS 330 Table 7i - Credit risk exposures by portfolio type and modelling approach

| December 2019                        |               |              |               |               |
|--------------------------------------|---------------|--------------|---------------|---------------|
| Amounts in millions of dollars       | AIRB          | FIRB         | Standardised  | Total         |
| <b>Portfolio type</b>                |               |              |               |               |
| Residential mortgages                | 59,300        | -            | 120           | 59,420        |
| Property finance <sup>2</sup>        | -             | -            | 6,471         | 6,471         |
| Corporate <sup>2</sup>               | -             | -            | 6,960         | 6,960         |
| Banks & other financial institutions | -             | 2,595        | -             | 2,595         |
| Sovereign                            | -             | 3,772        | -             | 3,772         |
| Securitisation                       | -             | -            | -             | -             |
| Other retail                         | -             | -            | 436           | 436           |
| Other assets                         | -             | -            | 149           | 149           |
| <b>Total credit exposures</b>        | <b>59,300</b> | <b>6,367</b> | <b>14,136</b> | <b>79,803</b> |

| June 2019                            |               |              |               |               |
|--------------------------------------|---------------|--------------|---------------|---------------|
| Amounts in millions of dollars       | AIRB          | FIRB         | Standardised  | Total         |
| <b>Portfolio type</b>                |               |              |               |               |
| Residential mortgages                | 56,498        | -            | 125           | 56,623        |
| Property finance                     | -             | -            | 8,217         | 8,217         |
| Corporate                            | -             | -            | 4,028         | 4,028         |
| Banks & other financial institutions | -             | 2,550        | -             | 2,550         |
| Sovereign                            | -             | 3,342        | -             | 3,342         |
| Securitisation                       | -             | -            | -             | -             |
| Other retail                         | -             | -            | 309           | 309           |
| Other assets                         | -             | -            | 126           | 126           |
| <b>Total credit exposures</b>        | <b>56,498</b> | <b>5,892</b> | <b>12,805</b> | <b>75,195</b> |

APS 330 Table 7j - Reconciliation between APS 220 provisions and Australian accounting standards

| December 2019                      |                                   |                     |            |
|------------------------------------|-----------------------------------|---------------------|------------|
| Amounts in millions of dollars     | General reserve for credit losses | Specific provisions | Total      |
| Collective provision               | 40                                | 30                  | 70         |
| Individual provision               | -                                 | 5                   | 5          |
| <b>Total provisions</b>            | <b>40</b>                         | <b>35</b>           | <b>75</b>  |
| Additional GRCL requirement        | 94                                | -                   | 94         |
| <b>Total regulatory provisions</b> | <b>134</b>                        | <b>35</b>           | <b>169</b> |

| June 2019                          |                                   |                     |            |
|------------------------------------|-----------------------------------|---------------------|------------|
| Amounts in millions of dollars     | General reserve for credit losses | Specific provisions | Total      |
| Collective provision               | 36                                | 28                  | 64         |
| Individual provision               | -                                 | 5                   | 5          |
| <b>Total provisions</b>            | <b>36</b>                         | <b>33</b>           | <b>69</b>  |
| Additional GRCL requirement        | 98                                | -                   | 98         |
| <b>Total regulatory provisions</b> | <b>134</b>                        | <b>33</b>           | <b>167</b> |

APS 330 Table 8b - Exposures subject to a standardised approach by risk weight

| Exposure after credit risk mitigation |               |               |
|---------------------------------------|---------------|---------------|
| Amounts in millions of dollars        | December 2019 | June 2019     |
| <b>Risk weight</b>                    |               |               |
| 0%                                    | -             | -             |
| 20%                                   | -             | -             |
| 35%                                   | -             | -             |
| 50%                                   | 23            | 23            |
| 75%                                   | 95            | 101           |
| 100%                                  | 14,018        | 12,681        |
| 150%                                  | -             | -             |
| >150%                                 | -             | -             |
| Capital deductions                    | -             | -             |
| <b>Total</b>                          | <b>14,136</b> | <b>12,805</b> |

APS 330 Table 9d – Exposures by portfolio type and PD band (Portfolios subject to IRB approach)

| Portfolios subject to IRB approach          |                    |                    |                   |                   |                   |                   |                   |                   |                   |                   |                   |                    |                    |     |         |       |
|---|--------------------|--------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|--------------------|-----|---------|-------|
| Amounts in millions of dollars              | PD band            |                    |                   |                   |                   |                   |                   |                   |                   |                   |                   |                    |                    |     | Default | Total |
|   | 0.0% to<br>< 0.03% | 0.03% to<br>< 0.1% | 0.1% to<br>< 0.2% | 0.2% to<br>< 0.3% | 0.3% to<br>< 0.5% | 0.5% to<br>< 0.7% | 0.7% to<br>< 1.0% | 1.0% to<br>< 2.0% | 2.0% to<br>< 3.0% | 3.0% to<br>< 5.0% | 5.0% to<br>< 7.0% | 7.0% to<br>< 10.0% | 10.0% to<br>< 100% |     |         |       |
| Credit risk exposures                       |                    |                    |                   |                   |                   |                   |                   |                   |                   |                   |                   |                    |                    |     |         |       |
| Residential mortgages                       | -                  | 26,322             | 9,440             | 2,797             | 9,096             | 3,415             | 1,455             | 3,583             | 616               | 1,318             | -                 | 420                | 427                | 411 | 59,300  |       |
| Banks & other financial institutions        | -                  | 2,591              | 4                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                  | -                  | -   | 2,595   |       |
| Sovereign                                   | 3,582              | 190                | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                  | -                  | -   | 3,772   |       |
| Total credit risk exposures                 | 3,582              | 29,103             | 9,444             | 2,797             | 9,096             | 3,415             | 1,455             | 3,583             | 616               | 1,318             | -                 | 420                | 427                | 411 | 65,667  |       |
| Undrawn commitments                         |                    |                    |                   |                   |                   |                   |                   |                   |                   |                   |                   |                    |                    |     |         |       |
| Residential mortgages                       | -                  | 4,838              | 662               | 122               | 464               | 132               | 99                | 1,193             | 16                | 33                | -                 | 10                 | 9                  | 3   | 7,581   |       |
| Banks & other financial institutions        | -                  | 860                | 4                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                  | -                  | -   | 864     |       |
| Sovereign                                   | -                  | -                  | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                  | -                  | -   | -       |       |
| Total credit risk exposures                 | -                  | 5,698              | 666               | 122               | 464               | 132               | 99                | 1,193             | 16                | 33                | -                 | 10                 | 9                  | 3   | 8,445   |       |
| Exposure - weighted average EAD             |                    |                    |                   |                   |                   |                   |                   |                   |                   |                   |                   |                    |                    |     |         |       |
| Residential mortgages                       | -                  | -                  | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                  | -                  | -   | -       |       |
| Banks & other financial institutions        | -                  | 56                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                  | -                  | -   | 56      |       |
| Sovereign                                   | 62                 | 24                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                  | -                  | -   | 57      |       |
| Exposure - weighted average LGD (%)         |                    |                    |                   |                   |                   |                   |                   |                   |                   |                   |                   |                    |                    |     |         |       |
| Residential mortgages                       | -                  | 21                 | 22                | 22                | 22                | 22                | 22                | 22                | 22                | 22                | -                 | 21                 | 22                 | 26  | 22      |       |
| Exposure - weighted average risk weight (%) |                    |                    |                   |                   |                   |                   |                   |                   |                   |                   |                   |                    |                    |     |         |       |
| Residential mortgages                       | -                  | 5                  | 16                | 27                | 34                | 46                | 48                | 70                | 89                | 123               | -                 | 160                | 169                | 246 | 27      |       |
| Banks & other financial institutions        | -                  | 15                 | 5                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                  | -                  | -   | 15      |       |
| Sovereign                                   | 13                 | 23                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                  | -                  | -   | 14      |       |

APS 330 Table 9d – Exposures by portfolio type and PD band (Portfolios subject to IRB approach) (Continued)

| Portfolios subject to IRB approach          |                    |                    |                   |                   |                   |                   |                   |                   |                   |                   |                   |                    |                    |         |        |
|---|--------------------|--------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|--------------------|---------|--------|
| Amounts in millions of dollars              | PD band            |                    |                   |                   |                   |                   |                   |                   |                   |                   |                   |                    |                    | Default | Total  |
|   | 0.0% to<br>< 0.03% | 0.03% to<br>< 0.1% | 0.1% to<br>< 0.2% | 0.2% to<br>< 0.3% | 0.3% to<br>< 0.5% | 0.5% to<br>< 0.7% | 0.7% to<br>< 1.0% | 1.0% to<br>< 2.0% | 2.0% to<br>< 3.0% | 3.0% to<br>< 5.0% | 5.0% to<br>< 7.0% | 7.0% to<br>< 10.0% | 10.0% to<br>< 100% |         |        |
| Credit risk exposures                       |                    |                    |                   |                   |                   |                   |                   |                   |                   |                   |                   |                    |                    |         |        |
| Residential mortgages                       | -                  | 23,996             | 9,659             | 2,605             | 8,462             | 2,893             | 1,560             | 3,656             | 816               | 1,401             | -                 | 566                | 442                | 442     | 56,498 |
| Banks & other financial institutions        | -                  | 2,469              | 81                | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                  | -                  | -       | 2,550  |
| Sovereign                                   | 3,150              | 192                | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                  | -                  | -       | 3,342  |
| Total credit risk exposures                 | 3,150              | 26,657             | 9,740             | 2,605             | 8,462             | 2,893             | 1,560             | 3,656             | 816               | 1,401             | -                 | 566                | 442                | 442     | 62,390 |
| Undrawn commitments                         |                    |                    |                   |                   |                   |                   |                   |                   |                   |                   |                   |                    |                    |         |        |
| Residential mortgages                       | -                  | 4,447              | 715               | 119               | 448               | 114               | 101               | 1,016             | 21                | 36                | -                 | 14                 | 9                  | 1       | 7,041  |
| Banks & other financial institutions        | -                  | 202                | 4                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                  | -                  | -       | 206    |
| Sovereign                                   | -                  | -                  | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                  | -                  | -       | -      |
| Total credit risk exposures                 | -                  | 4,649              | 719               | 119               | 448               | 114               | 101               | 1,016             | 21                | 36                | -                 | 14                 | 9                  | 1       | 7,247  |
| Exposure - weighted average EAD             |                    |                    |                   |                   |                   |                   |                   |                   |                   |                   |                   |                    |                    |         |        |
| Residential mortgages                       | -                  | -                  | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                  | -                  | -       | -      |
| Banks & other financial institutions        | -                  | 9                  | 6                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                  | -                  | -       | 9      |
| Sovereign                                   | 58                 | 24                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                  | -                  | -       | 54     |
| Exposure - weighted average LGD (%)         |                    |                    |                   |                   |                   |                   |                   |                   |                   |                   |                   |                    |                    |         |        |
| Residential mortgages                       | -                  | 22                 | 22                | 22                | 22                | 22                | 22                | 22                | 23                | 23                | -                 | 22                 | 22                 | 26      | 22     |
| Exposure - weighted average risk weight (%) |                    |                    |                   |                   |                   |                   |                   |                   |                   |                   |                   |                    |                    |         |        |
| Residential mortgages                       | -                  | 5                  | 15                | 25                | 32                | 44                | 46                | 67                | 87                | 120               | -                 | 160                | 165                | 245     | 28     |
| Banks & other financial institutions        | -                  | 23                 | 36                | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                  | -                  | -       | 23     |
| Sovereign                                   | 14                 | 25                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                  | -                  | -       | 15     |



**APS 330 Table 9e - Actual losses by portfolio type**

| Half year losses in reporting period (Portfolios subject to IRB approach) | December 2019 | June 2019  |
|---|---------------|------------|
| Amounts in millions of dollars  | Write-offs    | Write-offs |
| Residential mortgages   | 1             | 1          |
| Banks & other financial institutions                                      | -             | -          |
| Sovereign   | -             | -          |
| <b>Total</b>  | <b>1</b>      | <b>1</b>   |

**APS 330 Table 9f - Historical loss analysis by portfolio type**

| Portfolios subject to IRB approach   | December 2019         |                            |
|--------------------------------------|-----------------------|----------------------------|
| Amounts in millions of dollars       | Half year actual loss | Regulatory 1 year expected |
| Residential mortgages                | 1                     | 116                        |
| Banks & other financial institutions | -                     | -                          |
| Sovereign                            | -                     | -                          |
| <b>Total</b>                         | <b>1</b>              | <b>116</b>                 |

| Portfolios subject to IRB approach   | June 2019             |                            |
|--------------------------------------|-----------------------|----------------------------|
| Amounts in millions of dollars       | Half year actual loss | Regulatory 1 year expected |
| Residential mortgages                | 1                     | 124                        |
| Banks & other financial institutions | -                     | 1                          |
| Sovereign                            | -                     | -                          |
| <b>Total</b>                         | <b>1</b>              | <b>125</b>                 |

## APS 330 Table 10b and 10c - Credit risk mitigation

|                                      |                |                               | December 2019             |
|--------------------------------------|----------------|-------------------------------|---------------------------|
| Amounts in millions of dollars       | Total exposure | Eligible financial collateral | Other eligible collateral |
| Advanced approach                    |                |                               |                           |
| Residential mortgages                | 59,300         | -                             | -                         |
| Banks & other financial institutions | 2,595          | -                             | -                         |
| Sovereign                            | 3,772          | -                             | -                         |
| Total advanced approach              | 65,667         | -                             | -                         |
| Standardised approach                |                |                               |                           |
| Residential mortgages                | 120            | -                             | -                         |
| Property finance <sup>2</sup>        | 6,471          | -                             | -                         |
| Corporate <sup>2</sup>               | 6,960          | -                             | -                         |
| Other retail                         | 436            | -                             | -                         |
| Other assets                         | 149            | -                             | -                         |
| Total standardised approach          | 14,136         | -                             | -                         |
| Securitisation                       | -              | -                             | -                         |
| Total exposures                      | 79,803         | -                             | -                         |

| June 2019                            |                |                               |                           |
|--------------------------------------|----------------|-------------------------------|---------------------------|
| Amounts in millions of dollars       | Total exposure | Eligible financial collateral | Other eligible collateral |
| Advanced approach                    |                |                               |                           |
| Residential mortgages                | 56,498         | -                             | -                         |
| Banks & other financial institutions | 2,550          | -                             | -                         |
| Sovereign                            | 3,342          | -                             | -                         |
| Total advanced approach              | 62,390         | -                             | -                         |
| Standardised approach                |                |                               |                           |
| Residential mortgages                | 125            | -                             | -                         |
| Property finance                     | 8,217          | -                             | -                         |
| Corporate                            | 4,028          | -                             | -                         |
| Other retail                         | 309            | -                             | -                         |
| Other assets                         | 126            | -                             | -                         |
| Total standardised approach          | 12,805         | -                             | -                         |
| Securitisation                       | -              | -                             | -                         |
| Total exposures                      | 75,195         | -                             | -                         |

## APS 330 Table 11b – Counterparty credit risk derivative exposure

**Effects of netting on the balance sheet**

| Amounts in millions of dollars         | December 2019 | June 2019  |
|--|---------------|------------|
| Gross positive fair value              | 92            | 133        |
| Netting benefits                       | (91)          | (133)      |
| <b>Netted current credit exposure</b>  | <b>1</b>      | <b>-</b>   |
| Collateral held, of which:             |               |            |
| Cash                                   | 73            | 177        |
| <b>Net derivatives credit exposure</b> | <b>74</b>     | <b>177</b> |
| Derivatives CCR exposure               | 30            | 29         |
| <b>Exposure at default</b>             | <b>104</b>    | <b>206</b> |

**Exposure at default**

| Amounts in millions of dollars                 | December 2019 | June 2019  |
|--|---------------|------------|
| <b>Interest Rate Contracts</b>                 |               |            |
| Standardised Approach Counterparty Credit Risk | 104           | -          |
| Current Exposure Method                        | -             | 206        |
| <b>Total</b>                                   | <b>104</b>    | <b>206</b> |

## Securitisation

APS 330 Table 12g – Banking book exposures securitised – traditional securitisation

| December 2019                  |                       |                        |
|--------------------------------|-----------------------|------------------------|
| Amounts in millions of dollars | Originated by the ADI | Third party originated |
| <b>Underlying asset</b>        |                       |                        |
| Residential mortgages          | 10,758                | -                      |
| <b>Total</b>                   | <b>10,758</b>         | <b>-</b>               |

| June 2019                      |                       |                        |
|--------------------------------|-----------------------|------------------------|
| Amounts in millions of dollars | Originated by the ADI | Third party originated |
| <b>Underlying asset</b>        |                       |                        |
| Residential mortgages          | 9,533                 | -                      |
| <b>Total</b>                   | <b>9,533</b>          | <b>-</b>               |

APS 330 Table 12h – Past due and impaired banking book exposures by asset type

| December 2019                  |                      |           |           |                   |
|--------------------------------|----------------------|-----------|-----------|-------------------|
| Amounts in millions of dollars | Outstanding exposure | Impaired  | Past due  | Losses recognised |
| <b>Underlying asset</b>        |                      |           |           |                   |
| Residential mortgages          | 10,758               | 62        | 50        | -                 |
| <b>Total</b>                   | <b>10,758</b>        | <b>62</b> | <b>50</b> | <b>-</b>          |

| June 2019                      |                      |           |           |                   |
|--------------------------------|----------------------|-----------|-----------|-------------------|
| Amounts in millions of dollars | Outstanding exposure | Impaired  | Past due  | Losses recognised |
| <b>Underlying asset</b>        |                      |           |           |                   |
| Residential mortgages          | 9,533                | 64        | 52        | -                 |
| <b>Total</b>                   | <b>9,533</b>         | <b>64</b> | <b>52</b> | <b>-</b>          |

APS 330 Table 12i-j – Banking book securitisation activity for the reporting period

| December 2019                  |                             |                                 |
|--------------------------------|-----------------------------|---------------------------------|
| Amounts in millions of dollars | Total exposures securitised | Recognised gain or loss on sale |
| <b>Underlying asset</b>        |                             |                                 |
| Residential mortgages          | 1,590                       | -                               |
| <b>Total</b>                   | <b>1,590</b>                | <b>-</b>                        |

| June 2019                      |                             |                                 |
|--------------------------------|-----------------------------|---------------------------------|
| Amounts in millions of dollars | Total exposures securitised | Recognised gain or loss on sale |
| <b>Underlying asset</b>        |                             |                                 |
| Residential mortgages          | -                           | -                               |
| <b>Total</b>                   | <b>-</b>                    | <b>-</b>                        |

APS 330 Table 12k - Banking book securitisation exposures retained or purchased

|                                       |                  |                   | December 2019   |
|---------------------------------------|------------------|-------------------|-----------------|
| Amounts in millions of dollars        | On-balance sheet | Off-balance sheet | Total exposures |
| <b>Securitisation facility type</b>   |                  |                   |                 |
| Liquidity support facilities          | -                | 233               | 233             |
| Warehouse facilities                  | -                | 11                | 11              |
| Derivative facilities                 | 35               | 14                | 49              |
| Holding of securities                 | 7,599            | -                 | 7,599           |
| <b>Total securitisation exposures</b> | <b>7,634</b>     | <b>258</b>        | <b>7,892</b>    |

|                                       |                  |                   | June 2019       |
|---------------------------------------|------------------|-------------------|-----------------|
| Amounts in millions of dollars        | On-balance sheet | Off-balance sheet | Total exposures |
| <b>Securitisation facility type</b>   |                  |                   |                 |
| Liquidity support facilities          | -                | 215               | 215             |
| Warehouse facilities                  | -                | 10                | 10              |
| Derivative facilities                 | 27               | 14                | 41              |
| Holding of securities                 | 7,501            | -                 | 7,501           |
| <b>Total securitisation exposures</b> | <b>7,528</b>     | <b>239</b>        | <b>7,767</b>    |

APS 330 Table 12l - Banking book securitisation exposure deducted from capital

| Common equity Tier 1 capital   | December 2019 | June 2019 |
|--------------------------------|---------------|-----------|
| Amounts in millions of dollars |               |           |
| <b>Underlying asset</b>        |               |           |
| Credit enhancements            | 9             | 7         |
| <b>Total</b>                   | <b>9</b>      | <b>7</b>  |

## Market risk

APS 330 Table 17b - Interest rate risk in the banking book

| Change in economic value       | December 2019 | June 2019 |
|--------------------------------|---------------|-----------|
| Amounts in millions of dollars |               |           |
| +200 basis point shock         | 42            | 34        |
| -200 basis point shock         | (42)          | (34)      |

| Regulatory RWA                         | December 2019 | June 2019 |
|--|---------------|-----------|
| Amounts in millions of dollars         |               |           |
| Interest rate risk in the banking book | 125           | -         |

## Liquidity

### Liquidity coverage ratio

IBAL manages its LCR position daily, with a Board-approved buffer above the regulatory limit of 100%.

| December 2019   |  |  |
|---|--|--|
| Amounts in millions of dollars  | Total<br>unweighted value<br>(daily average) | Total<br>weighted value<br>(daily average) |
| <b>Liquid assets</b>  |  |  |
| 1 High-quality liquid assets (HQLA)   |  | 4,368                                      |
| 2 Alternative liquid assets (ALA)   |  | 4,285                                      |
| 3 Reserve Bank of New Zealand (RBNZ) securities                             |  | n/a  |
| <b>Cash outflows</b>  |  |  |
| 4 Retail deposits and deposits from small business customers, of:           | 33,451                                       | 4,483                                      |
| 5 <i>stable deposits</i>  | 18,413                                       | 921  |
| 6 <i>less stable deposits</i>   | 15,039                                       | 3,562                                      |
| 7 Unsecured wholesale funding, of which:                                    | 1,798  | 1,432                                      |
| 8 <i>operational deposits (all counterparties) and deposits in networks</i> | n/a  | n/a  |
| 9 <i>non-operational deposits (all counterparties)</i>                      | 1,731  | 1,365                                      |
| 10 <i>unsecured debt</i>  | 67   | 67   |
| 11 <i>Secured wholesale funding</i>   |  | -  |
| 12 <i>Additional requirements, of which:</i>                                | 7,794  | 1,001                                      |
| 13 <i>outflows related to derivatives exposures and other collateral</i>    | 433  | 433  |
| 14 <i>outflows related to loss of funding on debt products</i>              | 124  | 124  |
| 15 <i>credit and liquidity facilities</i>                                   | 7,237  | 444  |
| 16 Other contractual funding obligations                                    | 1,007  | 471  |
| 17 Other contingent funding obligations                                     | 789  | 106  |
| <b>18 Total cash outflows</b>   |  | <b>7,493</b>                               |
| <b>Cash inflows</b>   |  |  |
| 19 Secured lending (e.g. reverse repos)                                     |  | -  |
| 20 Inflows from fully performing exposures                                  | 1,488  | 952  |
| 21 Other cash inflows   | 32   | 32   |
| <b>22 Total cash inflows</b>  |  | <b>984</b>                                 |
| <b>23 Total liquid assets</b>   |  | <b>8,653</b>                               |
| <b>24 Total net cash outflows</b>   |  | <b>6,508</b>                               |
| <b>25 Liquidity Coverage Ratio (%)</b>                                      |  | <b>133%</b>                                |

(No of observations: 63)

## Liquidity coverage ratio (continued)

|                                |  | June 2019                                    |  |
|--------------------------------|--|--|--|
| Amounts in millions of dollars |  | Total<br>unweighted value<br>(daily average) | Total<br>weighted value<br>(daily average) |
| <b>Liquid assets</b>           |  |  |  |
| 1                              | High-quality liquid assets (HQLA)                                  |  | 3,388                                      |
| 2                              | Alternative liquid assets (ALA)                                    |  | 4,285                                      |
| 3                              | Reserve Bank of New Zealand (RBNZ) securities                      |  | n/a  |
| <b>Cash outflows</b>           |  |  |  |
| 4                              | Retail deposits and deposits from small business customers, of:    | 31,631                                       | 4,169                                      |
| 5                              | stable deposits  | 17,770                                       | 857  |
| 6                              | less stable deposits   | 13,861                                       | 3,311                                      |
| 7                              | Unsecured wholesale funding, of which:                             | 1,967  | 1,605                                      |
| 8                              | operational deposits (all counterparties) and deposits in networks | n/a  | n/a  |
| 9                              | non-operational deposits (all counterparties)                      | 1,871  | 1,509                                      |
| 10                             | unsecured debt   | 96   | 96   |
| 11                             | Secured wholesale funding  |  | -  |
| 12                             | Additional requirements, of which:                                 | 6,502  | 831  |
| 13                             | outflows related to derivatives exposures and other collateral     | 340  | 340  |
| 14                             | outflows related to loss of funding on debt products               | 160  | 160  |
| 15                             | credit and liquidity facilities                                    | 6,002  | 331  |
| 16                             | Other contractual funding obligations                              | 573  | 81   |
| 17                             | Other contingent funding obligations                               | 660  | 84   |
| 18                             | <b>Total cash outflows</b>   |  | <b>6,769</b>                               |
| <b>Cash inflows</b>            |  |  |  |
| 19                             | Secured lending (e.g. reverse repos)                               |  | -  |
| 20                             | Inflows from fully performing exposures                            | 1,247  | 753  |
| 21                             | Other cash inflows   | 82   | 82   |
| 22                             | <b>Total cash inflows</b>  |  | <b>835</b>                                 |
| 23                             | <b>Total liquid assets</b>   |  | <b>7,673</b>                               |
| 24                             | <b>Total net cash outflows</b>                                     |  | <b>5,934</b>                               |
| 25                             | <b>Liquidity Coverage Ratio (%)</b>                                |  | <b>129%</b>                                |

(No of observations: 62)



## Net stable funding ratio

IBAL ensures that its liquidity position remains resilient over the long-term by maintaining a net stable funding ratio in excess of the regulatory limit. The additional buffer forms part of IBAL's board-approved risk appetite.

| December 2019                       |   |                                       |         |                |        |                |
|-------------------------------------|---|---------------------------------------|---------|----------------|--------|----------------|
| Amounts in millions of dollars      |   | Unweighted value by residual maturity |         |                |        | Weighted value |
|                                     |   | No maturity                           | < 6mths | 6mths to < 1yr | ≥ 1yr  |                |
| Available Stable Funding (ASF) Item |   |                                       |         |                |        |                |
| 1                                   | Capital   | 4,563                                 | -       | -              | 136    | 4,699          |
| 2                                   | Regulatory capital  | 4,563                                 | -       | -              | 136    | 4,699          |
| 3                                   | Other capital instruments   | -                                     | -       | -              | -      | -              |
| 4                                   | Retail deposits and deposits from small business customers  | -                                     | 39,711  | 2,708          | 661    | 39,771         |
| 5                                   | Stable deposits   | -                                     | 18,646  | -              | -      | 17,714         |
| 6                                   | Less stable deposits  | -                                     | 21,064  | 2,708          | 661    | 22,056         |
| 7                                   | Wholesale funding   | -                                     | 8,195   | 1,838          | 10,911 | 12,636         |
| 8                                   | Operational deposits  | -                                     | -       | -              | -      | -              |
| 9                                   | Other wholesale funding   | -                                     | 8,195   | 1,838          | 10,911 | 12,636         |
| 10                                  | Liabilities with matching interdependent assets   | -                                     | -       | -              | -      | -              |
| 11                                  | Other liabilities   | -                                     | 784     | 4              | 142    | 143            |
| 12                                  | NSFR derivative liabilities   | -                                     | 231     | -              | -      | -              |
| 13                                  | All other liabilities and equity not included in the above categories   | -                                     | 553     | 4              | 142    | 143            |
| 14                                  | Total ASF   | 4,563                                 | 48,690  | 4,550          | 11,849 | 57,249         |
| Required Stable Funding (RSF) Item  |   |                                       |         |                |        |                |
| 15a                                 | Total NSFR (HQLA)   | -                                     | 340     | 102            | 3,329  | 173            |
| 15b                                 | ALA   | -                                     | 50      | 201            | 4,349  | 460            |
| 15c                                 | RBNZ securities   | -                                     | -       | -              | -      | -              |
| 16                                  | Deposits held at other financial institutions for operational purposes  | -                                     | -       | -              | -      | -              |
| 17                                  | Performing loans and securities   | -                                     | 3,600   | 662            | 55,192 | 42,163         |
| 18                                  | Performing loans to financial institutions secured by Level 1 HQLA  | -                                     | 710     | -              | -      | 71             |
| 19                                  | Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions   | -                                     | 920     | 15             | -      | 145            |
| 20                                  | Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and public sector entities (PSEs), of which: | -                                     | 1,751   | 647            | 12,260 | 11,631         |
| 21                                  | With a risk weight of less than or equal to 35% under APS 112   | -                                     | 1,751   | 647            | 12,260 | 11,631         |
| 22                                  | Performing residential mortgages, of which:   | -                                     | 219     | -              | 42,932 | 30,316         |
| 23                                  | With a risk weight equal to 35% under APS 112   | -                                     | 219     | -              | 42,932 | 30,316         |
| 24                                  | Securities that are not in default and do not qualify as HQLA, including exchange-traded equities   | -                                     | -       | -              | -      | -              |
| 25                                  | Assets with matching interdependent liabilities   | -                                     | -       | -              | -      | -              |
| 26                                  | Other assets:   | -                                     | 398     | -              | 721    | 1,118          |
| 27                                  | Physical traded commodities, including gold   | -                                     | -       | -              | -      | -              |
| 28                                  | Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties (CCPs)  | -                                     | -       | -              | -      | -              |
| 29                                  | NSFR derivative assets  | -                                     | -       | -              | -      | -              |
| 30                                  | NSFR derivative liabilities before deduction of variation margin posted   | -                                     | -       | -              | 118    | 118            |
| 31                                  | All other assets not included in the above categories   | -                                     | 398     | -              | 602    | 1,000          |
| 32                                  | Off-balance sheet items   | 8,366                                 | -       | -              | -      | 418            |
| 33                                  | Total RSF   | 8,366                                 | 4,389   | 965            | 63,590 | 44,332         |
| 34                                  | Net Stable Funding Ratio (%)  |                                       |         |                |        | 129%           |

September 2019

| Amounts in millions of dollars      |   | Unweighted value by residual maturity |         |                |        | Weighted value |
|-------------------------------------|---|---------------------------------------|---------|----------------|--------|----------------|
|                                     |   | No maturity                           | < 6mths | 6mths to < 1yr | ≥ 1yr  |                |
| Available Stable Funding (ASF) Item |   |                                       |         |                |        |                |
| 1                                   | Capital   | 4,458                                 | -       | -              | 75     | 4,533          |
| 2                                   | Regulatory capital  | 4,458                                 | -       | -              | 75     | 4,533          |
| 3                                   | Other capital instruments   | -                                     | -       | -              | -      | -              |
| 4                                   | Retail deposits and deposits from small business customers  | -                                     | 39,525  | 3,265          | 633    | 40,059         |
| 5                                   | Stable deposits   | -                                     | 18,293  | -              | -      | 17,378         |
| 6                                   | Less stable deposits  | -                                     | 21,232  | 3,265          | 633    | 22,681         |
| 7                                   | Wholesale funding   | -                                     | 6,416   | 2,407          | 8,193  | 10,265         |
| 8                                   | Operational deposits  | -                                     | -       | -              | -      | -              |
| 9                                   | Other wholesale funding   | -                                     | 6,416   | 2,407          | 8,193  | 10,265         |
| 10                                  | Liabilities with matching interdependent assets   | -                                     | -       | -              | -      | -              |
| 11                                  | Other liabilities   | -                                     | 734     | 4              | 142    | 143            |
| 12                                  | NSFR derivative liabilities   | -                                     | 333     | -              | -      | -              |
| 13                                  | All other liabilities and equity not included in the above categories   | -                                     | 401     | 4              | 142    | 143            |
| 14                                  | Total ASF   | 4,458                                 | 46,675  | 5,676          | 9,042  | 55,001         |
| Required Stable Funding (RSF) Item  |   |                                       |         |                |        |                |
| 15a                                 | Total NSFR (HQLA)   | -                                     | 329     | 122            | 3,304  | 171            |
| 15b                                 | ALA   | -                                     | 80      | 202            | 4,318  | 460            |
| 15c                                 | RBNZ securities   | -                                     | -       | -              | -      | -              |
| 16                                  | Deposits held at other financial institutions for operational purposes  | -                                     | -       | -              | -      | -              |
| 17                                  | Performing loans and securities   | -                                     | 3,218   | 581            | 53,792 | 40,596         |
| 18                                  | Performing loans to financial institutions secured by Level 1 HQLA  | -                                     | 700     | -              | -      | 70             |
| 19                                  | Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions   | -                                     | 905     | -              | 15     | 150            |
| 20                                  | Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and public sector entities (PSEs), of which: | -                                     | 1,387   | 581            | 12,288 | 11,439         |
| 21                                  | With a risk weight of less than or equal to 35% under APS 112   | -                                     | 1,387   | 581            | 12,288 | 11,439         |
| 22                                  | Performing residential mortgages, of which:   | -                                     | 226     | -              | 41,490 | 28,937         |
| 23                                  | With a risk weight equal to 35% under APS 112   | -                                     | 226     | -              | 41,490 | 28,937         |
| 24                                  | Securities that are not in default and do not qualify as HQLA, including exchange-traded equities   | -                                     | -       | -              | -      | -              |
| 25                                  | Assets with matching interdependent liabilities   | -                                     | -       | -              | -      | -              |
| 26                                  | Other assets:   | -                                     | 431     | -              | 701    | 1,132          |
| 27                                  | Physical traded commodities, including gold   | -                                     | -       | -              | -      | -              |
| 28                                  | Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties (CCPs)  | -                                     | -       | -              | -      | -              |
| 29                                  | NSFR derivative assets  | -                                     | -       | -              | -      | -              |
| 30                                  | NSFR derivative liabilities before deduction of variation margin posted   | -                                     | -       | -              | 143    | 143            |
| 31                                  | All other assets not included in the above categories   | -                                     | 431     | -              | 558    | 989            |
| 32                                  | Off-balance sheet items   | 8,011                                 | -       | -              | -      | 401            |
| 33                                  | Total RSF   | 8,011                                 | 4,058   | 905            | 62,115 | 42,760         |
| 34                                  | Net Stable Funding Ratio (%)  |                                       |         |                |        | 129%           |

## Leverage ratio

|                                | December 2019 | June 2019   |
|--------------------------------|---------------|-------------|
| Amounts in millions of dollars |               |             |
| Tier 1 capital                 | 4,562         | 4,353       |
| Total exposures                | 74,377        | 70,184      |
| <b>Leverage ratio</b>          | <b>6.1%</b>   | <b>6.2%</b> |

## Attachment A Reconciliations

Table 1A Capital disclosure template

|  |   | December 2019 |      |
|--|---|---------------|------|
| Amounts in millions of dollars                         |   | Ref           |      |
| Common Equity Tier 1 Capital: instruments and reserves |   |               |      |
| 1  | Directly issued qualifying ordinary share (and equivalent for mutually-owned entities) capital  | 1,334         |      |
| 2  | Retained earnings   | 3,509         |      |
| 3  | Accumulated other comprehensive income (and other reserves)   | (114)         |      |
| 6  | Common Equity Tier 1 capital before regulatory adjustments  | 4,729         | 1C-1 |
| Common Equity Tier 1 Capital: regulatory adjustments   |   |               |      |
| 9  | Other intangibles other than mortgage servicing rights (net of related tax liability)   | 46            | 1B   |
| 11   | Cash flow hedge reserve   | (105)         | 1C-1 |
| 21   | Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related liability)   | 56            | 1C-2 |
| 26   | National specific regulatory adjustments (sum of rows 26a, 26b, 26c, 26d, 26e, 26f, 26g, 26h, 26i and 26j)  |               |      |
| 26f  | of which: capitalised expenses  | 146           | 1C-5 |
| 26j  | of which: other national specific regulatory adjustments not reported in rows 26a to 26i  | 24            |      |
| 28   | Total regulatory adjustments to Common Equity Tier 1  | 167           |      |
| 29   | Common Equity Tier 1 Capital (CET1)   | 4,562         |      |
| 45   | Tier 1 Capital (T1=CET1+AT1)  | 4,562         |      |
| Tier 2 Capital: instruments and provisions             |   |               |      |
| 46   | Directly issued qualifying Tier 2 instruments   | 75            | 1C-7 |
| 50   | Provisions  | 61            | 1C-6 |
| 58   | Tier 2 capital (T2)   | 136           |      |
| 59   | Total capital (TC=T1+T2)  | 4,698         |      |
| 60   | Total risk-weighted assets based on APRA standards  | 34,524        |      |
| Capital ratios and buffers                             |   |               |      |
| 61   | Common Equity Tier 1 (as a percentage of risk-weighted assets)  | 13.2%         |      |
| 62   | Tier 1 (as a percentage of risk-weighted assets)  | 13.2%         |      |
| 63   | Total capital (as a percentage of risk-weighted assets)   | 13.6%         |      |
| 64   | Buffer requirement (minimum CET1 requirement of 4.5% plus capital conservation buffer of 2.5% plus any countercyclical buffer requirements expressed as a percentage of risk-weighted assets) | 7.0%          |      |
| 65   | of which: capital conservation buffer requirement   | 2.5%          |      |
| 68   | Common Equity Tier 1 available to meet buffers (as a percentage of risk-weighted assets)  | 6.2%          |      |

Table 2A Regulatory Balance Sheet

| December 2019                         |                         |                               |                          |                                       | Ref   |
|---------------------------------------|-------------------------|-------------------------------|--------------------------|---------------------------------------|-------|
| Amounts in millions of dollars        | Statutory Balance Sheet | less                          |                          | Regulatory Balance Sheet <sup>F</sup> |       |
|                                       |                         | Accrued interest <sup>A</sup> | Other                    |                                       |       |
| <b>Assets</b>                         |                         |                               |                          |                                       |       |
| Cash                                  | 902                     | -                             | 411 <sup>D</sup>         | 491                                   |       |
| Due from other financial institutions | 1,271                   | -                             | -                        | 1,271                                 |       |
| Investment securities                 | 4,431                   | 36                            | (7,599) <sup>D</sup>     | 11,994                                |       |
| Loans and advances                    | 62,883                  | 30                            | (2,866) <sup>B,C,D</sup> | 65,719                                | 1C-3  |
| Derivative assets                     | 92                      | 65                            | (7) <sup>D</sup>         | 34                                    |       |
| Other receivables                     | 69                      | (131)                         | (209) <sup>D</sup>       | 409                                   | 1C-4  |
| Property, plant and equipment         | 140                     | -                             | -                        | 140                                   |       |
| Intangible assets                     | 55                      | -                             | -                        | 55                                    | Row 9 |
| Deferred tax asset                    | 108                     | -                             | (68) <sup>E</sup>        | 176                                   | 1C-2  |
| <b>Total Assets</b>                   | <b>69,951</b>           | <b>-</b>                      | <b>(10,338)</b>          | <b>80,289</b>                         |       |
| <b>Liabilities</b>                    |                         |                               |                          |                                       |       |
| Deposits and other borrowings         | 58,967                  | 173                           | (12,913) <sup>D</sup>    | 71,707                                |       |
| Debt issues                           | 5,210                   | 9                             | 2,547 <sup>C,D</sup>     | 2,654                                 | 1C-7  |
| Derivative liabilities                | 595                     | 40                            | (11) <sup>D</sup>        | 566                                   |       |
| Creditors and other liabilities       | 267                     | (220)                         | 16 <sup>D</sup>          | 471                                   |       |
| Deferred tax liability                | 52                      | (2)                           | (68) <sup>E</sup>        | 122                                   | 1C-2  |
| Provisions                            | 17                      | -                             | -                        | 17                                    |       |
| <b>Total Liabilities</b>              | <b>65,108</b>           | <b>-</b>                      | <b>(10,429)</b>          | <b>75,537</b>                         |       |
| <b>Net Assets</b>                     | <b>4,843</b>            | <b>-</b>                      | <b>91</b>                | <b>4,752</b>                          |       |
| <b>Equity</b>                         |                         |                               |                          |                                       |       |
| Contributed equity                    | 1,334                   | -                             | -                        | 1,334                                 |       |
| Reserves                              | -                       | -                             | 93 <sup>B</sup>          | (93)                                  |       |
| Retained profits                      | 3,509                   | -                             | (2) <sup>D</sup>         | 3,511                                 |       |
| <b>Total Equity</b>                   | <b>4,843</b>            | <b>-</b>                      | <b>91</b>                | <b>4,752</b>                          | 1C-1  |

**A:** Financial instruments within the Statutory Balance Sheet are reported inclusive of accrued interest; the Regulatory Balance Sheet segregates these balances into other receivables and other liabilities.

**B:** The portion of General Reserve for Credit Losses disclosed as equity for statutory purpose represents additional loan loss provisioning provided for the lifetime of the facilities.

**C:** Loan and debt origination expenses are disclosed as other receivables as per APRA instructions and are included as part of the amortised cost of the respective asset and liability balance on the Statutory Balance Sheet.

**D:** Adjustment for controlled entities that are consolidated for accounting purposes, but excluded from the scope of regulatory consolidation.

**E:** Different netting methodology within DTA and DTL in Regulatory Balance Sheet and Statutory Balance Sheet.

**F:** Regulatory balance sheet reports IBAL on standalone basis and does not include securitised or covered bond special purpose vehicles.

**Table 3A** Capital reconciliations

| <b>1C-1 Share Capital</b>  |              | <b>December 2019</b> |
|--|--------------|----------------------|
| Amounts in millions of dollars   |              | Ref                  |
| Contributed equity   | 1,334        |                      |
| Retained profits   | 3,509        |                      |
| Reserves:  |              |                      |
| Cash-flow hedge reserve  | (105)        | Row 11               |
| Fair value reserve   | (9)          |                      |
| <b>Common Equity Tier 1 Capital per Common Disclosure Template</b>       | <b>4,729</b> | <b>Row 6</b>         |
| Share-based payments reserve   | 21           |                      |
| Retained profits for entities excluded from the regulatory consolidation | 2            |                      |
| <b>Total Equity per Regulatory Balance Sheet</b>                         | <b>4,752</b> | <b>2A</b>            |

| <b>1C-2 Deferred Tax</b>            |           | <b>December 2019</b> |
|-------------------------------------|-----------|----------------------|
| Amounts in millions of dollars      |           | Ref                  |
| Deferred tax assets                 | 176       | 2A                   |
| Deferred tax liabilities            | (122)     | 2A                   |
| <b>Net deferred tax assets</b>      | <b>54</b> | <b>Row 21</b>        |
| <b>Net deferred tax liabilities</b> | <b>-</b>  |                      |

| <b>1C-3 Loans and Advances</b>                         |               | <b>December 2019</b> |
|--|---------------|----------------------|
| Amounts in millions of dollars                         |               | Ref                  |
| <b>Loans and Advances per Regulatory Balance Sheet</b> | <b>65,719</b> | <b>2A</b>            |
| <b>of which:</b>                                       |               |                      |
| Housing Loans  | 51,102        |                      |
| Loans to non-financial corporations                    | 14,153        |                      |
| Loans to financial corporations                        | 386           |                      |
| Credit cards   | 275           |                      |
| Specific Provisions                                    | (35)          |                      |
| General Reserve for Credit Losses                      | (134)         | 1C-6                 |
| Deferred Fee Income                                    | (28)          | 1C-5                 |

| <b>1C-4 Other Receivables</b>                         |            | <b>December 2019</b> |
|---|------------|----------------------|
| Amounts in millions of dollars                        |            | Ref                  |
| <b>Other Receivables per Regulatory Balance Sheet</b> | <b>409</b> | <b>2A</b>            |
| <b>of which:</b>                                      |            |                      |
| Interest Receivable Loans                             | 131        |                      |
| Capitalised Debt Raising                              | -          | 1C-5                 |
| Capitalised Securitisation Start-up costs             | 9          |                      |
| Capitalised Loan Origination Costs                    | 165        |                      |
| Items in Suspense                                     | 36         |                      |
| Other   | 68         |                      |

**Table 3A** Capital reconciliations (continued)

| <b>1C-5 Capitalised expenses</b>                           |            | <b>December 2019</b> |
|--|------------|----------------------|
| Amounts in millions of dollars                             |            | Ref                  |
| Deferred Fee Income  | (28)       | 1C-3                 |
| Capitalised Debt Raising                                   | -          |                      |
| Capitalised Securitisation Start-up costs                  | 9          | 1C-4                 |
| Capitalised Loan Origination Costs                         | <b>165</b> |                      |
| <b>Capitalised expenses per Common Disclosure Template</b> | <b>146</b> | <b>Row 26f</b>       |

| <b>1C-6 General reserve for credit losses</b>                           |            | <b>December 2019</b> |
|---|------------|----------------------|
| Amounts in millions of dollars  |            | Ref                  |
| GRCL: Portfolios under the standardised-approach (eligible for capital) | 61         |                      |
| of which: eligible for capital  | 61         | Row 50               |
| GRCL: Portfolios under the IRB ratings-based approach                   | 73         |                      |
| of which: eligible for capital  | -          |                      |
| <b>Total GRCL</b>   | <b>134</b> | <b>1C-3</b>          |

| <b>1C-7 Debt issues</b>                         |              | <b>December 2019</b> |
|---|--------------|----------------------|
| Amounts in millions of dollars                  |              | Ref                  |
| <b>Debt Issues per Regulatory Balance Sheet</b> | <b>2,654</b> | <b>2A</b>            |
| <b>of which:</b>                                |              |                      |
| Floating Rate Notes Issued                      | 650          |                      |
| Corporate Bonds Issued                          | 1,121        |                      |
| Negotiable certificate of deposit               | 808          |                      |
| Subordinated debt                               | 75           | Row 46               |

**Table 4A** Entities Excluded from Regulatory Balance Sheet

The following entities controlled by IBAL are excluded from the regulatory scope of consolidation.

| Excluded Entities              |  | December 2019 |                   |
|--------------------------------|--|---------------|-------------------|
| Amounts in millions of dollars |  | Total assets  | Total liabilities |
| IDS Trust 2008-1               |  | 7,203         | 7,224             |
| IDOL Trust Series 2011-1       |  | 90            | 91                |
| IDOL Trust Series 2011-2       |  | 83            | 83                |
| IDOL Trust Series 2012-1       |  | 100           | 100               |
| IDOL Trust Series 2012-2       |  | 130           | 130               |
| IDOL Trust Series 2013-1       |  | 104           | 104               |
| IDOL Trust Series 2013-2       |  | 184           | 184               |
| IDOL Trust Series 2014-1       |  | 258           | 258               |
| IDOL Trust Series 2015-1       |  | 274           | 274               |
| IDOL Trust Series 2016-1       |  | 334           | 335               |
| IDOL Trust Series 2017-1       |  | 626           | 626               |
| IDOL Trust Series 2019-1       |  | 1,680         | 1,683             |
| IBAL Covered Bond Trust        |  | 3,161         | 3,143             |



## Attachment B Composition of the Leverage Ratio

December 2019

Amounts in millions of dollars

### On-balance sheet exposures

|   |   |               |
|---|---|---------------|
| 1 | On-balance sheet items (excluding derivatives and securities financing transactions (SFTs), but including collateral) | 69,144        |
| 2 | (Asset amounts deducted in determining Tier 1 capital)  | (256)         |
| 3 | <b>Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 and 2)</b>                        | <b>68,888</b> |

### Derivative exposures

|    |   |            |
|----|---|------------|
| 4  | Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)                                | 103        |
| 5  | Add-on amounts for potential future credit exposure (PFCE) associated with all derivatives transactions                                   | -          |
| 6  | Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the Australian Accounting Standards | -          |
| 7  | (Deductions of receivables assets for cash variation margin provided in derivatives transactions)   | -          |
| 8  | (Exempted central counterparty (CCP) leg of client-cleared trade exposures)   | -          |
| 9  | Adjusted effective notional amount of written credit derivatives  | -          |
| 10 | (Adjusted effective notional offsets and add-on deductions for written credit derivatives)  | -          |
| 11 | <b>Total derivative exposures (sum of rows 4 to 10)</b>   | <b>103</b> |

### SFT exposures

|    |  |            |
|----|--|------------|
| 12 | Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions | 710        |
| 13 | (Netted amounts of cash payables and cash receivables of gross SFT assets)                           | -          |
| 14 | CCR exposure for SFT assets  | 50         |
| 15 | Agent transaction exposures  | -          |
| 16 | <b>Total SFT exposures (sum of rows 12 to 15)</b>  | <b>760</b> |

### Other off-balance sheet exposures

|    |  |              |
|----|--|--------------|
| 17 | Off-balance sheet exposure at gross notional amount              | 9,359        |
| 18 | (Adjustments for conversion to credit equivalent amounts)        | (4,733)      |
| 19 | <b>Other off-balance sheet exposures (sum of rows 17 and 18)</b> | <b>4,626</b> |

### Capital and total exposures

|    |   |               |
|----|---|---------------|
| 20 | <b>Tier 1 Capital</b>                                 | <b>4,562</b>  |
| 21 | <b>Total exposures (sum of rows 3, 11, 16 and 19)</b> | <b>74,377</b> |

### Leverage ratio

|    |                       |             |
|----|-----------------------|-------------|
| 22 | <b>Leverage ratio</b> | <b>6.1%</b> |
|----|-----------------------|-------------|

<sup>1</sup> 'Banks & other financial institutions' and 'Credit valuation adjustment' reduced due to the implementation of the new requirements under APS 180 Capital Adequacy: Counterparty Credit Risk.

<sup>2</sup> From December 2019, a different methodology was introduced to identify Commercial Real Estate (CRE) loans and resulted in a reclassification from Property Finance to Corporate portfolios, impacting the following disclosures:

- APS 330 Table 6b to 6f - Capital requirements in terms of risk-weighted assets
- APS 330 Table 7b - Credit risk exposure by portfolio type
- APS 330 Table 7d - Credit risk exposure by portfolio type and industry sector
- APS 330 Table 7e - Credit risk exposure by portfolio type and residual contractual maturity
- APS 330 Table 7f - Impaired and past due by portfolio type
- APS 330 Table 7i - Credit risk exposures by portfolio type and modelling approach
- APS 330 Table 10b and 10c - Credit risk mitigation

<sup>3</sup> 'Interest rate risk in the banking book' increased by \$125m due to the implementation of a regulatory capital floor. Prior to the floor being approved by APRA, regulatory capital for market risk remained at zero as a result of the banking book embedded gain exceeding the sum of interest rate and optionality risk.