

Pillar 3

Capital Adequacy & Risk Disclosure

31 December 2015

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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 Groep N.V.

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.

Table 3 Capital Adequacy

Capital Adequacy Ratios	31 Dec 2015	30 Sep 2015
Common Equity Tier 1 Ratio	12.9%	14.0%
Tier 1 Capital Ratio	12.9%	14.0%
Total Capital Ratio	13.4%	14.5%

Capital Position	31 Dec 2015	30 Sep 2015
Paid-up ordinary share capital	1,334.0	1,334.0
Retained earnings ¹	2,099.1	2,331.8
Other comprehensive income	(75.3)	(102.9)
less: Regulatory adjustments	(38.0)	(25.3)
Common Equity Tier 1 Capital	3,319.8	3,537.6
Tier 1 Capital	3,319.8	3,537.6
Tier 2 Capital	134.2	134.2
Total Capital	3,454.0	3,671.8

Risk Weighted Assets	31 Dec 2015	30 Sep 2015
Residential mortgages	16,896.6	16,398.7
Commercial property	3,778.7	3,642.3
Corporate	1,798.0	1,776.2
Banks & Other Financial Institutions	488.5	602.8
Sovereign	-	-
Securitisation	1.2	1.3
Other	100.0	84.9
Total Credit Risk	23,063.0	22,506.2
Operational Risk	2,737.8	2,739.0
Total Risk Weighted Assets	25,800.8	25,245.2

¹ A dividend of \$300m, payable to ING Groep N.V. was declared in December 2015

Table 4 Credit Risk

Credit Risk Exposure by portfolio	On balance sheet	Non-market related off-balance sheet	Market related off-balance sheet	Total 31 Dec 2015	Total 30 Sep 2015	Quarter Average
Residential Mortgages	38,555.1	5,556.0	0.0	44,111.1	42,491.2	43,604.1
Commercial Property	3,316.8	514.9	0.0	3,831.7	3,695.8	3,849.1
Corporate	1,492.7	305.3	0.0	1,798.0	1,776.2	1,693.7
Banks & Other Financial Institutions	1,955.1	0.0	159.5	2,114.6	2,663.1	2,417.6
Sovereign	3,800.6	0.0	0.0	3,800.6	4,364.6	4,206.1
Other	478.9	0.0	0.0	478.9	436.1	424.7
Total	49,599.2	6,376.2	159.5	56,134.9	55,427.0	56,195.3

Impaired and Past Due Facilities by portfolio	As at 31 Dec 2015			3 months ended 31 Dec 2015		3 months ended 30 Sep 2015	
	Past due facilities	Impaired facilities	Specific provisions	Specific Provisions Movement	Write offs	Specific Provisions Movement	Write offs
Residential Mortgages	83.3	32.5	6.4	(1.1)	1.1	(0.6)	1.3
Commercial Property	4.7	24.9	17.4	(0.1)	-	0.1	0.1
Corporate	-	-	-	-	-	-	-
Banks & Other Financial Institutions	-	-	-	-	-	-	-
Sovereign	-	-	-	-	-	-	-
Total	88.0	57.4	23.8	(1.2)	1.1	(0.5)	1.4

General Reserve for Credit Losses (GRCL) and Specific Provisions ²	31 Dec 15			30 Sep 15		
	GRCL	Specific	Total	GRCL	Specific	Total
Collective provision	3.7	3.8	7.5	3.6	3.6	7.2
Individual provision	-	20.0	20.0	-	21.5	21.5
Total provisions	3.7	23.8	27.5	3.6	25.1	28.7
Additional GRCL requirement	130.5	-	130.5	130.6	-	130.6
Total regulatory provisions	134.2	23.8	158.0	134.2	25.1	159.3

² GRCL and specific provisions are calculated based on the requirements of APS 220 Credit Quality. Collective and individual provisions as reported in ING DIRECT's Annual Report are calculated according to Australian Accounting Standards (AAS).

Table 5 Securitisation

Summary of Securitisation Activity ³ by exposure type	As at 31 Dec 2015		As at 30 Sep 2015	
	Securitisation Activity	Gain or Loss on Sale	Securitisation Activity	Gain or Loss on Sale
Residential Mortgages	730.6	-	-	-
Other	-	-	-	-

As at 31 Dec 2015

Securitisation Exposures	Derivatives	Liquidity facilities	Holdings of securities	Other
On-balance sheet securitisation exposures retained or purchased	26.7	-	6,691.0	57.5
Off-balance sheet securitisation exposures	12.6	210.2	-	-

As at 30 Sep 2015

Securitisation Exposures	Derivatives	Liquidity facilities	Holdings of securities	Other
On-balance sheet securitisation exposures retained or purchased	32.6	-	6,648.9	43.9
Off-balance sheet securitisation exposures	10.4	203.2	-	-

Table 20 Liquidity Coverage

The Liquidity Coverage Ratio (LCR) as defined in APS 210 measures the Bank's ability to sustain a 30-day pre-defined liquidity stress scenario. Formal measurement of the LCR came into effect from 1 January 2015.

ING DIRECT's LCR for the quarter ending 31 December 2015 was 121%, calculated as simple daily averages, excluding weekends and public holidays.

Liquid assets comprise of High Quality Liquid Assets (HQLA) and Alternative Liquid Assets (ALA). ALA comprises of qualifying assets held in the Committed Liquidity Facility (CLF) as approved by the Reserve Bank of Australia (RBA). The average HQLA for the quarter was AUD 4.4b and consists of Level 1 assets including balances held with Reserve Bank of Australia, Australian Semi Government and Commonwealth Government securities. The average ALA for the quarter was AUD \$5.0b. The approved CLF was AUD \$5.6b for the quarter.

The main funding sources for ING DIRECT were deposits from retail and small business customers. Funding was also sourced from the wholesale market in the form of corporate and bank deposits, Retail Mortgage Backed Securities (RMBS) and debt securities. The weighted outflows from each of these funding sources are 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 the APRA Prudential Standard, APS 210.

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

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

Table 20 Liquidity Coverage (*continued*)

As at 31 December 2015		Total unweighted value (daily average)	Total weighted value (daily average)
Liquid assets, of which:			
1	High-quality liquid assets (HQLA)		4,399.5
2	Alternative liquid assets (ALA)		5,042.8
3	Reserve Bank of New Zealand (RBNZ) securities		-
Cash outflows			
4	Retail deposits and deposits from small business customers, of which:	22,230.2	4,836.2
5	<i>stable deposits</i>	1,308.9	60.7
6	<i>less stable deposits</i>	20,921.3	4,770.7
7	Unsecured wholesale funding, of which:	2,286.1	1,975.7
8	<i>operational deposits (all counterparties) and deposits in networks for cooperative banks</i>	-	-
9	<i>non-operational deposits (all counterparties)</i>	2,188.2	1,877.8
10	<i>unsecured debt</i>	97.9	97.9
11	Secured wholesale funding		37.1
12	Additional requirements, of which	5,477.4	797.5
13	<i>outflows related to derivatives exposures and other collateral requirements</i>	416.7	416.7
14	<i>outflows related to loss of funding on debt products</i>	120.0	120.0
15	<i>credit and liquidity facilities</i>	4,940.6	260.8
16	Other contractual funding obligations	705.9	580.1
17	Other contingent funding obligations	306.7	110.3
18	Total cash outflows		8,336.9
Cash inflows			
19	Secured lending	-	-
20	Inflows from fully performing exposures	613.1	487.3
21	Other cash inflows	24.4	24.4
22	Total cash inflows	637.5	511.7
23	Total liquid assets		9,442.3
24	Total net cash outflows		7,825.2
25	Liquidity Coverage Ratio (%)		120.7
	<i>Data points used for average calculation (Business Days)</i>		63

Attachment A Reconciliations

Table 1A Capital Disclosure

The following table uses 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 Table's 1B and 1C.

Description	31 Dec 2015	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	2,099.1	
3 Accumulated other comprehensive income (and other reserves)	(75.3)	
6 Common Equity Tier 1 capital before regulatory adjustments	3,357.8	1C-1
Common Equity Tier 1 Capital: regulatory adjustments		
9 Other intangibles other than mortgage servicing rights (net of related tax liability)	1.6	1B
11 Cash flow hedge reserve	(66.4)	1C-1
21 Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related liability)	7.2	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	91.5	1C-5
26j of which: other national specific regulatory adjustments not reported in rows 26a to 26i	4.1	
28 Total regulatory adjustments to Common Equity Tier 1	38.0	
29 Common Equity Tier 1 Capital (CET1)	3,319.8	
45 Tier 1 Capital (T1=CET1+AT1)	3,319.8	
Tier 2 Capital: instruments and provisions		
50 Provisions	134.2	1C-3
58 Tier 2 capital (T2)	134.2	
59 Total capital (TC=T1+T2)	3,454.0	
60 Total risk-weighted assets based on APRA standards	25,800.8	
Capital ratios and buffers		
61 Common Equity Tier 1 (as a percentage of risk-weighted assets)	12.9%	
62 Tier 1 (as a percentage of risk-weighted assets)	12.9%	
63 Total capital (as a percentage of risk-weighted assets)	13.4%	
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)	5.9%	

Attachment A Reconciliations (continued)

Table 1B Balance Sheet Reconciliation

As at 31 December 2015	Statutory Balance Sheet	Adjustment	Regulatory Balance Sheet	Ref
Assets				
Cash	708.6	-	708.6	
Due from other financial institutions	351.2	-	351.2	
Available for sale financial assets	4,853.4	-	4,853.4	
Loans and advances	43,594.2	248.7 ^{A,B}	43,345.5	1C-3
Derivative assets	52.6	-	52.6	
Other receivables	155.5	(127.8) ^B	283.3	1C-4
Property, plant and equipment	90.6	-	90.6	
Intangible assets	1.6	-	1.6	Row 9
Deferred tax asset	63.2	-	63.2	1C-2
Total Assets	49,870.9	120.9	49,750.0	
Liabilities				
Deposits and other borrowings	42,013.3	-	42,013.3	
Debt issues	3,311.0	(9.6) ^B	3,320.6	1C-5
Derivative liabilities	357.7	-	357.7	
Creditors and other liabilities	314.7	-	314.7	
Deferred tax liability	56.0	-	56.0	1C-2
Provisions	318.3	-	318.3	
Total Liabilities	46,371.0	(9.6)	46,380.6	
Net Assets	3,499.9	130.5	3,369.4	
Equity				
Contributed equity	1,334.0	-	1,334.0	
Reserves	66.8	130.5 ^A	(63.7)	
Retained profits	2,099.1	-	2,099.1	
Total Equity	3,499.9	130.5	3,369.4	1C-1

Adjustments made to the Statutory Balance Sheet for Regulatory Reporting:

- A. The portion of 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 amount is added to the loan balance on the Regulatory Balance Sheet.
- B. Loan and Debt Origination Expenses are disclosed under 'Other Receivables' as per APRA instructions and are included as part of the Amortised Cost of the respective asset and liability balances on the Statutory Balance Sheet.

Attachment A Reconciliations (continued)

Table 1C Capital Reconciliation

1C-1 Share Capital	31 Dec 2015	Ref
Contributed equity	1,334.0	
Retained profits	2,099.1	
Reserves:		
Cash-flow hedge reserve	(66.4)	Row 11
Available-for-sale reserve	(8.9)	
Common Equity Tier 1 Capital per Common Disclosure Template	3,357.8	Row 6
Share-based payments reserve	11.6	
Total Equity per Regulatory Balance Sheet	3,369.4	1B

1C-2 Deferred Tax	31 Dec 2015	Ref
Deferred tax assets	63.2	1B
Deferred tax liabilities	(56.0)	1B
Net deferred tax assets	7.2	Row 21

1C-3 Loans and Advances	31 Dec 2015	Ref
Loans and Advances per Regulatory Balance Sheet	43,345.5	1B
of which:		
Housing Loans	38,395.2	
Loans to non-financial corporations	4,821.7	
Loans to financial corporations	323.0	
Specific Provisions	(23.9)	
General Reserve for Credit Losses	(134.2)	Row 50
Deferred Fee Income	(36.3)	1C-5

Attachment A Reconciliations (continued)

Table 1C Capital Reconciliation

1C-4 Other Receivables	31 Dec 2015	Ref
Other Receivables per Regulatory Balance Sheet	283.2	1B
of which:		
Interest Receivable	90.1	
Capitalised Debt Raising	9.6	1C-5
Capitalised Loan Origination Costs	118.2	
Items in Suspense	48.9	
Other	16.4	

1C-5 Capitalised expenses	31 Dec 2015	Ref
Deferred Fee Income	(36.3)	1C-3
Capitalised Debt Raising	9.6	1C-4
Capitalised Loan Origination Costs	118.3	
Capitalised expenses per Common Disclosure Template	91.6	Row 26f

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