

Basel III Pillar 3

Risk Disclosure

As at 31 December 2013

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ING DIRECT (the trading name of ING Bank (Australia) Limited) is an Authorised Deposit-taking Institution subject to regulation by the Australian Prudential Regulation Authority (APRA) and is a part of the ING Group.

The following information is presented in accordance with the APRA Prudential Standard APS 330, 'Public Disclosure'. The bank utilises the Basel III Standardised Approach to Capital Adequacy.

All amounts are presented in Australian dollars, and rounded to the nearest million.

Capital Adequacy Ratios

| Ratio | As at 31 December 2013 | As at 30 September 2013 |
|------------------------------------|------------------------|-------------------------|
| Common Equity Tier 1 Capital Ratio | 13.2% | 12.7% |
| Tier 1 Capital Ratio | 13.2% | 12.7% |
| Total Capital Ratio | 13.7% | 13.2% |

Capital Position

| Level 1 Capital | As at 31 December 2013 | As at 30 September 2013 |
|-------------------------------------|------------------------|-------------------------|
| Paid-up ordinary share capital | 1,334.0 | 1,334.0 |
| Retained Earnings | 2,065.4 | 1,997.9 |
| Other Comprehensive Income | (4.0) | (18.3) |
| Less: Regulatory Adjustments | (97.4) | (133.2) |
| Common Equity Tier 1 Capital | 3,298.0 | 3,180.4 |
| Tier 1 Capital | 3,298.0 | 3,180.4 |
| Tier 2 Capital | 134.2 | 134.2 |
| Total Capital | 3,432.2 | 3,314.6 |

Risk Weighted Assets¹

| Subject to Standardised Approach | As at 31 December 2013 | As at 30 September 2013 |
|------------------------------------|------------------------|-------------------------|
| Residential Mortgages | 17,247.4 | 17,045.6 |
| Commercial Property | 3,298.1 | 3,630.2 |
| Corporate | 552.0 | 417.1 |
| Wholesale - Financial Institutions | 1,127.9 | 1,179.7 |
| Securitisation | 16.8 | 18.1 |
| Other | 45.9 | 95.0 |
| Total Credit Risk | 22,288.1 | 22,385.7 |
| Operational Risk | 2,699.3 | 2,671.3 |
| Total Risk Weighted Assets | 24,987.4 | 25,057.0 |

¹ IBAL does not have a trading book and therefore Market Risk RWA under standardised approach is \$0.

Credit Risk Exposure²

| Portfolio Type | On balance sheet | Non-market related off-balance sheet | Market related off-balance sheet | Total as at 31 December 2013 | Total as at 30 September 2013 | 4th Quarter Average |
|-----------------------|------------------|--------------------------------------|----------------------------------|------------------------------|-------------------------------|---------------------|
| Residential Mortgages | 37,629.9 | 5,244.0 | 0.0 | 42,873.9 | 42,329.0 | 42,664.6 |
| Commercial Property | 2,905.1 | 450.9 | 0.0 | 3,356.0 | 3,685.3 | 3,561.1 |
| Corporate | 430.1 | 121.9 | 0.0 | 552.0 | 417.1 | 484.8 |
| Wholesale | 8,139.3 | 58.4 | 161.1 | 8,358.8 | 9,127.2 | 7,647.6 |
| Other | 382.4 | 0.0 | 0.0 | 382.4 | 130.0 | 160.1 |
| Total | 49,486.8 | 5,875.2 | 161.1 | 55,523.1 | 55,688.6 | 54,518.2 |

General Reserve for Credit Losses

| | As at 31 December 2013 | As at 30 September 2013 |
|--|------------------------|-------------------------|
| Collective provision (after tax basis) | 6.6 | 7.3 |
| Additional GRCL Requirement | | |
| Opening Quarter Balance | 126.9 | 125.3 |
| Transfer from / (to) retained earnings | 0.7 | 1.6 |
| Total | 127.6 | 126.9 |
| Total GRCL (after tax basis) | 134.2 | 134.2 |

Impaired and Past Due Facilities

| Portfolio Type | As at 31 December 2013 | | | 3 months ended 31 December 2013 | | 3 months ended 30 September 2013 | |
|-----------------------|------------------------|---------------------|---------------------|---------------------------------|-------------|----------------------------------|------------|
| | Past due facilities | Impaired facilities | Specific provisions | Specific Provisions Movement | Write offs | Specific Provisions Movement | Write offs |
| Residential Mortgages | 255.1 | 98.8 | 8.3 | 0.6 | 1.4 | (1.8) | 1.8 |
| Commercial Property | 1.2 | 119.2 | 23.8 | (51.2) | 55.6 | 1.6 | 0.0 |
| Corporate | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Wholesale | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 256.3 | 218.0 | 32.1 | (50.6) | 57.0 | (0.2) | 1.8 |

² This table does not include investments in Residential Mortgage Backed Securities ("RMBS") or any other securitisation type products. Balances noted on balance sheet are net of suspended interest, but not capitalised commitment fees.

Securitisation³

| Securitisation Type | As at 31 December 2013 | | | |
|--|------------------------|------------------|-------|---------------------------|
| | Residential Mortgages | Commercial Loans | Other | Gains/(losses) recognised |
| Current Quarter Securitisation | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Internally Securitised Assets | 7,373.7 | 0.0 | 0.0 | 0.0 |
| Total External Issuance of Securitised Assets ⁴ | 4,063.7 | 0.0 | 0.0 | 0.0 |
| On-balance Securitisation Investments ⁵ | 78.6 | 0.0 | 0.0 | 0.0 |

³ All securitised loans remain on the balance sheet of ING Direct.

⁴ This item includes Liquidity Facilities provided to the ING Direct Originated Loan Trust Series ("IDOL Series") for the amount of AUD 58m as well as derivative instruments with a market value of AUD 29.2m in the IDOL Series.

⁵ As at 31 December 2013, Standard & Poor's (S&P) rating on the ING Direct's RMBS investment portfolio is AAA.

Appendices

1A Common Disclosure Template

The following table uses the post 1 January 2018 Common Disclosure Template as ING DIRECT is fully applying the Basel III regulatory adjustments as implemented by APRA. It displays the entries relevant to ING DIRECT. The table should be read in conjunction with Appendices 1B and 1C.

| Description | 31 December 2013 | Ref | |
|---|---|-----------------|---------|
| Common Equity Tier 1 Capital: instruments and reserves | | | |
| 1 | Directly issued qualifying ordinary share (and equivalent for mutually-owned entities) capital | 1,334.0 | |
| 2 | Retained Earnings | 2,065.4 | |
| 3 | Accumulated other comprehensive income (and other reserves) | (4.0) | |
| 6 | Common Equity Tier 1 capital before regulatory adjustments | 3,395.4 | Table 1 |
| Common Equity Tier 1 Capital: regulatory adjustments | | | |
| 11 | Cash-flow hedge reserve | (24.0) | Table 1 |
| 21 | Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related liability) | 18.3 | Table 2 |
| 26 | National specific regulatory adjustments (sum of rows 26a, 26b, 26c, 26d, 26e, 26f, 26g, 26h, 26i and 26j) | 103.1 | |
| 26f | of which: capitalised expenses | 102.2 | Table 6 |
| 26j | of which: other national specific regulatory adjustments not reported in rows 26a to 26i | 0.9 | |
| 28 | Total regulatory adjustments to Common Equity Tier 1 | 97.4 | |
| 29 | Common Equity Tier 1 Capital (CET1) | 3,298.0 | |
| 45 | Tier 1 Capital (T1=CET1+AT1) | 3,298.0 | |
| Tier 2 Capital: instruments and provisions | | | |
| 50 | Provisions | 134.2 | Table 3 |
| 58 | Tier 2 capital (T2) | 134.2 | |
| 59 | Total capital (TC=T1+T2) | 3,432.2 | |
| 60 | Total risk-weighted assets based on APRA standards | 24,987.4 | |
| 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) | 13.7% | |

* An extraordinary cash reserve is provided from ING DIRECT to each of the IDOL Series included within its consolidated group. This deduction is reported on a deconsolidated basis for the purposes of calculating Regulatory Capital.

1B Regulatory Balance Sheet

The following table provides details on IBAL's Statutory and Level 1 Regulatory Balance Sheet.

| As at 31 December 2013 | Statutory Balance Sheet | Adjustment | Regulatory Balance Sheet | Ref |
|--|----------------------------|----------------------|-----------------------------|---------|
| Assets | | | | |
| Cash | 952.5 | - | 952.5 | |
| Due from other financial institutions | 109.5 | - | 109.5 | |
| Available for sale financial assets | 7,426.9 | - | 7,426.9 | |
| Loans and advances | 40,987.8 | 239.4 ^{A,B} | 40,748.4 | Table 3 |
| Derivative assets | 79.1 | - | 79.1 | |
| Other Receivables | 201.4 | (111.8) ^B | 313.2 | Table 4 |
| Property, plant and equipment | 38.3 | - | 38.3 | Table 5 |
| Deferred tax asset | 18.3 | (31.9) ^C | 50.2 | Table 2 |
| Total Assets | 49,813.8 | 95.6 | 49,718.1 | |
| Liabilities | | | | |
| Deposits | 26,125.3 | - | 26,125.3 | |
| Deposits payable to other financial institutions | 13,967.9 | - | 13,967.9 | |
| Debt issues | 5,530.1 | - | 5,530.1 | |
| Derivative liabilities | 206.0 | - | 206.0 | |
| Creditors and other liabilities | 440.9 | - | 440.9 | |
| Deferred tax liability | 0.0 | (31.9) ^C | 31.9 | |
| Provisions | 12.0 | - | 12.0 | |
| Total Liabilities | 46,282.2 | (32.0) | 46,314.1 | |
| Net Assets | 3,531.6 | 127.6 | 3,404.0 | |
| Equity | | | | |
| Contributed Equity | 1,334.0 | - | 1,334.0 | |
| Reserves | 132.2 | 127.6 ^A | 4.6 | |
| Retained Profits | 2,065.4 | - | 2,065.4 | |
| Total Equity | 3,531.6 | 127.6 | 3,404.0 | Table 1 |

Adjustments made to the Statutory Balance Sheet for Regulatory Reporting:

- The portion of the General Reserve for Credit Losses disclosed as equity for statutory purposes represents the additional loan loss provisioning provided for the lifetime of the facilities. This balance is added to the loan balance on the Regulatory Balance Sheet.
- Loan Origination Expenses are disclosed under 'Other Receivables' according to specific APRA instructions. Deferred Fee Income is offset against loans and advances similarly to the Statutory Balance Sheet.
- Deferred Tax Assets and Liabilities net off on the Statutory Balance Sheet, whereas the Regulatory instructions require gross disclosure of these balances.

1C Reconciliation of Regulatory Capital and Balance Sheet

The following tables provide information on the differences between the Common Disclosure Template and the Regulatory Balance Sheet per Appendices 1A and 1B respectively.

Table 1

| Share Capital | 31 December 13 | Ref |
|--|----------------|--------|
| Contributed Equity | 1,334.0 | |
| Retained Profits | 2065.4 | |
| Reserves: | | |
| Cash-flow hedge reserve | (24.0) | Row 11 |
| Available-for-sale reserve | 20.0 | |
| Common Equity Tier 1 Capital per Common Disclosure Template | 3,395.4 | Row 6 |
| Share-based payments reserve | (8.6) | |
| Total Equity per Regulatory Balance Sheet | 3,404.0 | |

Table 2

| Deferred Tax Asset | 31 December 13 | Ref |
|---|----------------|--------|
| Deferred Tax Assets per Regulatory Balance Sheet | 50.2 | |
| Deferred Tax Liability | (31.9) | |
| Net Deferred Tax Assets | 18.3 | |
| Deferred Tax Assets per Common Disclosure Template | 18.3 | Row 21 |

Table 3

| Loans and Advances | 31 December 13 | Ref |
|---|-----------------|---------|
| Loans and Advances per Regulatory Balance Sheet | 40,748.4 | |
| of which: | | |
| Housing Loans | 37,466.5 | |
| Loans to non-financial corporations | 3,336.7 | |
| Loans to financial corporations | 163.7 | |
| Specific Provisions | (32.1) | |
| General Reserve for Credit Losses | (137.0) | |
| <i>of which: After-tax GRCL used for Regulatory Capital</i> | (134.2) | Row 50 |
| Deferred Fee Income | (49.4) | Table 6 |

1C Reconciliation of Regulatory Capital and Balance Sheet (continued)

Table 4

| Other Receivables | 31 December 13 | Ref |
|---|----------------|---------|
| Other Receivables per Regulatory Balance Sheet | 313.2 | |
| of which: | | |
| Interest Receivable | 141.0 | |
| Capitalised Debt Raising | 11.5 | Table 6 |
| Capitalised Loan Origination Costs | 111.9 | |
| Items in Suspense | 43.8 | |
| Other | 5.0 | |

Table 5

| Property, plant and equipment | 31 December 13 | Ref |
|---|----------------|---------|
| Property, plant and equipment per Regulatory Balance Sheet | 38.3 | |
| of which: | | |
| Information Technology: Software - In Use | 11.9 | Table 6 |
| Information Technology: Software - Work in Progress | 16.3 | |
| Other property, plant and equipment | 10.1 | |

Table 6

| Capitalised expenses | 31 December 13 | Ref |
|--|----------------|---------|
| Deferred Fee Income | (49.4) | Table 3 |
| Capitalised Debt Raising | 11.5 | Table 4 |
| Capitalised Loan Origination Costs | 111.9 | |
| Information Technology: Software - In Use | 11.9 | Table 5 |
| Information Technology: Software - Work in Progress | 16.3 | |
| Capitalised expenses per Common Disclosure Template | 102.2 | Row 26f |