ING

Pillar 3 - Capital Adequacy & Risk Disclosures June 2021

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do your thing

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: 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.

Effective 1 April 2020, IBAL was accredited to apply the FIRB approach to its Corporate Lending portfolio, and the Supervisory Slotting approaches to calculate its capital requirements for its Project Finance portfolio and the majority of its Commercial Real Estate portfolio.

The initial 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 which are consistent with capital requirements legislation. APRA has set minimum ratios that compare the regulatory capital with risk weighted on and off-Balance Sheet assets for credit and operational risks as well as mandating a charge for other risks that may or may not be easily measured. IBAL has been in compliance with the capital requirements imposed by APRA throughout the period.

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.

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, Foundation IRB for Treasury and Corporate Lending, Supervisory slotting for the Real Estate related wholesale and business lending portfolios and the project finance activities, while Credit Cards, Priority Commercial Mortgages, Personal Loans and niche portfolios in Wholesale Banking, 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 Advanced 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.

Based on this modelled output, 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 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.

Non-financial risks

Other than operational risk, IBAL is subject to non-financial risks for which no specific prudential capital requirements apply. Examples are business risk, compliance risk, conduct risk, reputation risk, and risk arising from work place, health, and safety. Such risks are managed under a "Non-Financial Risk Governance" framework and have dedicated training and culture programs tailored to appropriate (risk) behaviour throughout the company. The implementation of the Banking Executive Accountability Regime (BEAR) ensures that the preventive and remedial behaviours directed by the (executive) risk owners are associated with the day-to-day working of the business. Long-term thinking and behaviour is rewarded via the remuneration structure.

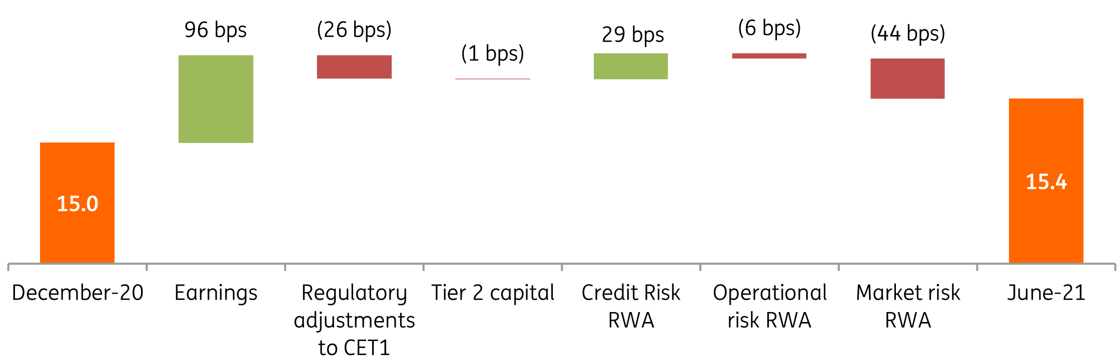
[1] APRA capital framework builds on the pillars Prudential Capital Requirement, Capital Conservation Buffer and Counter Cyclical Buffer (CCyB). The CCyB relates to exposure to non-Australian counterparties in jurisdictions where a CCyB applies. ING Australia has limited exposures in these jurisdictions, resulting in a 0.0025% CCyB. Given the small amount, ING Australia decided to apply a 0% CCyB.

Capital summary

IBAL's total capital ratio was 15.4% at 30 June 2021, increase 40 basis points from 31 December 2020.

- Increase in retained earnings of $288m (+96bps) largely driven by a release of loan loss provisions arising from improved macroeconomic forecasts and an improvement in expectations on the credit performance of the customers who have taken payment holidays.
- A 26 bps decrease in Regulatory adjustments to Common Equity Tier 1 capital attributed to a decrease in provision shortfall for credit losses.
- A decrease of Credit Risk RWA to $28,166 million (+29 bps).
- An increase of Operational Risk RWA to $3,882 million (-6bps) largely driven by profit growth of $1,200 million; and
- Market Risk RWA has increased due to HVaR increasing from changes in bucketed interest rate exposure, as well as from a decrease in the Embedded Gain (-44 bps)

Figure 1: Total capital movement (in %)



Credit Risk Weighted Assets (CRWA)

The decrease in Residential Mortgages RWA for the first half of 2021 is explained by the following:

- Increased residential property prices.
- Improving credit risk ratings in the performing portfolio.
- Offset slightly by an increase in mortgage accounts in default.

ING uses a decision tree approach (based on the latest available customer information) to conduct Unlikely-to-Pay (UTP) assessments. These assessments determine whether an exposure is in default. As at 30 June 2021, a management overlay remains in place for the expected worsening of the COVID-19 impacted sub-portfolio, having decreased slightly from the 31 December 2021 position due to attrition and accounts now materialised into default status.

The increase CRWA in Wholesale and business lending is mainly driven by portfolio growth. The secondary driver is an increased average risk weight of the business lending portfolios, arising from the impacts of COVID-19.

Figure 2: Credit risk-weighted assets movement (in $m)

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

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, ING Orange Code, Customer Golden Rules[2] and operations;
- all key risks are identified and appropriately managed by the risk owner;
- systems, processes and tools are established to identify, monitor, manage and report on the key risks;
- the documentation for the risk management framework and supporting policies, procedures, tools and systems are kept accurate and current; and
- that 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 comprised 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.

[2] The customer golden rules depict the principles on the interaction between ING and its customers throughout the customer life cycle

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 the first line of defence assumes ownership for risk. The governance framework reflects the Bank's belief that "risk is everyone's business" and all employees are responsible for identifying and managing risk and operating within the approved risk appetite. The "three lines of defence" model is summarised as follows:

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

Risk Management Function

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

Risk Committees

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

- Non-Financial Risk Committee ("NFRC") – the overall responsibility of the NFRC is to identify, measure and monitor the operational and compliance risk profile of 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. The NFRC is chaired by the Chief Risk Officer ("CRO").
- 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 weighted assets and the individual and collective loan loss provisioning for IBAL. The CRC is chaired by the CRO.
- Asset and Liability Committee ("ALCO") – oversees and defines the policies regarding balance sheet risks such as funding, liquidity, interest rate risk and solvency of 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 pricing methods, and monitoring developments on the balance sheet that fall within its scope. The ALCO is chaired by the CRO.
- Customer Integrity Risk Committee ("CIRC") - acts as the approval vehicle that serves to ensure that clients with a higher degree of integrity risk are adequately discussed and evaluated. The CIRC decides and approves the actions to be taken with regards to client integrity related elements/processes and impact for client relationship.
- The Finance and Risk Committee ("FRC") is a platform for the 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. The FRC is co-chaired by the CRO and CFO.

Definition of default

IBAL uses the definition of default for internal risk management purposes and has aligned the definition of credit impaired (Stage 3) under accounting standard AASB 9 Financial Instruments with the definition of default for prudential purposes.

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

Credit impaired financial assets (Stage 3)

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

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

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

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

Individually assessed loans (Stage 3)

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

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

Collectively assessed loans (Stages 1 to 3)

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

Write-off and debt forgiveness

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

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

Presentation of impairment

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

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 Internal Ratings-Based approach

Effective from 1 April 2018, IBAL was accredited to use the 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. As per 1 April 2020 IBAL was accredited to apply the FIRB approach to its corporate lending portfolio.

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

- **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, Bank and Corporate exposures

Each Sovereign, Bank and Corporate 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).

Portfolios subject to Supervisory Slotting approach

Effective 1 April 2020, IBAL was accredited to use the Supervisory Slotting approaches to calculate its capital requirements for its Project Finance portfolio and the majority of its Commercial Real Estate portfolio, under APRA Prudential Standard *APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk*.

The entirety of IBAL's Project Finance book is treated using this approach, as are eligible commercial real estate exposures (defined per requirements under APRA Reporting Form 230) in IBAL's Real Estate Finance and Commercial Property Finance portfolios. Certain exposures in the IBAL Commercial Property Finance book do not meet all of the commercial real estate eligibility criteria per APRA Reporting Form 230 and these continue to be subject of the Standardised Approach.

For the Project Finance portfolio, IBAL uses a 'single dimension' slotting approach, which maps the Probability of Default (PD) of a borrower to a pre-determined risk weight for capital calculation purposes.

For the eligible parts of its Commercial Real Estate portfolio, IBAL uses a 'dual dimension' slotting approach, which utilises a combination of the Probability of Default (PD) of a borrower and the attendant Loan-to-Value ratio for the various exposures, to map to a pre-determined risk weight for capital calculation purposes.

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

1. The **risk weight** is determined using the following input:
    - **Probability of Default (PD):** an estimate of a counterparty or facility's likelihood to go into default within the next 12 months.
    - **Loan to Value Ratio:** measures the degree of collateral value coverage relative to the size of the borrower exposure.
2. **Exposure at Default (EAD):** estimates of the outstanding amount at the moment of default. For a defaulted exposure, it is the exposure at observation. EAD estimates are determined 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*.

Portfolios subject to Standardised Approach

As of 1 April 2020, exposures subject to the standardised approach include:

- All exposures in the IBAL Priority Commercial Mortgage (PCM) portfolio.
- Certain exposures in the Commercial Property Finance book not meeting all of the eligibility criteria for the Supervisory Slotting Approach.
- Certain Corporate exposures in IBAL's Wholesale Banking portfolio remain subject of the Standardised Approach, as they do not meet all of the eligibility criteria for the Supervisory Slotting Approach or for the Foundation Internal Ratings Based Approach. These are small portfolios in niche markets for ING Australia.
- Legacy Residential mortgages, such as the loans to Self-Managed Superannuation Funds.
- Other Retail exposures, including the Credit Card and Personal Loan products.

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

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 WWR 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 $116m. 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 measures its sensitivity to the above types of interest rate risk, and supplements this with regular stress testing of the underlying variables, triggers and early warning indicators are in place to ensure that potential limit breaches are identified and acted upon early. Risk mitigation is also further explained in Note 9 of the IBAL Annual Report 2020 in relation to hedging using derivatives to mitigate exposure to interest, market and foreign exchange risk. The type and level of mismatch interest rate risk of 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 10 years 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 IBALs 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

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

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

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

Liquidity disclosures

Liquidity coverage ratio

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

IBAL's LCR for the quarter ended 30 June 2021 is calculated as a simple daily average, 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) and Term Funding Facility (TFF) 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, as well as from the RBA's term funding facility. 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.

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

Capital

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

Amounts in millions of dollars	June 2021	March 2021	December 2020
Subject to AIRB approach			
Residential mortgages	15,793	16,230	16,527
Total RWA subject to AIRB approach	**15,793**	**16,230**	**16,527**
Subject to FIRB approach			
Banks & other financial institutions	317	329	420
Sovereign	678	533	579
Corporate	1,315	1,314	1,298
Total RWA subject to FIRB approach	**2,310**	**2,176**	**2,297**
Subject to supervisory slotting approach			
Property finance	5,203	5,252	5,025
Project finance	2,351	2,227	2,215
Total RWA subject to supervisory slotting approach	**7,554**	**7,479**	**7,240**
Subject to standardised approach			
Residential mortgages	63	67	70
Property finance	277	301	342
Corporate	1,759	1,858	1,910
Other retail	314	315	316
Other assets	89	95	105
Total RWA subject to standardised approach	**2,502**	**2,636**	**2,743**
Securitisation	-	-	-
Credit valuation adjustment	7	8	8
Central counterparties	-	-	-
Total credit risk RWA	**28,166**	**28,529**	**28,815**
Interest rate risk in the banking book	1,167	461	125
Operational risk	3,882	3,744	3,745
Total RWA	**33,215**	**32,734**	**32,685**

APS 330 Table 6g - Capital ratios

	June 2021	March 2021	December 2020
Common equity tier 1 capital ratio	15.1%	15.0%	14.6%
Tier 1 capital ratio	15.1%	15.0%	14.6%
Total capital ratio	**15.4%**	**15.3%**	**15.0%**

Credit risk

APS 330 Table 7b - Credit risk exposure by portfolio

June 2021					
		Off-balance sheet			
Amounts in millions of dollars	On-balance sheet	Market related	Non-market related	Total	6-month average
Residential mortgages	52,796	-	8,392	**61,188**	60,733
Property finance	6,048	-	356	**6,404**	6,383
Project finance	2,669	-	260	**2,929**	2,792
Corporate	3,676	-	754	**4,430**	4,671
Banks & other financial institutions	1,429	176	6	**1,611**	1,665
Sovereign	6,869	-	-	**6,869**	5,563
Securitisation	-	-	-	**-**	-
Other retail	314	-	-	**314**	313
Other assets	89	-	-	**89**	96
Total credit exposures	**73,890**	**176**	**9,768**	**83,834**	**82,216**

March 2021					
		Off-balance sheet			
Amounts in millions of dollars	On-balance sheet	Market related	Non-market related	Total	3-month average
Residential mortgages	52,354	-	8,399	**60,753**	60,526
Property finance	6,242	-	347	**6,589**	6,554
Project finance	2,640	-	134	**2,774**	2,771
Corporate	3,999	-	598	**4,597**	4,587
Banks & other financial institutions	1,391	195	5	**1,591**	1,730
Sovereign	4,612	-	-	**4,612**	5,169
Securitisation	-	-	-	**-**	-
Other retail	315	-	-	**315**	314
Other assets	95	-	-	95	100
Total credit exposures	**71,648**	**195**	**9,483**	**81,326**	**81,751**

December 2021					
		Off-balance sheet			
Amounts in millions of dollars	On-balance sheet	Market related	Non-market related	Total	6-month average
Residential mortgages	52,278	-	8,195	**60,473**	60,189
Property finance	6,208	-	321	**6,529**	6,639
Project finance	2,479	-	276	**2,755**	2,575
Corporate	3,878	-	658	**4,536**	4,311
Banks & other financial institutions	1,856	178	-	**2,034**	2,532
Sovereign	5,434	-	-	**5,434**	4,889
Securitisation	-	-	-	**-**	-
Other retail	315	-	-	**315**	323
Other assets	105	-	-	105	119
Total credit exposures	**72,553**	**178**	**9,450**	**82,181**	**81,577**

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

June 2021

	Counterparty type							
Amounts in millions of dollars	Retail	Bank	Sovereign	Property finance	Infra-structure	Utility & Power	Other	**Total**
Residential mortgages	61,188	-	-	-	-	-	-	**61,188**
Property finance	-	-	-	6,404	-	-	-	**6,404**
Project finance	-	-	-	94	1,336	1,439	60	**2,929**
Corporate	-	-	-	4	537	788	3,101	**4,430**
Banks & other financial institutions	-	1,611	-	-	-	-	-	**1,611**
Sovereign	-	-	6,670	-	199	-	-	**6,869**
Securitisation	-	-	-	-	-	-	-	**-**
Other retail	314	-	-	-	-	-	-	**314**
Other assets	-	-	-	-	-	-	89	**89**
Total credit exposures	**61,502**	**1,611**	**6,670**	**6,502**	**2,072**	**2,227**	**3,250**	**83,834**

December 2020

	Counterparty type							
Amounts in millions of dollars	Retail	Bank	Sovereign	Property finance	Infra-structure	Utility & Power	Other	**Total**
Residential mortgages	60,473	-	-	-	-	-	-	**60,473**
Property finance	-	-	-	6,529	-	-	-	**6,529**
Project finance	-	-	-	-	1,354	1,290	111	**2,755**
Corporate	-	-	-	3	356	735	3,442	**4,536**
Banks & other financial institutions	-	2,034	-	-	-	-	-	**2,034**
Sovereign	-	-	5,434	-	-	-	-	**5,434**
Securitisation	-	-	-	-	-	-	-	**-**
Other retail	315	-	-	-	-	-	-	**315**
Other assets	-	-	-	-	-	-	105	**105**
Total credit exposures	**60,788**	**2,034**	**5,434**	**6,532**	**1,710**	**2,025**	**3,658**	**82,181**

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

						June 2021
Amounts in millions of dollars	<=3 months	>3 months <=1 year	>1 year <=5 years	>5 years	No maturity specified	Total
Residential mortgages	1	1	42	60,558	586	**61,188**
Property finance	542	1,433	3,968	460	1	**6,404**
Project finance	300	260	2,136	233	-	**2,929**
Corporate	20	175	2,789	1,445	1	**4,430**
Banks & other financial institutions	293	310	1,005	3	-	**1,611**
Sovereign	2,906	364	1,969	1,630	-	**6,869**
Securitisation	-	-	-	-	-	**-**
Other retail	1	8	232	4	69	**314**
Other assets	-	-	-	-	89	**89**
Total credit exposures	**4,063**	**2,551**	**12,141**	**64,333**	**746**	**83,834**

						December 2020
Amounts in millions of dollars	<=3 months	>3 months <=1 year	>1 year <=5 years	>5 years	No maturity specified	Total
Residential mortgages	1	1	38	59,812	621	**60,473**
Property finance	264	1,604	4,151	509	1	**6,529**
Project finance	-	290	2,109	356	-	**2,755**
Corporate	27	412	2,503	1,593	1	**4,536**
Banks & other financial institutions	807	118	1,051	58	-	**2,034**
Sovereign	1,630	429	1,573	1,802	-	**5,434**
Securitisation	-	-	-	-	-	**-**
Other retail	-	7	245	-	63	**315**
Other assets	-	-	-	-	105	**105**
Total credit exposures	**2,729**	**2,861**	**11,670**	**64,130**	**791**	**82,181**

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

					June 2021
				Half-year movement	
Amounts in millions of dollars	Past due facilities	Impaired facilities	Specific provisions	Charge to specific provisions	Write offs
Residential mortgages	246	1,075	64	(11)	-
Property finance	21	10	1	-	-
Project finance	-	-	-	-	-
Corporate	21	69	7	(1)	-
Banks & other financial institutions	-	-	-	-	-
Sovereign	-	-	-	-	-
Securitisation	-	-	-	-	-
Other retail	-	13	14	(1)	-
Other assets	-	-	-	-	-
Total	**288**	**1,167**	**86**	**(13)**	**-**

					March 2021
				Quarterly movement	
Amounts in millions of dollars	Past due facilities	Impaired facilities	Specific provisions	Charge to specific provisions	Write offs
Residential mortgages	287	1,055	75	11	-
Property finance	6	11	1	(1)	-
Project finance	-	-	-	-	-
Corporate	16	71	8	(3)	-
Banks & other financial institutions	-	-	-	-	-
Sovereign	-	-	-	-	-
Securitisation	-	-	-	-	-
Other retail	-	15	15	5	-
Other assets	-	-	-	-	-
Total	**309**	**1,152**	**99**	**12**	**-**

					December 2020
				Half-year movement	
Amounts in millions of dollars	Past due facilities	Impaired facilities	Specific provisions	Charge to specific provisions	Write offs
Residential mortgages	280	902	64	34	1
Property finance	5	12	2	2	-
Project finance	-	-	-	-	-
Corporate	19	63	11	2	-
Banks & other financial institutions	-	-	-	-	-
Sovereign	-	-	-	-	-
Securitisation	-	-	-	-	-
Other retail	-	12	10	6	-
Other assets	-	-	-	-	-
Total	**304**	**989**	**87**	**44**	**1**

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

Movement in collective provisions	June 2021	December 2020
Amounts in millions of dollars		
Opening balance	189	145
Net charge against profit and loss	(41)	45
Recoveries	-	-
Write-offs	-	(1)
Less collective provisions transferred to specific provisions	-	-
Total collective provisions	**147**	**189**
Less collective provisions treated as specific provisions for regulatory purposes	(86)	(82)
Additional GRCL requirement	54	55
General reserve for credit losses	**115**	**162**

Movement in individual provisions	June 2021	December 2020
Amounts in millions of dollars		
Opening balance	3	5
New and increase provisioning	-	-
Write back of provisions no longer required	(3)	-
Write-offs	-	-
Discount unwind to interest income	-	-
Add collective provisions transferred to specific provisions	-	-
Total individual provisions	**-**	**5**

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

					June 2021
Amounts in millions of dollars	AIRB	FIRB	Slotting	Standardised	Total
Portfolio type					
Residential mortgages	61,097	-	-	91	**61,188**
Property finance[6]	-	-	6,127	277	**6,404**
Project finance	-	-	2,929	-	**2,929**
Corporate	-	2,672	-	1,758	**4,430**
Banks & other financial institutions	-	1,611	-	-	**1,611**
Sovereign	-	6,869	-	-	**6,869**
Securitisation	-	-	-	-	**-**
Other retail	-	-	-	314	**314**
Other assets	-	-	-	89	**89**
Total credit exposures	**61,097**	**11,152**	**9,056**	**2,529**	**83,834**

					December 2020
Amounts in millions of dollars	AIRB	FIRB	Slotting	Standardised	Total
Portfolio type					
Residential mortgages	60,373	-	-	100	**60,473**
Property finance	-	-	6,187	342	**6,529**
Project finance	-	-	2,755	-	**2,755**
Corporate	-	2,626	-	1,910	**4,536**
Banks & other financial institutions	-	2,034	-	-	**2,034**
Sovereign	-	5,434	-	-	**5,434**
Securitisation	-	-	-	-	**-**
Other retail	-	-	-	315	**315**
Other assets	-	-	-	105	**105**
Total credit exposures	**60,373**	**10,094**	**8,942**	**2,772**	**82,181**

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

			June 2021
Amounts in millions of dollars	General reserve for credit losses	Specific provisions	Total
Collective provision	61	86	**147**
Individual provision	-	-	**-**
Total provisions	**61**	**86**	**147**
Additional GRCL requirement	54	-	**54**
Total regulatory provisions	**115**	**86**	**201**

			March 2021
Amounts in millions of dollars	General reserve for credit losses	Specific provisions	Total
Collective provision	76	97	**173**
Individual provision	-	2	**2**
Total provisions	**76**	**99**	**175**
Additional GRCL requirement	56	-	**56**
Total regulatory provisions	**132**	**99**	**231**

			December 2020
Amounts in millions of dollars	General reserve for credit losses	Specific provisions	Total
Collective provision	107	82	**189**
Individual provision	-	5	**5**
Total provisions	**107**	**87**	**194**
Additional GRCL requirement	55	-	**55**
Total regulatory provisions	**162**	**87**	**249**

APS 330 Table 8b - Exposures subject to the standardised approach and supervisory risk-weights in the IRB approaches

Standardised approach

Exposure after credit risk mitigation		
Amounts in millions of dollars	June 2021	December 2020
Risk weight		
0%	-	-
20%	-	-
35%	-	-
50%	25	22
75%	63	76
100%	2,441	2,671
150%	-	3
>150%	-	-
Capital deductions	-	-
Total	**2,529**	**2,772**

Supervisory slotting

Exposure after credit risk mitigation		
Amounts in millions of dollars	June 2021	December 2020
Supervisor category		
Strong	6,368	6,144
Good	2,023	2,268
Satisfactory	258	316
Weak	391	214
Default	16	-
Total	**9,056**	**8,942**

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

Portfolios subject to IRB approach															June 2021
	PD band														
Amounts in millions of dollars	0.0% to < 0.03%	0.03% to < 0.1%	0.1% to < 0.2%	0.2% to < 0.3%	0.3% to < 0.5%	0.5% to < 0.7%	0.7% to < 1.0%	1.0% to < 2.0%	2.0% to < 3.0%	3.0% to < 5.0%	5.0% to < 7.0%	7.0% to < 10.0%	10.0% to < 100%	Default	**Total**
Credit risk exposures															
Residential mortgages	-	31,734	-	8,511	3,485	7,569	3,531	3,277	354	602	-	359	337	1,338	**61,097**
Banks & other financial institutions	-	1,610	1	-	-	-	-	-	-	-	-	-	-	-	**1,611**
Sovereign	6,433	436	-	-	-	-	-	-	-	-	-	-	-	-	**6,869**
Corporate	-	709	722	647	539	-	30	-	-	-	-	-	-	24	**2,671**
Total credit risk exposures	**6,433**	**34,489**	**723**	**9,158**	**4,024**	**7,569**	**3,561**	**3,277**	**354**	**602**	**-**	**359**	**337**	**1,362**	**72,248**
Undrawn commitments															
Residential mortgages	-	5,615	-	533	182	311	163	1,520	10	17	-	9	7	19	**8,386**
Banks & other financial institutions	-	181	1	-	-	-	-	-	-	-	-	-	-	-	**182**
Sovereign	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Corporate	-	221	27	299	137	-	-	-	-	-	-	-	-	-	**684**
Total undrawn commitments	**-**	**6,017**	**28**	**832**	**319**	**311**	**163**	**1,520**	**10**	**17**	**-**	**9**	**7**	**19**	**9,252**
Exposure - weighted average EAD[3]															
Residential mortgages	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Banks & other financial institutions	-	42	-	-	-	-	-	-	-	-	-	-	-	-	**40**
Sovereign	103	33	-	-	-	-	-	-	-	-	-	-	-	-	**92**
Corporate	-	70	90	43	18	-	15	-	-	-	-	-	-	12	**40**
Exposure - weighted average LGD (%)[7]															
Residential mortgages	-	20	-	20	20	21	21	21	20	21	-	21	21	24	**20**
Exposure - weighted average risk weight (%)[7]															
Residential mortgages	-	6	-	17	28	36	46	64	76	100	-	135	157	241	**26**
Banks & ovther financial institutions	-	20	4	-	-	-	-	-	-	-	-	-	-	-	**20**
Sovereign	9	26	-	-	-	-	-	-	-	-	-	-	-	-	**10**
Corporate	-	32	55	48	65	-	108	-	-	-	-	-	-	-	**49**

[3] This table is rounded to the nearest million and, as a result, where individual deals in each PD category are, on average, less than $0.5m this will appear as 'nil' in this disclosure.

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

Portfolios subject to IRB approach															December 2020
	PD band														
Amounts in millions of dollars	0.0% to < 0.03%	0.03% to < 0.1%	0.1% to < 0.2%	0.2% to < 0.3%	0.3% to < 0.5%	0.5% to < 0.7%	0.7% to < 1.0%	1.0% to < 2.0%	2.0% to < 3.0%	3.0% to < 5.0%	5.0% to < 7.0%	7.0% to < 10.0%	10.0% to < 100%	Default	**Total**
Credit risk exposures															
Residential mortgages	-	31,254	-	8,295	3,426	6,902	3,803	3,340	416	773	-	476	491	1,197	**60,373**
Banks & other financial institutions	-	2,033	1	-	-	-	-	-	-	-	-	-	-	-	**2,034**
Sovereign	5,241	193	-	-	-	-	-	-	-	-	-	-	-	-	**5,434**
Corporate	-	660	655	776	480	-	30	-	-	-	-	-	-	25	**2,626**
Total credit risk exposures	**5,241**	**34,140**	**656**	**9,071**	**3,906**	**6,902**	**3,833**	**3,340**	**416**	**773**	**-**	**476**	**491**	**1,222**	**70,467**
Undrawn commitments															
Residential mortgages	-	5,627	-	537	189	304	176	1,283	11	21	-	12	12	17	**8,189**
Banks & other financial institutions	-	177	1	-	-	-	-	-	-	-	-	-	-	-	**178**
Sovereign	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Corporate	-	229	-	220	126	-	-	-	-	-	-	-	-	-	**575**
Total undrawn commitments	**-**	**6,033**	**1**	**757**	**315**	**304**	**176**	**1,283**	**11**	**21**	**-**	**12**	**12**	**17**	**8,942**
Exposure - weighted average EAD[4]															
Residential mortgages	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Banks & other financial institutions	-	43	-	-	-	-	-	-	-	-	-	-	-	-	**43**
Sovereign	83	24	-	-	-	-	-	-	-	-	-	-	-	-	**77**
Corporate	-	73	93	48	19	-	15	-	-	-	-	-	-	12	**43**
Exposure - weighted average LGD (%)															
Residential mortgages	-	21	-	21	21	21	21	21	21	21	-	21	22	25	**21**
Exposure - weighted average risk weight (%)															
Residential mortgages	-	6	-	18	29	37	47	65	81	104	-	140	164	251	**27**
Banks & other financial institutions	-	21	4	-	-	-	-	-	-	-	-	-	-	-	**21**
Sovereign	10	22	-	-	-	-	-	-	-	-	-	-	-	-	**11**
Corporate	-	34	54	45	70	-	116	-	-	-	-	-	-	-	**49**

[4] This table is rounded to the nearest million and, as a result, where individual deals in each PD category are, on average, less than $0.5m this will appear as 'nil' in this disclosure.

APS 330 Table 9e - Actual losses by portfolio type

Losses in reporting period (Portfolios subject to IRB approach)	June 2021	December 2020
Amounts in millions of dollars	Write-offs	Write-offs
Residential mortgages	-	1
Banks & other financial institutions	-	-
Sovereign	-	-
Corporate	-	
Total	**-**	**1**

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

Portfolios subject to IRB approach		June 2021
Amounts in millions of dollars	Half year actual loss	Regulatory 1 year expected loss estimate
Residential mortgages	-	151
Banks & other financial institutions	-	1
Sovereign	-	-
Corporate	-	13
Total	**-**	**165**

Portfolios subject to IRB approach		December 2020
Amounts in millions of dollars	Half year actual loss	Regulatory 1 year expected loss estimate
Residential mortgages	1	156
Banks & other financial institutions	-	1
Sovereign	-	-
Corporate	-	13
Total	**1**	**170**

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

			June 2021
Amounts in millions of dollars	Total exposure	Eligible financial collateral	Other eligible collateral
Subject to AIRB and FIRB approach			
Residential mortgages	61,097	-	-
Banks & other financial institutions	1,611	-	-
Sovereign	6,869	-	-
Corporate	2,671	-	-
Total advanced approach	**72,248**	**-**	**-**
Subject to supervisory slotting approach			
Property finance	6,127	-	-
Project finance	2,929	-	-
Total supervisory slotting approach	**9,056**	-	-
Subject to standardised approach		-	-
Residential mortgages	91	-	-
Property finance	277	-	-
Corporate	1,759	-	-
Other retail	314	-	-
Other assets	89	-	-
Total standardised approach	**2,530**	-	-
Securitisation	-	-	-
Total exposures	**83,834**		

			December 2020
Amounts in millions of dollars	Total exposure	Eligible financial collateral	Other eligible collateral
Subject to AIRB and FIRB approach			
Residential mortgages	60,373	-	-
Banks & other financial institutions	2,034	-	-
Sovereign	5,434	-	-
Corporate	2,626	-	-
Total advanced approach	**70,467**	**-**	**-**
Subject to supervisory slotting approach			
Property finance	6,187	-	-
Project finance	2,755	-	-
Total supervisory slotting approach	**8,942**	-	-
Subject to standardised approach		-	-
Residential mortgages	100	-	-
Property finance	342	-	-
Corporate	1,910	-	-
Other retail	315	-	-
Other assets	105	-	-
Total standardised approach	**2,772**	-	-
Securitisation	-	-	-
Total exposures	**82,181**		

APS 330 Table 11b - Counterparty credit risk derivative exposure

Effects of netting on the balance sheet		
Amounts in millions of dollars	June 2021	December 2020
Gross positive fair value	55	64
Netting benefits	(53)	(62)
Netted current credit exposure	**2**	**2**
Collateral held, of which:		
Cash	124	121
Net derivatives credit exposure	**126**	**123**
Derivatives CCR exposure	50	50
Exposure at default	**176**	**173**

Exposure at default		
Amounts in millions of dollars	June 2021	December 2020
Interest Rate Contracts		
Standardised Approach to Counterparty Credit Risk	176	173
Total	**176**	**173**

Securitisation

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

	June 2021	
Amounts in millions of dollars	Originated by the ADI	Third party originated
Underlying asset		
Residential mortgages	14,147	-
Total	**14,147**	**-**

	December 2020	
Amounts in millions of dollars	Originated by the ADI	Third party originated
Underlying asset		
Residential mortgages	14,597	-
Total	**14,597**	**-**

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

	June 2021			
Amounts in millions of dollars	Outstanding exposure	Impaired	Past due	Losses recognised
Underlying asset				
Residential mortgages	14,147	92	42	-
Total	**14,147**	**92**	**42**	**-**

	December 2020			
Amounts in millions of dollars	Outstanding exposure	Impaired	Past due	Losses recognised
Underlying asset				
Residential mortgages	14,597	121	47	-
Total	**14,597**	**121**	**47**	**-**

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

	June 2021	
Amounts in millions of dollars	Total exposures securitised	Recognised gain or loss on sale
Underlying asset		
Residential mortgages	-	-
Total	**-**	**-**

	March 2021	
Amounts in millions of dollars	Total exposures securitised	Recognised gain or loss on sale
Underlying asset		
Residential mortgages	-	-
Total	**-**	**-**

	December 2020	
Amounts in millions of dollars	Total exposures securitised	Recognised gain or loss on sale
Underlying asset		
Residential mortgages	-	-
Total	**-**	**-**

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

			June 2021
Amounts in millions of dollars	On-balance sheet	Off-balance sheet	Total exposures
Securitisation facility type			
Liquidity support facilities	-	341	**341**
Credit enhancements	-	14	**14**
Warehouse facilities	-	36	**36**
Derivative facilities	42	-	**42**
Holding of securities	12,763	-	**12,763**
Total securitisation exposures	**12,805**	**391**	**13,196**

			March 2021
Amounts in millions of dollars	On-balance sheet	Off-balance sheet	Total exposures
Securitisation facility type			
Liquidity support facilities	-	343	**343**
Credit enhancements	-	14	**14**
Warehouse facilities	-	39	**39**
Derivative facilities	50	-	**50**
Holding of securities	12,775	-	**12,775**
Total securitisation exposures	**12,825**	**396**	**13,221**

			December 2020
Amounts in millions of dollars	On-balance sheet	Off-balance sheet	Total exposures
Securitisation facility type			
Liquidity support facilities	-	346	**346**
Credit enhancements	-	14	**14**
Warehouse facilities	-	42	**42**
Derivative facilities	56	-	**56**
Holding of securities	12,788	-	**12,788**
Total securitisation exposures	**12,844**	**402**	**13,246**

APS 330 Table 12l - Banking book securitisation exposure deducted from common equity Tier 1 capital

Common equity Tier 1 capital	June 2021	December 2020
Amounts in millions of dollars		
Underlying asset		
Credit enhancements	8	8
Total	**8**	**8**

Market risk

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

Change in economic value[5]	June 2021	December 2020
Amounts in millions of dollars		
+200 basis point shock	356	222
-200 basis point shock	(356)	(222)

Regulatory RWA	June 2021	December 2020
Amounts in millions of dollars		
Interest rate risk in the banking book	1,167	125

[5] Change in economic value has been measured as the impact to theoretical present value of IBAL's balance sheet from a 200bp change in interest rates.

Liquidity

Liquidity coverage ratio

			June 2021
Amounts in millions of dollars		Total unweighted value (daily average)	Total weighted value (daily average)
Liquid assets			
1	High-quality liquid assets (HQLA)		5,799
2	Alternative liquid assets (ALA)		3,563
3	Reserve Bank of New Zealand (RBNZ) securities		n/a
Cash outflows			
4	Retail deposits and deposits from small business customers, of which:	40,206	4,776
5	*stable deposits*	25,228	1,261
6	*less stable deposits*	14,978	3,515
7	Unsecured wholesale funding, of which:	1,787	1,495
8	*operational deposits (all counterparties) and deposits in networks for cooperative banks*	n/a	n/a
9	*non-operational deposits (all counterparties)*	1,708	1,416
10	*unsecured debt*	80	80
11	*Secured wholesale funding*		-
12	*Additional requirements, of which:*	8,297	1,139
13	*outflows related to derivatives exposures and other collateral requirements*	631	631
14	*outflows related to loss of funding on debt products*	52	52
15	*credit and liquidity facilities*	7,614	456
16	Other contractual funding obligations	954	458
17	Other contingent funding obligations	852	143
18	Total cash outflows		8,012
Cash inflows			
19	Secured lending (e.g. reverse repos)		-
20	Inflows from fully performing exposures	1,134	638
21	Other cash inflows	10	10
22	Total cash inflows		648
23	**Total liquid assets**		**9,362**
24	**Total net cash outflows**		**7,364**
25	**Liquidity Coverage Ratio (%)**		**127%**

(No of observations: 62)

Liquidity coverage ratio (continued)

			March 2021
	Amounts in millions of dollars	Total unweighted value (daily average)	Total weighted value (daily average)
Liquid assets			
1	High-quality liquid assets (HQLA)		5,218
2	Alternative liquid assets (ALA)		4,675
3	Reserve Bank of New Zealand (RBNZ) securities		n/a
Cash outflows			
4	Retail deposits and deposits from small business customers, of which:	39,671	4,812
5	*stable deposits*	24,346	1,217
6	*less stable deposits*	15,325	3,595
7	Unsecured wholesale funding, of which:	1,745	1,387
8	*operational deposits (all counterparties) and deposits in networks for cooperative banks*	n/a	n/a
9	*non-operational deposits (all counterparties)*	1,708	1,350
10	*unsecured debt*	37	37
11	*Secured wholesale funding*		-
12	*Additional requirements, of which:*	8,601	1,172
13	*outflows related to derivatives exposures and other collateral requirements*	616	616
14	*outflows related to loss of funding on debt products*	66	66
15	*credit and liquidity facilities*	7,919	490
16	Other contractual funding obligations	893	232
17	Other contingent funding obligations	772	132
18	Total cash outflows		7,736
Cash inflows			
19	Secured lending (e.g. reverse repos)		-
20	Inflows from fully performing exposures	1,386	725
21	Other cash inflows	40	40
22	Total cash inflows		765
23	**Total liquid assets**		**9,894**
24	**Total net cash outflows**		**6,971**
25	**Liquidity Coverage Ratio (%)**		**142%**

(No of observations: 62)

Leverage ratio

	June 2021	March 2021	December 2020	September 2020
Amounts in millions of dollars				
Tier 1 capital	5,026	4,912	4,784	4,799
Total exposures	78,447	76,631	77,482	76,840
Leverage ratio	**6.4%**	**6.4%**	**6.2%**	**6.2%**