



# Illustrative financial statements: banks

International Financial Reporting Standards  
January 2010





# About this publication

These illustrative financial statements have been produced by the KPMG International Standards Group (part of KPMG IFRG Limited), and the views expressed herein are those of the KPMG International Standards Group.

## Content

The purpose of this publication is to assist you in preparing financial statements for a bank or similar financial institution in accordance with International Financial Reporting Standards (IFRSs). It illustrates one possible format for financial statements, based on a fictitious banking group involved in a range of general banking activities; the bank is not a first-time adopter of IFRSs (see *Technical guide*).

This publication reflects IFRSs in issue at 31 December 2009 that are required to be applied by an entity with an annual period beginning on 1 January 2009 ("currently effective" requirements), except for IFRS 4 *Insurance Contracts* or IAS 34 *Interim Financial Reporting*, or the disclosure requirements of a number of standards that are not specific to banking operations. These instances are highlighted throughout the publication. Other IFRSs or amendments thereto that are effective for annual periods beginning after 1 January 2009 ("forthcoming" requirements) have not been adopted early in preparing these illustrative financial statements, with the exception of revised IFRS 3 *Business Combinations* (2008) and amended IAS 27 *Consolidated and Separate Financial Statements* (2008).

This publication illustrates only the financial statements component of a financial report and the requirements of IFRSs as issued by the International Accounting Standards Board (IASB or the Board). However, typically a financial report will include at least some additional commentary by management, either in accordance with local laws and regulations or at the election of the entity (see *Technical guide*).

When preparing financial statements in accordance with IFRSs, an entity should have regard to its local legal and regulatory requirements. This publication does not consider any requirements of a particular jurisdiction.

In addition, this publication does not illustrate the disclosure recommendations made by the Financial Stability Board (FSB) formerly Financial Stability Forum, ([www.financialstabilityboard.org](http://www.financialstabilityboard.org)) in its *Report on Enhancing Market and Institutional Resilience* or by the Committee of European Banking Supervisors ([www.c-eps.org](http://www.c-eps.org)) in the *CEBS report on banks' transparency on activities and products affected by the recent market turmoil*.

In response to the FSB report, the IASB established an Expert Advisory Panel (the Panel) to assist the IASB in reviewing best practices in the area of valuation techniques and formulating any necessary additional guidance on valuation methods for financial instruments and related disclosures when markets are no longer active. This publication includes certain illustrative disclosures and explanatory notes from Part 2 of the Panel's final report *Measuring and disclosing the fair value of financial instruments in markets that are no longer active* published on 31 October 2008, to the extent that these disclosures are not specifically required by IFRS 7 *Financial Instruments: Disclosures*. These additional illustrative disclosures are *italicised* and, depending on a reporting entity's facts and circumstances, may not be necessary to meet the requirements of IFRSs as issued by the IASB.

IFRSs and their interpretation change over time. Accordingly, these illustrative financial statements should not be used as a substitute for referring to the standards and interpretations themselves.

## References

The illustrative financial statements are contained on the odd-numbered pages of this publication. The even-numbered pages contain explanatory comments and notes on disclosure requirements of IFRSs. The illustrative examples, together with the explanatory notes, however, are not intended to be seen as a complete and exhaustive summary of all disclosure requirements that are applicable under IFRSs. For an overview of all disclosure requirements that are applicable under IFRSs, see our publication *IFRS Disclosure Checklist*.

To the left of each item disclosed, a reference to the relevant currently effective standard is provided; generally the references relate only to disclosure requirements. The illustrative financial statements also contain references to our publication *Insights into IFRS (6<sup>th</sup> Edition 2009/10)*.

## What's new in the 2009 illustrative financial statements

The illustrative financial statements is an annual publication of the International Standards Group. This publication has been updated to incorporate the following:

- early adoption of IFRS 3 *Business Combinations* (2008) and IAS 27 *Consolidated and Separate Financial Statements* (2008)
- adoption of revised IAS 1 *Presentation of Financial Statements* (2007)
- adoption of IFRS 8 *Operating Segments*
- adoption of revised IAS 23 *Borrowing Costs*
- examples of disclosures resulting from amendments to IFRS 7 *Improving Disclosures about Financial Instruments* (Amendments to IFRS 7).

## Other ways KPMG member firm professionals can help

We have a range of publications that can assist you further, including *Insights into IFRS*, *IFRS: An overview*, *IFRS Handbook: First-time adoption of IFRS*, *Disclosure checklist*, *Illustrative financial statements*, and *Illustrative condensed interim financial statements*. Technical information is available at [www.kpmgifrg.com](http://www.kpmgifrg.com).

KPMG's Briefing Sheet – Issue 165 provides an overview of newly effective standards that may affect financial statements during the interim and annual periods ending 31 December 2009. It may serve as a useful reminder for entities with later reporting periods. It also provides an overview of standards issued but not yet effective for interim and annual periods ending 31 December 2009 that may affect later periods.

For access to an extensive range of accounting, auditing and financial reporting guidance and literature, visit KPMG's Accounting Research Online. This Web-based subscription service can be a valuable tool for anyone who wants to stay informed in today's dynamic environment. For a free 15-day trial, go to [www.aro.kpmg.com](http://www.aro.kpmg.com) and register today.

# Technical guide

## Form and content of financial statements

IAS 1 *Presentation of Financial Statements* sets out the overall requirements for the presentation of financial statements, including their content and structure. Other standards and interpretations deal with the recognition, measurement and disclosure requirements related to specific transactions and events. IFRSs are not limited to a particular legal framework. Therefore financial statements prepared under IFRSs often contain supplementary information required by local statute or listing requirements, such as directors' reports (see below).

## Choice of accounting policies

The accounting policies disclosed in these illustrative financial statements reflect the facts and circumstances of the fictitious banking group on which these financial statements are based. They should not be relied upon for a complete understanding of the requirements of IFRSs and should not be used as a substitute for referring to the standards and interpretations themselves. The accounting policy disclosures appropriate for an entity depend on the facts and circumstances of that entity and may differ from the disclosures presented in these illustrative financial statements. The recognition and measurement requirements of IFRSs are discussed in our publication *Insights into IFRS*.

## Reporting by directors

Generally local laws and regulations determine the extent of reporting by directors in addition to the presentation of financial statements. IAS 1 encourages, but does not require, entities to present, outside the financial statements, a financial review by management. The review describes and explains the main features of the entity's financial performance and financial position, and the principal uncertainties it faces. Such a report may include a review of:

- the main factors and influences determining financial performance, including changes in the environment in which the entity operates, the entity's response to those changes and their effect, and the entity's policy for investment to maintain and enhance financial performance, including its dividend policy
- the entity's sources of funding and its targeted ratio of liabilities to equity
- the entity's resources not recognised in the statement of financial position in accordance with IFRSs.

In June 2009 the IASB published Exposure Draft (ED) *Management Commentary*, which proposes a framework for the preparation of management commentary that accompanies financial statements prepared in accordance with IFRSs. The proposals in the ED will not result in an IFRS, and therefore once finalised an entity will not be required to comply with the framework for the preparation and presentation of management commentary in order to assert compliance with IFRSs.

## First-time adopters of IFRSs

These illustrative financial statements assume that the entity is not a first-time adopter of IFRSs. IFRS 1 *First-time Adoption of International Financial Reporting Standards* applies to an entity's first financial statements prepared in accordance with IFRSs. IFRS 1 requires extensive disclosures explaining how the transition from previous GAAP to IFRSs affects the reported financial position, financial performance and cash flows of an entity. These disclosures include reconciliations of equity and reported total comprehensive income (or profit or loss if the entity did not previously report total comprehensive income) at the date of transition to IFRSs and at the end of the comparative period presented in the entity's first IFRS financial statements, explaining material adjustments to the statements of financial position, changes in equity and comprehensive income, and identifying separately the correction of any errors made under previous GAAP. An entity that presented a statement of cash flows under previous GAAP also explains any material adjustments to its statement of cash flows.

Note Reference **Explanatory note**

- 1.** *IAS 1.10* In these illustrative financial statements, the titles of the statements are consistent with the titles used in IAS 1 *Presentation of Financial Statements* (2007). However, these terms are not mandatory and different titles are permitted.
- 2.** The difference between the single-statement approach and the two-statement approach with respect to the statement of comprehensive income is further explained in explanatory note 1 on page 8 that accompanies the consolidated statement of comprehensive income.
- 3.** *IAS 7.18* In these illustrative financial statements we have presented cash flows from operating activities using the indirect method. An entity also may present operating cash flows using the direct method. An example statement of cash flows presenting operating cash flows using the direct method is included in Appendix II of the July 2009 edition of our publication *Illustrative financial statements*.

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Note Reference **Explanatory note**

- 1.** *IAS 1.45* The presentation and classification of items in the financial statements is retained from one period to the next unless changes are required by a new standard or interpretation, or it is apparent, following a significant change to an entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate. The entity also considers the criteria for selection and application of accounting policies in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

In our view, if an entity changes the classification or presentation of items in the financial statements, and the change in presentation or classification is limited and does not result in a change to either the results or total equity of the comparative period, then it is not necessary to head up the comparative financial statements as "restated". This issue is discussed in our publication *Insights into IFRS* (2.8.70).

Paragraph 10(f) of IAS 1 *Presentation of Financial Statements* requires an additional statement of financial position to be presented as at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error, or the reclassification of items in the financial statements. This issue is discussed in our publication *Insights into IFRS* (2.1.35) and illustrated in Appendix III of the July 2009 edition of our publication *Illustrative financial statements*.

- 2.** *IAS 1.55, 58* Additional line items, headings and subtotals are presented separately in the statement of financial position when such presentation is relevant to an understanding of the entity's financial position. The judgement used is based on an assessment of the nature and liquidity of the assets, the function of assets within the entity, as well as the amounts, nature and timing of liabilities. Additional line items may include, for example, "other assets" for the inclusion of prepayments.

*IAS 1.57* IAS 1 does not prescribe the order or format in which an entity presents items. Additional line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position and the descriptions used, and the ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions to provide information that is relevant to an understanding of an entity's financial position.

*IAS 1.32* Assets and liabilities are offset only when required or permitted by a standard or an interpretation.

- 3.** *IAS 1.60, 61, 63* A bank or similar financial institution usually presents a statement of financial position showing assets and liabilities in their broad order of liquidity because such presentation provides reliable and more relevant information than separate current and non-current classifications. For each asset and liability line item that combines amounts expected to be recovered or settled within (1) no more than 12 months after the reporting date, and (2) more than 12 months after the reporting date, an entity discloses in the notes the amount expected to be recovered or settled after more than 12 months.

- 4.** *IAS 1.54(n), 12.71* An entity offsets current tax assets and current tax liabilities only if it has a legally enforceable right to set off the recognised amounts and intends to realise the asset and settle the liability on a net basis or simultaneously. When applicable, current tax assets and liabilities are presented as separate line items in the statement of financial position.

- 5.** *IFRS 7.8* The carrying amounts of each of the categories of financial assets and financial liabilities in paragraph 8 of IFRS 7 are required to be disclosed in either the statement of financial position or the notes. In these illustrative financial statements this information is presented in the notes.

Reference Consolidated statement of financial position<sup>1, 2, 3</sup>

## IAS 1.10(a), 60, 113 As at 31 December

In millions of euro

	Note	2009	2008
<b>Assets</b>			
IAS 1.54(i)	17	2,907	2,992
IAS 1.54(d), 39.37(a)	18	928	878
IAS 1.54(d)	18	15,734	14,890
IAS 1.54(d)	19	858	726
IAS 1.54(d)	20	5,572	4,707
IAS 1.54(d)	21	63,070	56,805
IAS 1.54(d)	22	6,302	5,269
IAS 1.54(n)		49	53
IAS 1.54(a)	23	409	378
IAS 1.54(c)	24	275	259
IAS 1.54(o)	25	316	296
	26	714	563
<b>Total assets</b>		<b>97,134</b>	<b>87,816</b>
<b>Liabilities</b>			
IAS 1.54(m)	18	7,026	6,052
IAS 1.54(m)	19	828	789
IAS 1.54(m)	27	11,678	10,230
IAS 1.54(m)	28	53,646	48,904
IAS 1.54(m)	29	11,227	10,248
IAS 1.54(m)	30	5,642	4,985
IAS 1.54(l)	31	90	84
IAS 1.54(o)	25	133	124
	32	450	431
<b>Total liabilities</b>		<b>90,720</b>	<b>81,847</b>
<b>Equity</b>			
IAS 1.54(r)		2,725	2,695
IAS 1.54(r)		3,373	2,948
IAS 1.54(r)		160	198
IAS 1.54(r)		<b>6,258</b>	<b>5,841</b>
<b>Total equity attributable to equity holders of the Bank</b>			
IAS 1.54(q), 27.27		156	128
<b>Total equity</b>	33	<b>6,414</b>	<b>5,969</b>
<b>Total liabilities and equity</b>		<b>97,134</b>	<b>87,816</b>

The notes on pages 21 to 209 are an integral part of these consolidated financial statements.

Note Reference **Explanatory note**

**1.** IAS 1.10(b) A complete set of financial statements comprises, as one of its statements, a statement of comprehensive income for the period.

IAS 1.81 Total comprehensive income is the changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners, which is presented either in:

- one statement (i.e., a statement of comprehensive income)
- two statements (i.e., a separate income statement and a statement beginning with profit or loss and displaying components of other comprehensive income).

IAS 1.81(a) This illustration is based on a single statement of comprehensive income. The two-statement approach is displayed in Appendix I.

**2.** IFRS 7.20(a), IAS 1.32 Items of income and expense are offset only when required or permitted by a standard or an interpretation. IFRS 7 *Financial Instruments: Disclosures* allows the net presentation of certain gains and losses on financial assets and financial liabilities.

IAS 1.87 No items of income or expense may be presented as “extraordinary”. The nature and amounts of material items are disclosed as a separate line item in the statement of comprehensive income or in the notes. In our view, it is preferable for separate presentation to be made in the statement of comprehensive income only when necessary for an understanding of the entity’s financial performance. This issue is discussed in our publication *Insights into IFRS* (4.1.82).

IAS 1.85 An entity presents additional line items, headings and subtotals when this is relevant to an understanding of its financial performance.

This publication does not illustrate investments in equity accounted investees and discontinued operations. These disclosures are illustrated in the July 2009 edition of our publication *Illustrative financial statements*.

**3.** IAS 1.99, 104 This analysis of expenses is based on the nature of the expenses. The analysis of expenses also may be presented based on the functions within the entity, with additional disclosure of information about the nature of the expenses, if this provides information that is reliable and more relevant. Individual material items are classified in accordance with their nature or function, consistent with the classification of items that are not material individually. This issue is discussed in our publication *Insights into IFRS* (4.1.30).

**4.** IAS 1.82(a) IAS 1 requires revenue to be disclosed as a separate line item in the statement of comprehensive income. However, IFRSs do not specify whether revenue can be presented only as a single line item in the statement of comprehensive income, or whether an entity also may include the individual components of revenue in the statement of comprehensive income, with a sub-total for revenue from continuing operations. In these illustrative financial statements, the most relevant measure of revenue is considered to be the sum of net interest income, net fee and commission income, net trading income, net income from other financial instruments carried at fair value and other operating income. However, other presentations are possible.

**5.** IAS 1.82(g), (h) An entity presents each component of other comprehensive income by nature. The only exception to this principle relates to investments in associates and joint ventures accounted for using the equity method. An entity’s share of the other comprehensive income of an equity accounted investee is presented as a separate line item.

**6.** IAS 1.91 Individual components of other comprehensive income may be presented either net of related tax effects or before related tax effects, with an aggregate amount presented for income tax. In these illustrative financial statements each component of other comprehensive income has been presented net of related tax effects.

**7.** IAS 1.94 An entity may present reclassification adjustments directly in the statement of comprehensive income or in the notes. In these illustrative financial statements reclassification adjustments are presented directly in the statement of comprehensive income.

<i>Reference</i>	<b>Consolidated statement of comprehensive income<sup>1,2</sup> (single statement approach)</b>			
<i>IAS 1.10(b), 81(a)</i>	<b>For the year ended 31 December</b>			
	<i>In millions of euro</i>	<b>Note</b>	<b>2009</b>	<b>2008</b>
<i>IFRS 7.20(b)</i>	Interest income	8	3,341	3,528
<i>IFRS 7.20(b), IAS 1.82(b)</i>	Interest expense <sup>3</sup>	8	(1,406)	(1,686)
	Net interest income <sup>4</sup>		1,935	1,842
<i>IFRS 7.20(c)</i>	Fee and commission income	9	854	759
<i>IFRS 7.20(c)</i>	Fee and commission expense <sup>3</sup>	9	(179)	(135)
	Net fee and commission income <sup>4</sup>		675	624
<i>IFRS 7.20(a)</i>	Net trading income <sup>4</sup>	10	1,196	912
<i>IFRS 7.20(a)</i>	Net income from other financial instruments at fair value through profit or loss <sup>4</sup>	11	21	81
<i>IFRS 7.20(a)</i>	Other operating income <sup>4</sup>	12	386	361
	Other income		18	10
			1,621	1,364
<i>IAS 1.85</i>	<b>Operating income<sup>4</sup></b>		4,231	3,830
<i>IFRS 7.20(e)</i>	Net impairment loss on financial assets <sup>3</sup>	20, 21, 22	(330)	(334)
<i>IAS 1.99</i>	Personnel expenses <sup>3</sup>	13	(2,264)	(1,974)
<i>IAS 17.35(c)</i>	Operating lease expenses <sup>3</sup>		(344)	(326)
<i>IAS 1.99, 38.118(d)</i>	Depreciation and amortisation <sup>3</sup>	23, 24	(47)	(39)
<i>IAS 1.99</i>	Other expenses <sup>3</sup>	14	(397)	(485)
<i>IAS 1.85</i>	<b>Profit before income tax</b>		849	672
<i>IAS 1.82(d), 12.77</i>	Income tax expense	15	(187)	(118)
<i>IAS 1.82(f)</i>	<b>Profit for the period</b>		662	554
	<b>Other comprehensive income, net of income tax<sup>5,6</sup></b>			
<i>IAS 1.82(g), 21.52(b)</i>	Foreign currency translation differences for foreign operations		(40)	23
<i>IAS 1.82(g), 21.52(b)</i>	Net gain / (loss) on hedges of net investments in foreign operations		30	(15)
	Cash flow hedges:			
<i>IFRS 7.23(c), IAS 1.82(g)</i>	Effective portion of changes in fair value		(17)	(14)
<i>IFRS 7.23(d), IAS 1.92</i>	Net amount transferred to profit or loss <sup>7</sup>		10	8
	Fair value reserve (available-for-sale financial assets):			
<i>IFRS 7.20(a)(ii), IAS 1.82(g)</i>	Net change in fair value		(238)	(106)
<i>IFRS 7.20(a)(ii), IAS 1.92</i>	Net amount transferred to profit or loss <sup>7</sup>		217	83
	<b>Other comprehensive income for the period, net of income tax<sup>7</sup></b>		(38)	(21)
<i>IAS 1.82(i)</i>	<b>Total comprehensive income for the period</b>		624	533

The notes on pages 21 to 209 are an integral part of these consolidated financial statements.

Note Reference **Explanatory note**

- |                            |   |
|----------------------------|---|
| <b>1.</b> <i>IAS 33.73</i> | Earnings per share based on alternative measures of earnings also may be given if considered necessary, but should be presented in the notes to the financial statements only and not in the statement of comprehensive income. This issue is discussed in our publication <i>Insights into IFRS</i> (5.3.370.55).              |
| <b>2.</b> <i>IAS 33.2</i>  | An entity is required to present earnings per share if its ordinary shares or potential ordinary shares are publicly traded, or if it is in the process of issuing ordinary shares or potential ordinary shares in public securities markets.   |
| <i>IAS 33.67, 69</i>       | Basic and diluted earnings per share are presented even if the amounts are negative (a loss per share). Diluted earnings per share also are presented even if it equals basic earnings per share and this may be accomplished by the presentation of basic and diluted earnings per share in one line item as illustrated here. |

Reference

Consolidated statement of comprehensive income (continued)  
(single statement approach)

**For the year ended 31 December**

*In millions of euro*

	<b>Note</b>	<b>2009</b>	<b>2008</b>
<b>Profit attributable to:</b>			
IAS 1.83(a)(ii) Equity holders of the Bank		634	528
IAS 1.83(a)(i) Non-controlling interest		28	26
Profit for the period		662	554
<b>Total comprehensive income attributable to:</b>			
IAS 1.83(b)(ii) Equity holders of the Bank		596	507
IAS 1.83(b)(i) Non-controlling interest		28	26
Total comprehensive income for the period		624	533
IAS 33.66 Basic and diluted earnings per share (euro) <sup>1,2</sup>	16	0.35	0.29

*The notes on pages 21 to 209 are an integral part of these consolidated financial statements.*

Note Reference **Explanatory note**

1. *IAS 1.106* In these illustrative financial statements, IFRS 3 *Business Combinations* (2008) and IAS 27 *Consolidated and Separate Financial Statements* (2008) have been adopted early. The amendments to IAS 27 (2008) resulted in an amendment to paragraph 106 of IAS 1 *Presentation of Financial Statements* (2007) that requires an entity, among other things, to disclose in the statement of changes in equity a reconciliation, for each component of equity, between the carrying amount at the beginning and at the end of the period, separately disclosing changes resulting from:
- profit or loss
  - each item of other comprehensive income
  - transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners, and changes in ownership interests in subsidiaries that do not result in a loss of control.

*IAS 1.139A* The transitional requirements of IAS 1 (2007) require an entity to apply the amendment to paragraph 106, effective for annual periods beginning on or after 1 July 2009, for an earlier period if IAS 27 (2008) also is applied for an earlier period.

Entities that do not early adopt IFRS 3 (2008) and IAS 27 (2008) are not required to early adopt the amendment to paragraph 106 of IAS 1 (2007). IAS 1 (2007), absent the amendments made by IAS 27 (2008), requires an entity to present a statement of changes in equity showing in the statement:

- total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to minority interest
- for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- the amounts of transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners
- for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing each change.

*IAS 1.IG6* The statement of changes in equity included in these illustrative financial statements separately presents changes in other comprehensive income attributable to each item of other comprehensive income. The example of a statement of changes in equity provided in the Implementation Guidance of IAS 1 (2007), which was not revised by the amendments to IAS 1 (2007), presents changes in other comprehensive income in one line item in the statement of changes in equity with a corresponding footnote explaining the changes in each item of other comprehensive income.

In the 2009/2010 Annual Improvements cycle, the IASB has proposed to amend IAS 1 to clarify that changes in each item of other comprehensive income may be presented either in the statement of changes in equity, or in the notes.

2. IFRS 2 *Share-based Payment* does not address specifically how share-based payment transactions are presented within equity, e.g., whether an increase in equity in connection with a share-based payment transaction is presented in a separate line item within equity or within retained earnings. In our view, either approach would be allowed under IFRSs. In these illustrative financial statements the increase in equity recognised in connection with a share-based payment transaction is presented within retained earnings. This issue is discussed our publication *Insights into IFRS* (4.5.280.10 - .20).

Consolidated statement of changes in equity<sup>1</sup>

Reference  
IAS 1.108, 109

	Attributable to equity holders of the Bank							Total equity
	Share capital	Share premium	Trans-lation reserve	Hedging reserve	Fair value reserve	Retained earnings	Non-controlling interest	
Balance at 1 January 2008	2,256	439	64	(79)	234	2,679	102	5,695
<i>In millions of euro</i>								
<b>Total comprehensive income for the period</b>								
Profit or loss	-	-	-	-	-	528	26	554
<b>Other comprehensive income, net of income tax</b>								
Foreign currency translation differences	-	-	23	-	-	-	-	23
Net loss on hedge of net investment in foreign operations	-	-	(15)	-	-	-	-	(15)
Cash flow hedges:								
Effective portion of changes in fair value	-	-	(14)	-	-	(14)	(14)	-
Net amount transferred to profit or loss	-	-	-	8	-	-	-	8
Fair value reserve (available-for-sale financial assets):								
Net change in fair value	-	-	-	-	(106)	-	-	(106)
Net amount transferred to profit or loss	-	-	-	-	83	-	-	83
Total other comprehensive income	-	-	8	(6)	(23)	-	-	(21)
Total comprehensive income for the period	-	-	8	(6)	(23)	528	26	533
<b>Transactions with owners, recorded directly in equity</b>								
<b>Contributions by and distributions to owners</b>								
Share-based payment transactions <sup>1</sup>	-	-	-	-	-	25	-	25
Dividends to equity holders	-	-	-	-	-	(284)	-	(284)
Total contributions by and distributions to owners	-	-	-	-	-	(259)	-	(259)
Balance at 31 December 2008	2,256	439	72	(85)	211	2,948	128	5,969

The notes on pages 21 to 209 are an integral part of these consolidated financial statements.

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## Consolidated statement of changes in equity (continued)

Reference  
IAS 1.108, 109

	Attributable to equity holders of the Bank							Total equity	
	Share capital	Share premium	Trans-lation reserve	Hedging reserve	Fair value reserve	Retained earnings	Total controlling interest		
Balance at 1 January 2009	2,256	439	72	(85)	211	2,948	5,841	128	5,969
<b>Total comprehensive income for the period</b>	-	-	-	-	-	634	634	28	662
Profit or loss	-	-	(40)	-	-	-	(40)	-	(40)
<b>Other comprehensive income, net of income tax</b>	-	-	30	-	-	-	30	-	30
Foreign currency translation differences	-	-	-	-	-	-	-	-	-
Net gain / (loss) on hedge of net investment in foreign operations	-	-	-	(17)	-	-	(17)	-	(17)
Cash flow hedges:	-	-	-	10	-	-	10	-	10
Effective portion of changes in fair value	-	-	-	-	(238)	-	(238)	-	(238)
Net amount transferred to profit or loss	-	-	-	-	217	-	217	-	217
Fair value reserve (available-for-sale financial assets):	-	-	(10)	(7)	(21)	-	(38)	-	(38)
Net change in fair value	-	-	(10)	(7)	(21)	-	(38)	-	(38)
Net amount transferred to profit or loss	-	-	(10)	(7)	(21)	-	(38)	-	(38)
Total other comprehensive income	-	-	(10)	(7)	(21)	-	(38)	-	(38)
Total comprehensive income for the period	-	-	(10)	(7)	(21)	634	596	28	624
<b>Transactions with owners, recorded directly in equity</b>	-	-	-	-	-	-	-	-	-
<b>Contributions by and distributions to owners</b>	-	-	-	-	-	75	75	-	75
Share-based payment transactions	-	-	-	-	-	-	-	-	-
Share options exercised	3	27	-	-	-	-	30	-	30
Dividends to equity holders	-	-	-	-	-	(284)	(284)	-	(284)
Total contributions by and distributions to owners	-	-	-	-	-	(209)	(179)	-	(179)
Balance at 31 December 2009	2,259	466	62	(92)	190	3,373	6,258	156	6,414

The notes on pages 21 to 209 are an integral part of these consolidated financial statements.

Note Reference **Explanatory note**

**1.** IAS 7.18, 19 In these illustrative financial statements cash flows from operating activities are presented using the indirect method, whereby profit or loss is adjusted for the effects of non-cash transactions, accruals and deferrals, and items of income or expense associated with investing or financing cash flows. An entity also may present operating cash flows using the direct method, disclosing major classes of cash receipts and payments related to operating activities. An example of presentation using the direct method is provided in Appendix II of the July 2009 edition of our publication *Illustrative financial statements*.

IAS 7.43 When applicable, an entity discloses investing and financing transactions that are excluded from the statement of cash flows because they do not require the use of cash or cash equivalents in a way that provides all relevant information about these activities.

IAS 7.50(c) An entity is encouraged, but not required, to disclose the aggregate amount of cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity.

**2.** IAS 7.22, 24 Cash flows from operating, investing or financing activities may be reported on a net basis when the cash receipts and payments are on behalf of customers and the cash flows reflect the activities of the customer, or when the cash receipts and payments are for items which turn over quickly, the amounts are large and the maturities are short. Additionally, certain cash flows for a financial institution, such as acceptance and repayment of fixed maturity date deposits, placement of deposits with and withdrawal of deposits from other financial institutions and cash flows associated with loans to and repayments by customers, may be reported on a net basis.

**3.** IAS 7.16(c), (d) In these illustrative financial statements gross receipts from the sale of, and gross payments to acquire, investment securities have been classified as components of cash flows from investing activities as they do not form part of the Group's dealing or trading operations.

IAS 7.16(h), (g) Receipts from and payments for futures, forwards, options and swap contracts are presented as part of either investing or financing activities, provided that they are not held for dealing or trading purposes, in which case they are presented as part of operating activities. However, when a contract is accounted for as a hedge of an identifiable position, the cash flows of the contract are classified in the same manner as the cash flows of the positions being hedged. This issue is discussed in our publication *Insights into IFRS* (2.3.60.10).

If hedge accounting is not applied to a derivative instrument, then it is preferable that the gains or losses on the derivative instrument are not presented as an adjustment to line items related to the hedged item, even if the derivative instrument is intended to be an economic hedge of these items. However, in our view derivative gains and losses may be shown in the statement of comprehensive income as either operating or financing items depending on the nature of the item being economically hedged. In our view, the possibilities for the presentation in the statement of comprehensive income also apply to the presentation in the statement of cash flows. This issue is discussed in our publication *Insights into IFRS* (5.6.670.70 and .80).

**4.** IAS 7.21 Major classes of gross cash receipts and gross cash payments arising from investing and financing activities are disclosed separately, except to the extent that the cash flows are reported on a net basis (see explanatory note 2 above).

**5.** In our view, to the extent that borrowing costs are capitalised in respect of qualifying assets, the cost of acquiring those assets should be presented in the statement of cash flows in accordance with the entity's accounting policy for presenting interest paid in the statement of cash flows. This is consistent with the requirement to classify separately the different components of a single transaction. This issue is discussed in our publication *Insights into IFRS* (2.3.50.40).

**6.** IAS 7.35 Taxes paid are classified as operating activities unless it is practicable to identify them with, and therefore classify them as, financing or investing activities. This issue is discussed in our publication *Insights into IFRS* (2.3.50.20).

## Reference

Consolidated statement of cash flows<sup>1, 2</sup>

IAS 1.10(d), 113

**For the year ended 31 December***In millions of euro*

IAS 7.18(b)

**Cash flows from operating activities<sup>3</sup>**

	<b>Note</b>	<b>2009</b>	<b>2008</b>
Profit for the period		662	554
Adjustments for:			
Depreciation and amortisation	23, 24	47	39
Net impairment loss on investment securities	22	125	114
Net impairment loss on loans and advances	20, 21	205	220
Net interest income	8	(1,935)	(1,842)
Net gain on investment securities at fair value through profit or loss	11	(158)	(46)
Net loss on debt securities issued at fair value through profit or loss	11	194	137
Net loss on sale of available-for-sale securities	12	92	69
Dividends on available-for-sale securities	12	(13)	(8)
Equity-settled share-based payment transactions	13	75	25
Income tax expense	15	187	118
		(519)	(620)
Change in trading assets	18	(1,190)	(1,132)
Change in derivative assets held for risk management	19	(132)	(104)
Change in loans and advances to banks	20	(872)	(388)
Change in loans and advances to customers	21	(6,167)	(6,473)
Change in other assets		(163)	(54)
Change in trading liabilities	18	974	885
Change in derivative liabilities held for risk management	19	39	35
Change in deposits from banks	27	1,448	1,216
Change in deposits from customers	28	4,742	4,245
Change in other liabilities and provisions		34	37
		(1,806)	(2,353)
Interest received		3,353	3,287
Dividends received		13	8
Interest paid <sup>5</sup>		(1,415)	(1,655)
Income tax paid <sup>6</sup>		(185)	(228)
		(40)	(941)

IAS 7.31, 33

IAS 7.31, 33

IAS 7.31, 33

IAS 7.35

IAS 7.10

**Net cash used in operating activities**

IAS 7.21

**Cash flows from investing activities<sup>3, 4</sup>**

IAS 7.16(c)

IAS 7.16(d)

IAS 7.16(a)

IAS 7.16(b)

IAS 7.16(a)

IAS 7.10

**Net cash used in investing activities**

Acquisition of investment securities		(1,700)	(487)
Proceeds from sale of investment securities		577	444
Acquisition of property and equipment	23	(88)	(63)
Proceeds from the sale of property and equipment	23	36	18
Acquisition of intangible assets	24	(42)	(34)
		(1,217)	(122)

The notes on pages 21 to 209 are an integral part of these consolidated financial statements.

Note Reference **Explanatory note**

1. See explanatory note 3 and note 4 on page 16.

2. *IAS 7.34* Cash flows related to dividends paid may be classified as financing or operating.

3. *IAS 7.45* When applicable, an entity presents a reconciliation of cash and cash equivalents reported in its statement of cash flows with those presented in the statement of financial position. In these illustrative financial statements the amounts presented in the statement of financial position match the amounts presented in the statement of cash flows and therefore no reconciliation is presented.

Reference Consolidated statement of cash flows (continued)

IAS 1.10(d)	<b>For the year ended 31 December</b>			
	<i>In millions of euro</i>	<b>Note</b>	<b>2009</b>	<b>2008</b>
IAS 7.21	<b>Cash flows from financing activities<sup>1</sup></b>			
IAS 7.17(c)	Proceeds from issue of debt securities		1,018	762
IAS 7.17(d)	Repayment of debt securities		(233)	(99)
IAS 7.17(c)	Proceeds from issue of subordinated liabilities		657	651
IAS 7.17(a)	Proceeds from exercise of share options	33	30	-
IAS 7.31, 34	Dividends paid <sup>2</sup>	33	(284)	(284)
IAS 7.10	<b>Net cash from financing activities</b>		<b>1,188</b>	<b>1,030</b>
	<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>(69)</b>	<b>(33)</b>
	Cash and cash equivalents at 1 January	17	2,992	3,040
IAS 7.28	Effect of exchange rate fluctuations on cash and cash equivalents held		(16)	(15)
	<b>Cash and cash equivalents at 31 December<sup>3</sup></b>	17	<b>2,907</b>	<b>2,992</b>

The notes on pages 21 to 209 are an integral part of these consolidated financial statements.

Note *Reference* **Explanatory note**

- |                          |  |
|--------------------------|--|
| <b>1.</b> <i>IAS 1.7</i> | The notes to the financial statements include narrative descriptions or break-downs of amounts disclosed in the primary statements. They also include information about items that do not qualify for recognition in the financial statements. |
|--------------------------|--|

Notes to the consolidated financial statements<sup>1</sup>

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Note Reference **Explanatory note**

- 1.** IAS 1.36 When an entity's reporting date changes and annual consolidated financial statements are presented for a period longer or shorter than one year, the entity discloses the reason for the change and the fact that comparative amounts presented are not entirely comparable.

In this and other cases an entity may wish to present *pro forma* information that is not required by IFRSs, for example *pro forma* comparative financial statements prepared as if the change in reporting date were effective for all periods presented. The presentation of *pro forma* information is discussed in our publication *Insights into IFRS* (2.1.80).

- 2.** IAS 1.25, 10.16(b) Taking account of specific requirements in its jurisdiction, an entity discloses any material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, and whether they arise during the period or after the reporting date.

- 3.** IAS 1.19, 20 23 In extremely rare circumstances in which management concludes that compliance with a requirement of a standard or an interpretation would be so misleading that it would conflict with the objective of financial statements set out in the *Framework for the Preparation and Presentation of Financial Statements*, an entity may depart from the requirement if the relevant regulatory framework requires or otherwise does not prohibit such a departure. Extensive disclosures are required in these circumstances.

- 4.** If financial statements are prepared on the basis of national accounting standards that are modified or adapted from IFRSs and are made publicly available by publicly traded companies, then the International Organization of Securities Commissions (IOSCO) has recommended including the following minimum disclosures:

- a clear and unambiguous statement of the reporting framework on which the accounting policies are based
- a clear statement of the entity's accounting policies on all material accounting areas
- an explanation of where the respective accounting standards can be found
- a statement explaining that the financial statements are in compliance with IFRSs as issued by the IASB, if this is the case
- a statement explaining in what regard the standards and the reporting framework used differ from IFRSs as issued by the IASB, if this is the case.

- 5.** IAS 10.17 An entity discloses the date when the financial statements were authorised for issue and who gave that authorisation. If an entity's owners or others have the power to amend the financial statements after their issue, then the entity discloses that fact.

- 6.** IAS 21.53 If the consolidated financial statements are presented in a currency different from the parent entity's functional currency, then an entity discloses that fact, its functional currency, and the reason for using a different presentation currency.

IAS 29.39 If the financial statements are presented in a hyperinflationary functional currency, then an entity discloses:

- the fact that the financial statements have been restated for changes in the general purchasing power of the functional currency and as a result are stated in terms of the measuring unit current at the reporting date
- whether the financial statements are based on a historical cost approach or a current cost approach
- the identity and level of the price index at the reporting date and the movement in the index during the current and the previous reporting period.

IAS 21.54 If there is a change in the functional currency of either the entity or a significant foreign operation, then the entity discloses that fact together with the reason for the change.

<i>Reference</i>	Notes to the consolidated financial statements
<i>IAS 1.10(e)</i>	<b>1. Reporting entity</b>
<i>IAS 1.138(a), (b)</i> <i>IAS 1.51(a)-(c)</i>	[Name] (the “Bank”) is a company domiciled in [country]. The address of the Bank’s registered office is [address]. The consolidated financial statements of the Bank as at and for the year ended 31 December 2009 <sup>1</sup> comprise the Bank and its subsidiaries (together referred to as the “Group” and individually as “Group entities”). The Group primarily is involved in investment, corporate and retail banking, and in providing asset management services.
<i>IAS 1.112(a)</i>	<b>2. Basis of preparation<sup>2</sup></b>
	<b>(a) Statement of compliance</b>
<i>IAS 1.16</i>	The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). <sup>3</sup>
<i>IAS 10.17</i>	The consolidated financial statements were authorised for issue by the Board of Directors on [date]. <sup>4</sup>
<i>IAS 1.117(a)</i>	<b>(b) Basis of measurement<sup>5</sup></b>
	The consolidated financial statements have been prepared on the historical cost basis except for the following:
	<ul style="list-style-type: none"><li>● derivative financial instruments are measured at fair value</li><li>● financial instruments at fair value through profit or loss are measured at fair value</li><li>● available-for-sale financial assets are measured at fair value</li><li>● investment property is measured at fair value</li><li>● liabilities for cash-settled share-based payment arrangements are measured at fair value</li><li>● recognised financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships are adjusted for changes in fair value attributable to the risk being hedged</li><li>● the liability for defined benefit obligations is recognised as the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses.</li></ul>
	<b>(c) Functional and presentation currency<sup>6</sup></b>
<i>IAS 1.51(d), (e)</i>	These consolidated financial statements are presented in euro, which is the Bank’s functional currency. Except as otherwise indicated, financial information presented in euro has been rounded to the nearest million.

Note Reference **Explanatory note**

**1.** *IAS 1.122* An entity discloses the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. The examples that are provided in paragraphs 123 and 124 of IAS 1 *Presentation of Financial Statements* (2007) indicate that such disclosure is based on qualitative data.

*IAS 1.125* An entity discloses the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The examples that are provided in paragraph 129 of IAS 1 (2007) indicate that such disclosure is based on quantitative data (e.g., appropriate discount rates).

**2.** When a change in accounting policy is the result of the adoption of a new, revised or amended IFRS an entity applies the specific transitional requirements in that IFRS. However, in our view an entity nonetheless should comply with the disclosure requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to the extent that the transitional requirements do not include disclosure requirements. Even though it could be argued that the disclosures are not required because they are set out in the IAS 8 requirements for *voluntary* changes in accounting policy, we believe that they are necessary in order to give a fair presentation. This issue is discussed in our publication *Insights into IFRS* (2.8.20.10 - .30).

**3.** *IAS 8.28, 29* When a change in accounting policy, either voluntarily or as a result of the initial application of a standard, has an effect on the current period or any prior period, an entity discloses, among other things, the amount of the adjustment for each financial statement line item affected. An entity presents a statement of financial position as at the beginning of the earliest comparative period when it applies an accounting policy retrospectively. For an example of the presentation of such a statement of financial position see Appendix III of the July 2009 edition of our publication *Illustrative financial statements*.

*IAS 8.49* If any prior period errors are corrected in the current year's financial statements, then an entity discloses:

- the nature of the prior period error
- to the extent practicable, the amount of the correction for each financial statement line item affected, and basic and diluted earnings per share for each prior period presented
- the amount of the correction at the beginning of the earliest prior period presented
- if retrospective restatement is impracticable for a particular prior period, then the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

**4.** *IAS 8.5* Accounting policies are the specific principles, bases, conventions, rules and practices that an entity applies in preparing and presenting financial statements.

**5.** *IAS 36.80(b)* IFRS 8 *Operating Segments* amended IAS 36 *Impairment of Assets* such that each unit or group of units to which goodwill is allocated may not be larger than an operating segment determined in accordance with IFRS 8. As such, in certain circumstances the adoption of IFRS 8 may impact the calculation of an impairment loss and earnings per share.

Reference Notes to the consolidated financial statements

IAS 1.112(a) **2. Basis of preparation (continued)**  
**(d) Use of estimates and judgements<sup>1</sup>**

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

IAS 1.122, 125 Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in notes 4 and 5.

**(e) Changes in accounting policies<sup>2, 3, 4</sup>**

**(i) Overview**

Effective 1 January 2009 the Group has changed its accounting policies in the following areas:

- Determination and presentation of operating segments
- Presentation of financial statements
- Accounting for business combinations
- Accounting for acquisitions of non-controlling interests.

**(ii) Determination and presentation of operating segments**

IAS 8.28(f) As of 1 January 2009 the Group determines and presents operating segments based on the information that internally is provided to the Group Management Committee, which is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of IFRS 8 *Operating Segments*. Previously operating segments were determined and presented in accordance with IAS 14 *Segment Reporting*. The new accounting policy in respect of operating segment disclosures is presented as follows.

IFRS 8.36 Comparative segment information has been re-presented in conformity with the transitional requirements of this standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.<sup>5</sup>

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group Management Committee to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the Group Management Committee include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Group's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property and equipment, and intangible assets other than goodwill.

Note Reference **Explanatory note**

**1.** IAS 1.IN7 Another change as a result of IAS 1 *Presentation of Financial Statements* (2007) is the requirement to present a statement of financial position as at the beginning of the earliest comparative period if a change in accounting policy is applied retrospectively, or the financial statements contain a retrospective restatement or reclassification.

**2.** IAS 1.139A IAS 27 *Consolidated and Separate Financial Statements* (2008) resulted in an amendment to IAS 1 (2007) with respect to the presentation of the statement of changes in equity. The amendment requires that for each component of equity a reconciliation be presented between the carrying amount at the beginning and at the end of the period, and discloses separately changes resulting from:

IAS 1.106

- profit or loss
- *each item* of comprehensive income
- transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners, and changes in ownership interests in subsidiaries that do not result in a loss of control.

IAS 1.139A Since in these Illustrative financial statements IAS 27 (2008) was adopted in a period prior to the effective date, the amendment to IAS 1 (2007) also is applied. See also explanatory note 1 on page 12.

**3.** An entity also may consider a *de facto* control model for the basis of consolidating a subsidiary, in which the ability in practice to control another entity exists and no other party has the power to govern. In our view, whether an entity includes or excludes *de facto* control aspects in its analysis of control is an accounting policy choice that should be disclosed in its significant accounting policies. This issue is discussed in our publication *Insights into IFRS* (2.5.30.40).

Reference Notes to the consolidated financial statements

IAS 1.112(a) **2. Basis of preparation (continued)**  
**(e) Changes in accounting policies (continued)**  
**(iii) Presentation of financial statements**

IAS 8.28(f)

The Group applies revised IAS 1 *Presentation of Financial Statements* (2007), which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.<sup>1,2</sup>

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

**(iv) Accounting for business combinations**

IAS 8.28(f)

The Group has adopted early IFRS 3 *Business Combinations* (2008). The change in accounting policy is applied prospectively and had no material impact on earnings per share. The new accounting policy in respect of business combinations is presented as follows.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.<sup>3</sup>

*Acquisitions on or after 1 January 2009*

For acquisitions on or after 1 January 2009, the Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The Group elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognised amount of the identifiable net assets, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

*Acquisitions between 1 January 2003 and 1 January 2009*

For acquisitions between 1 January 2003 and 1 January 2009, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisitions.

*Acquisitions prior to 1 January 2003*

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2003. In respect of acquisitions prior to 1 January 2003, goodwill represents the amount recognised under the Group's previous accounting framework, [country GAAP].

Note Reference **Explanatory note**

1. In these illustrative financial statements IFRS 3 *Business Combinations* (2008) and IAS 27 *Consolidated and Separate Financial Statements* (2008) have been adopted early. As such, the acquisition of a non-controlling interest is an equity transaction. If IFRS 3 (2008) and IAS 27 (2008) had not been adopted early, then there would have been different possibilities as to how to account for the acquisition of non-controlling interests. The accounting for the acquisition of non-controlling interests under IFRS 3 (2004) and IAS 27 (2003) is discussed in our publication *Insights into IFRS* (2.5.350 and .390).

Reference Notes to the consolidated financial statements

IAS 1.112(a) **2. Basis of preparation (continued)**  
**(e) Changes in accounting policies (continued)**

**(v) Accounting for acquisitions of non-controlling interests<sup>1</sup>**

IAS 8.28(f)

The Group has adopted early IAS 27 *Consolidated and Separate Financial Statements* (2008) for acquisitions of non-controlling interests occurring in the financial year starting 1 January 2009.

Under the new accounting policy acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions. Previously, goodwill arising on the acquisition of a non-controlling interest in a subsidiary was recognised, and represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of exchange.

The change in accounting policy was applied prospectively and had no material impact on earnings per share.

**(f) Other accounting developments**

**(i) Disclosures pertaining to fair values and liquidity risk for financial instruments**

The Group has applied *Improving Disclosures about Financial Instruments* (Amendments to IFRS 7), issued in March 2009, that require enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments.

The amendments require that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorised as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level. Furthermore, changes in valuation techniques from one period to another, including the reasons therefore, are required to be disclosed for each class of financial instruments.

Revised disclosures in respect of fair values of financial instruments are included in note 5.

Further, the definition of liquidity risk has been amended and it is now defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The amendments require disclosure of a maturity analysis for non-derivative and derivative financial liabilities, but *contractual* maturities are required to be disclosed for derivative financial liabilities only when contractual maturities are essential for an understanding of the timing of cash flows. For issued financial guarantee contracts, the amendments require the maximum amount of the guarantee to be disclosed in the earliest period in which the guarantee could be called.

Revised disclosures in respect of liquidity risk are included in note 4.

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Reference Notes to the consolidated financial statements

**2. Basis of preparation (continued)**

**(f) Other accounting development (continued)**

**(ii) Puttable financial instruments and obligations arising on liquidation**

IAS 8.28(f)

Effective 1 January 2009, the Group has applied amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* that provide exemptions from financial liability classification for:

- puttable financial instruments that meet certain conditions
- certain instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation.

The application of the amended requirements did not have any impact on the Group's consolidated financial statements.

**(iii) Hedge of net investment in a foreign operation**

IAS 8.28(f)

Effective 1 January 2009 the Group has applied IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*.

IFRIC 16 provides guidance with respect to the nature of the foreign exchange risks that can be hedged in a net investment in a foreign operation, where in a consolidated group the hedging instrument can be held, and what amounts should be reclassified from equity to profit or loss as reclassification adjustments on disposal of the foreign operation.

Upon transition to IFRIC 16, the Group performed an assessment of its existing designated net investment hedges and concluded that they met the conditions for hedge accounting under this Interpretation. Adoption of IFRIC 16 did not lead to any adjustments to the Group's consolidated financial statements.

Note Reference **Explanatory note**

1. *IAS 1.117(b)* The summary of significant accounting policies describes each accounting policy that is relevant to an understanding of the financial statements.
2. Accounting policies in these illustrative financial statements reflect the facts and circumstances of the fictitious banking group on which these financial statements are based. They should not be relied upon for a complete understanding of IFRS requirements and should not be used as a substitute for referring to the standards and interpretations themselves. Accounting policy disclosures appropriate for an entity depend on the facts and circumstances of that entity and may differ from the disclosures illustrated in this publication. The recognition and measurement requirements of IFRSs are discussed in our publication *Insights into IFRS*.
3. *IAS 27.41(c)* If the reporting date or reporting period of the financial statements of a subsidiary used to prepare the consolidated financial statements is different from that of the parent, then an entity discloses that reporting date or period and the reason for using it.

Reference Notes to the consolidated financial statements

IAS 1.112(a),  
117(a),(b) **3. Significant accounting policies**<sup>1,2</sup>

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in note 2(e), which addresses changes in accounting policies.

**(a) Basis of consolidation**

**(i) Business combinations**

The Group has changed its accounting policy with respect to accounting for business combinations. See note 2(e)(iv) for further details.

**(ii) Subsidiaries**<sup>3</sup>

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

**(iii) Special purpose entities**

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. The following circumstances may indicate a relationship in which, in substance, the Group controls and consequently consolidates an SPE:

- The activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPE's operation.
- The Group has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism, the Group has delegated these decision-making powers.
- The Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE.
- The Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Group and the SPE. Day-to-day changes in market conditions normally do not lead to a reassessment of control. However, sometimes changes in market conditions may alter the substance of the relationship between the Group and the SPE and in such instances the Group determines whether the change warrants a reassessment of control based on the specific facts and circumstances. Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE.

Information about the Group's securitisation activities is set out in note 35.

**(iv) Funds management**

The Group manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's funds management is set out in note 6.

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Reference

## Notes to the consolidated financial statements

### 3. Significant accounting policies (continued)

#### (a) Basis of consolidation (continued)

##### (v) Transactions eliminated on consolidation

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### (b) Foreign currency

##### (i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the operation at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial liability designated as the hedging instrument in a hedge of the net investment in a foreign operation or in a qualifying cash flow hedge, which are recognised directly in equity (see (iii) below). Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

##### (ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into euro at spot exchange rates at the reporting date. The income and expenses of foreign operations, are translated into euro at spot exchange rates at the dates of the transactions.

Foreign currency differences on the translation of foreign operations are recognised in other comprehensive income. Since 1 January 2004, the Group's date of transition to IFRSs, such differences have been recognised in the translation reserve. However, if the operation is not wholly owned, the relevant proportionate share of the difference is allocated instead to the non-controlling interest. When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognised in other comprehensive income in the translation reserve.

##### (iii) Hedges of net investments in foreign operations

See accounting policy 3(m)(iii).

Note Reference **Explanatory note**

- 1.** IFRSs allow significant scope for an entity to select its presentation of items of income and expense relating to financial assets and liabilities as either interest or other line items.

The manner of presentation of components of interest income and expense in these illustrative financial statements is not mandatory – other presentations are possible.

- 2.** In these illustrative financial statements net trading income:

- includes the entire profit or loss impact (gain and losses) for trading assets and liabilities (including derivatives that are held for trading)
- does not include the profit or loss impact of derivatives that are held for risk management purposes.

In these illustrative financial statements net income from other financial instruments at fair value through profit or loss:

- includes the entire profit or loss impact of financial assets and financial liabilities designated as such upon initial recognition
- includes the realised and unrealised gains and losses on derivatives held for risk management purposes, but not forming part of a qualifying hedging relationship.

However, other presentations are possible.

Reference Notes to the consolidated financial statements

**3. Significant accounting policies (continued)**

IFRS 7.21,  
IAS 18.35(a)

**(c) Interest**

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income include:<sup>1</sup>

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis
- interest on available-for-sale investment securities calculated on an effective interest basis
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period that the hedged cash flows affect interest income / expense
- fair value changes in qualifying derivatives, including hedge ineffectiveness, and related hedged items in fair value hedges of interest rate risk.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Fair value changes on other derivatives held for risk management purposes, and other financial assets and liabilities carried at fair value through profit or loss, are presented in net income from other financial instruments at fair value through profit or loss in the statement of comprehensive income.

IFRS 7.21,  
IAS 18.35(a)

**(d) Fees and commission**

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

IFRS 7.21,  
B5(e)

**(e) Net trading income<sup>2</sup>**

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

IFRS 7.21,  
B5(e)

**(f) Net income from other financial instruments at fair value through profit or loss<sup>2</sup>**

Net income from other financial instruments at fair value through profit or loss relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships and financial assets and liabilities designated at fair value through profit or loss, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

Note Reference **Explanatory note**

1. IFRSs do not contain specific guidance on how to account for rent that was considered contingent at inception of the lease but is confirmed subsequently. The treatment of contingent rent is discussed in our publication *Insights into IFRS* (5.1.390.30).

Reference Notes to the consolidated financial statements

**3. Significant accounting policies (continued)**

IFRS 7.21

**(g) Dividends**

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends are reflected as a component of net trading income, net income from other financial instruments at fair value through profit or loss or other operating income based on the underlying classification of the equity investment.

**(h) Lease payments**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments<sup>1</sup> are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

**(i) Income tax expense**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised.

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Reference Notes to the consolidated financial statements

**3. Significant accounting policies (continued)**

IFRS 7.21 **(j) Financial assets and financial liabilities**

**(i) Recognition**

IFRS 7.B5(c)

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Group commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

**(ii) Classification**

See accounting policies 3(k), (l), (n) and (o).

**(iii) Derecognition**

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions as the Group retains all or substantially all the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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## Reference

## Notes to the consolidated financial statements

**3. Significant accounting policies (continued)****(j) Financial assets and financial liabilities (continued)****(iii) Derecognition (continued)**

The Group securitises various consumer and commercial financial assets, which generally results in the sale of these assets to special-purpose entities, which in turn issue securities to investors. Interests in the securitised financial assets may be retained in the form of senior or subordinated tranches, interest-only strips or other residual interests ("retained interests"). Retained interests are primarily recorded in available-for-sale investment securities and carried at fair value. Gains or losses on securitisation depend in part on the carrying amount of the transferred financial assets, allocated between the financial assets derecognised and the retained interests based on their relative fair values at the date of the transfer. Gains or losses on securitisation are recorded in other operating income.

**(iv) Offsetting**

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

**(v) Amortised cost measurement**

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

**(vi) Fair value measurement**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

*IFRS 7.27*

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

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Reference Notes to the consolidated financial statements

**3. Significant accounting policies (continued)**

**(j) Financial assets and financial liabilities (continued)**

**(vi) Fair value measurement (continued)**

IFRS 7.28(a)

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

**(vii) Identification and measurement of impairment**

IFRS 7.B5(f)

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is (are) impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and advances and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

Note Reference **Explanatory note**

1. *IAS 39.9, 11A* Financial assets or liabilities (other than those classified as held for trading) may be designated upon initial recognition at fair value through profit or loss, in any of the following circumstances, if they:
- eliminate or significantly reduce a measurement or recognition inconsistency (“accounting mismatch”) that would otherwise arise from measuring assets and liabilities or recognising the gains or losses on them on different bases
  - are part of a group of financial assets and / or financial liabilities that is managed and for which performance is evaluated and reported to key management on a fair value basis in accordance with a documented risk management or investment strategy
  - are hybrid contracts where an entity is permitted to designate the entire contract at fair value through profit or loss.

These illustrative financial statements demonstrate this fair value option through:

- investment securities where the Group holds related derivative positions that are not designated in a hedging relationship, and where designation of the investment securities at fair value through profit or loss eliminates or significantly reduces an accounting mismatch – see note 22
- assets of the investment banking segment that are managed and evaluated on a fair value basis as part of the Group’s documented risk management and investment strategy – see note 21
- fixed rate structured notes that include an embedded derivative and where the Group has elected to designate the entire contract at fair value – see note 29.

## Reference

## Notes to the consolidated financial statements

**3. Significant accounting policies (continued)****(j) Financial assets and financial liabilities (continued)****(vii) Identification and measurement of impairment (continued)**

In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

The Group writes off certain loans and advances and investment securities when they are determined to be uncollectible (see note 4).

**(viii) Designation at fair value through profit or loss<sup>1</sup>***IFRS 7.21, B5(a)*

The Group has designated financial assets and liabilities at fair value through profit or loss in the following circumstances:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis.
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Note 7 sets out the amount of each class of financial asset or liability that has been designated at fair value through profit or loss. A description of the basis for each designation is set out in the note for the relevant asset or liability class.

*IAS 7.46***(k) Cash and cash equivalents**

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Note *Reference* **Explanatory note**

1. In these illustrative financial statements the classes of financial instruments reflect the Group's activities. Accordingly, derivatives are presented either as trading assets or liabilities or as derivative assets or liabilities held for risk management purposes to reflect the Group's two uses of derivatives. Derivatives held for risk management purposes include qualifying hedge instruments and non-qualifying hedge instruments held for risk management purposes rather than for trading. However, other presentations are possible.

*Reference* Notes to the consolidated financial statements**3. Significant accounting policies (continued)***IFRS 7.21***(l) Trading assets and liabilities**

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition, except that non-derivative trading assets, other than those designated at fair value through profit or loss upon initial recognition, may be reclassified out of the fair value through profit or loss (i.e., trading) category if they are no longer held for the purpose of being sold or repurchased in the near term and the following conditions are met:

- If the financial asset would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held for trading at initial recognition), then it may be reclassified if the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in 'rare circumstances'.

*IFRS 7.21***(m) Derivatives held for risk management purposes<sup>1</sup> and hedge accounting**

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

The Group designates certain derivatives held for risk management as well as certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instrument(s) is(are) expected to be 'highly effective' in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. The Group makes an assessment for a cash flow hedge of a forecast transaction, as to whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

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Reference

## Notes to the consolidated financial statements

### 3. Significant accounting policies (continued)

IFRS 7.21

#### (m) Derivatives held for risk management purposes and hedge accounting (continued)

These hedging relationships are discussed below:

##### (i) Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the statement of comprehensive income as the hedged item).

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, hedge accounting is discontinued prospectively. Any adjustment up to that point to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

##### (ii) Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income in the hedging reserve. The amount recognised in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of comprehensive income. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction the cumulative amount recognised in other comprehensive income from the period when the hedge was effective is reclassified from equity to profit or loss as a reclassification adjustment when the forecast transaction occurs and affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is reclassified immediately to profit or loss as a reclassification adjustment.

##### (iii) Net investment hedges

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised in other comprehensive income in the translation reserve. Any ineffective portion of the changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in other comprehensive is reclassified to profit or loss as a reclassification adjustment on disposal of the foreign operation.

Note Reference **Explanatory note**

**1.** *IAS 39.11* An embedded derivative is separated from the host contract and accounted for as a derivative under IAS 39 *Financial Instruments: Recognition and Measurement* if, and only if, all the following conditions are met:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.
- The hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss (i.e., a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

IAS 39 does not specify where a separated embedded derivative component is presented in the statement of financial position. In these illustrative financial statements, an embedded derivative component that is separated from the host contract is presented in the same line item in the statement of financial position as the related host contract. Net income on separated embedded derivative components is reflected in either net income from other financial instruments at fair value through profit or loss or in net interest income, depending on whether the derivative is designated in a qualifying hedging relationship. However, other presentations are possible.

Reference Notes to the consolidated financial statements

**3. Significant accounting policies (continued)**

**(m) Derivatives held for risk management purposes and hedge accounting (continued)**

**(iv) Other non-trading derivatives**

When a derivative is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss as a component of net income from other financial instruments at fair value through profit or loss.

**(v) Embedded derivatives<sup>1</sup>**

Derivatives may be embedded in another contractual arrangement (a “host contract”). The Group accounts for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss, the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract, and the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. Separated embedded derivatives are accounted for depending on their classification, and are presented in the statement of financial position together with the host contract.

IFRS 7.21

**(n) Loans and advances**

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (“reverse repo” or “stock borrowing”), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Group’s financial statements.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except when the Group chooses to carry the loans and advances at fair value through profit or loss as described in accounting policy (j)(viii).

IFRS 7.21

**(o) Investment securities**

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held to maturity, fair value through profit or loss, or available for sale.

Note Reference **Explanatory note**

- |                                  |   |
|----------------------------------|---|
| <p><b>1.</b> <i>IAS 39.9</i></p> | <p>An entity is prohibited from classifying any financial assets as held to maturity if the entity has, during the current or two preceding financial years, sold or reclassified a more than insignificant amount of held-to-maturity investments prior to their maturity, except for sales or reclassifications in any of the following circumstances:</p> <ul style="list-style-type: none"><li>● sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value</li><li>● sales or reclassifications after the entity has collected substantially all of the asset's original principal</li><li>● sales or reclassifications attributable to non-recurring isolated events beyond the entity's control that could not have been reasonably anticipated.</li></ul> |
|----------------------------------|---|

Reference

## Notes to the consolidated financial statements

### 3. Significant accounting policies (continued)

#### (o) Investment securities (continued)

##### (i) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available for sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available for sale, and would prevent the Group from classifying investment securities as held to maturity for the current and the following two financial years.<sup>1</sup> However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value
- sales or reclassifications after the Group has collected substantially all of the asset's original principal
- sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

##### (ii) Fair value through profit or loss

The Group designates some investment securities at fair value, with fair value changes recognised immediately in profit or loss as described in accounting policy (j)(viii).

##### (iii) Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available for sale or are not classified as another category of financial assets. Unquoted equity securities whose fair value cannot reliably be measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it otherwise would have met the definition of loans and receivables and if the Group has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

Note *Reference* **Explanatory note**

1. If the determination of the cost of property, plant and equipment at the entity's date of transition to IFRSs is relevant to an understanding of the financial statements, then the entity may include this in its accounting policies. For example, an entity's accounting policy note may state that "Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment at 1 January 2004, the entity's date of transition to IFRSs, was determined by reference to its fair value at that date."

Reference Notes to the consolidated financial statements

**3. Significant accounting policies (continued)**

**(p) Property and equipment**

**(i) Recognition and measurement<sup>1</sup>**

IAS 16.73(a)

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognised net within other income in profit or loss.

**(ii) Subsequent costs**

The cost of replacing a part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

**(iii) Depreciation**

IAS 16.73(b)

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

IAS 16.73(c)

The estimated useful lives for the current and comparative periods are as follows:

- buildings 40 years
- IT equipment 3 - 5 years
- fixtures and fittings 5 - 10 years

Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

Note Reference **Explanatory note**

- 1.** *IAS 40.75(c)* If classification of property is difficult, then an entity discloses the criteria developed to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business.
- 2.** *IAS 40.56, 79(a), (b), (e)* If an entity accounts for investment property using the cost model, then it discloses the depreciation method and the useful lives or the depreciation rates used and the fair value of such investment property.
- 3.** In these illustrative financial statements IFRS 3 *Business Combinations* (2008) and IAS 27 *Consolidated and Separate Financial Statements* (2008) have been adopted early. As such, the acquisition of non-controlling interests is an equity transaction. If IFRS 3 (2008) and IAS 27 (2008) had not been adopted early, then there would have been different possibilities as to how to account for the acquisition of non-controlling interests. The accounting for the acquisition of non-controlling interests under IFRS 3 (2004) and IAS 27 (2003) is discussed in our publication *Insights into IFRS* (2.5.350 and .390).

Reference Notes to the consolidated financial statements

**3. Significant accounting policies (continued)**

**(q) Investment property**

IAS 40.75(a)

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.<sup>1</sup> The Group holds some investment property as a consequence of the ongoing rationalisation of its retail branch network. Other property has been acquired through the enforcement of security over loans and advances. Investment property is measured at fair value with any change therein recognised in profit or loss in other operating income.<sup>2</sup>

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

**(r) Intangible assets**

**(i) Goodwill**

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. The Group has changed its accounting policy with respect to accounting for business combinations. See note 2(e)(iv) for further details.

*Acquisitions of non-controlling interests<sup>3</sup>*

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

*Subsequent measurement*

Goodwill is measured at cost less accumulated impairment losses.

**(ii) Software**

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

IAS 38.118(a), (b)

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is three to five years.

IAS 38.104

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Note Reference **Explanatory note**

**1.** *SIC 27.10(b)* When applicable, an entity discloses the accounting treatment applied to any fee received in an arrangement in the legal form of a lease to which lease accounting is not applied because the arrangement does not, in substance, involve a lease.

**2.** IFRSs do not specify the line item in the statement of comprehensive income in which an impairment loss on non-financial assets is presented. If an entity classifies expenses based on their function, then any such impairment loss is allocated to the appropriate function. In our view, if such an impairment loss cannot be allocated to a function, then it should be included in other expenses, with additional information provided in the notes. This issue is discussed in our publication *Insights into IFRS* (3.10.400.20).

In our view, an impairment loss recognised in published interim financial statements should be presented in the same line item in the annual financial statements. This issue is discussed in our publication *Insights into IFRS* (3.10.400.30).

Reference

## Notes to the consolidated financial statements

### 3. Significant accounting policies (continued)

#### (s) Leased assets – lessee<sup>1</sup>

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and, except for investment property, the leased assets are not recognised in the Group's statement of financial position. Investment property held under an operating lease is recognised in the Group's statement of financial position at its fair value.

#### (t) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss.<sup>2</sup> Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

Note Reference **Explanatory note**

**1.** The classification of financial instruments as liabilities, equity or a combination of both is dealt with in IAS 32 *Financial Instruments: Presentation* and depends on the contractual terms of the instruments. The issues associated with the classification of financial instruments are discussed in our publication *Insights into IFRS* (3.11.10). The disclosures illustrated here are not intended to be a complete description of accounting policies that may be applicable to preference shares.

**2.** IFRSs do not provide guidance on the specific types of costs that would be considered unavoidable in respect of onerous contracts. This issue is discussed in our publication *Insights into IFRS* (3.12.660.30).

## Reference

## Notes to the consolidated financial statements

**3. Significant accounting policies (continued)****(t) Impairment of non-financial assets (continued)**

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## IFRS 7.21

**(u) Deposits, debt securities issued and subordinated liabilities**

Deposits, debt securities issued and subordinated liabilities are the Group's sources of debt funding.

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date ("repo" or "stock lending"), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Group's financial statements.

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The Group's redeemable preference shares bear non-discretionary coupons and are redeemable by the holder, and are therefore included within subordinated liabilities.<sup>1</sup>

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group chooses to carry the liabilities at fair value through profit or loss.

The Group carries some deposits, debt securities and subordinated liabilities at fair value, with fair value changes recognised immediately in profit or loss as described in accounting policy (j)(viii).

**(v) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost<sup>2</sup> of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

Note Reference **Explanatory note**

- 1.** *IAS 39.2(e),  
39.103B* An entity may account for a financial guarantee contract as an insurance contract under IFRS 4 *Insurance Contracts* if it has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable for insurance contracts. For other financial guarantee contracts, an entity accounts for the financial guarantee under IAS 39 *Financial Instruments: Recognition and Measurement* initially at fair value, and subsequently at the higher of the amount determined under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or the amount initially recognised, adjusted for cumulative amortisation in accordance with IAS 18 *Revenue*.

In these illustrative financial instruments, the Group has accounted for all financial guarantee contracts under IAS 39 rather than IFRS 4.

## Reference

## Notes to the consolidated financial statements

**3. Significant accounting policies (continued)**

IFRS 7.21

**(w) Financial guarantees<sup>1</sup>**

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognised initially at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable. Financial guarantees are included within other liabilities.

**(x) Employee benefits****(i) Defined contribution plans**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due in respect of service rendered before the end of the reporting period. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the reporting period in which the employees render the service are discounted to their present value at the reporting date.

**(ii) Defined benefit plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting that benefit to determine its present value, and then deducting the fair value of any plan assets. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

To determine the net amount in the statement of financial position, any actuarial gains and losses that have not been recognised because of application of the "corridor" approach described below are added or deducted as appropriate and unrecognised past service costs are deducted.

IAS 19.120A(a)

The Group recognises a portion of actuarial gains and losses that arise in calculating the Group's obligation in respect of a plan in profit or loss over the expected average remaining working lives of the employees participating in the plan. The portion is determined as the extent to which any cumulative unrecognised actuarial gain or loss at the end of the previous reporting period exceeds 10 percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets (the corridor). Otherwise, the actuarial gains and losses are not recognised.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

When the calculations above result in a benefit to the Group, the recognised asset is limited to the net total of any cumulative unrecognised actuarial losses and past service costs and the present value of any economic benefits available in the form of any refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan or on settlement of the plan liabilities.

Note Reference **Explanatory note**

**1.** *IFRS 2.IG19* IFRSs do not specify whether the remeasurement of the liability in a cash-settled share-based payment arrangement is presented as an employee cost or as finance income or expense. In our view, both presentations are permitted and an entity elects an accounting policy that is applied consistently. This issue is discussed in our publication *Insights into IFRS* (4.5.290.30).

**2.** *IFRS 2.47(b)* When applicable, an entity discloses how it determined the fair value of equity instruments other than share options, granted in transactions in which the fair value of goods and services received was determined based on fair value of the equity instruments granted. Such disclosure includes:

- if fair value was not measured on the basis of an observable market price, how it was determined
- whether and how expected dividends were incorporated into the measurement of fair value
- whether and how any other features of the equity instruments granted were incorporated into the measurement of fair value.

*IFRS 2.47(c)* When applicable, an entity discloses how it determined the incremental fair value of any share-based payment arrangements that were modified during the period.

## Notes to the consolidated financial statements

**3. Significant accounting policies (continued)****(x) Employee benefits (continued)****(iii) Other long-term employee benefits**

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognised in profit or loss in the period in which they arise.

**(iv) Termination benefits**

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

**(v) Short-term employee benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**(vi) Share-based payment transactions**

The grant date fair value of equity-settled share-based payment awards (i.e., stock options) granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met such that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market performance conditions at the vesting date.

The fair value of the amount payable to employees in respect of share appreciation rights that are settled in cash is recognised as an expense with a corresponding increase in liabilities over the period in which the employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.<sup>1</sup>

IFRS 2.46,  
47(a)(i)-(iii)

The fair value of employee stock options is measured using a binomial lattice model. The fair value of share appreciation rights is measured using the Black-Scholes formula.<sup>2</sup> Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

Note Reference **Explanatory note**

1. *IAS 32.15, 18* The issuer of a financial instrument classifies the instrument, or its component parts as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangements and the definitions in IAS 32 *Financial Instruments: Presentation*.

Reference Notes to the consolidated financial statements

**3. Significant accounting policies (continued)**

IFRS 7.21 **(y) Share capital and reserves**

**(i) Perpetual bonds<sup>1</sup>**

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The Group's perpetual bonds are not redeemable by holders and bear an entitlement to distributions that is non-cumulative and at the discretion of the Board of Directors. Accordingly, they are presented as a component of issued capital within equity.

**(ii) Share issue costs**

Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

**(z) Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

**(aa) Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group Management Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available (see note 2(e)(ii)).

Note Reference **Explanatory note**

**1.** In April 2009 the IASB issued *Improvements to IFRSs 2009*, which comprises 15 amendments to 12 standards. Effective dates, early application and transitional requirements are addressed on a standard-by-standard basis. The majority of the amendments will be effective 1 January 2010. Some of these amendments are required to be adopted if IFRS 3 *Business Combinations* (2008) and IAS 27 *Consolidated and Separate Financial Statements* (2008) are adopted, and they have been reflected in these illustrative financial statements, as appropriate. The other amendments have not been included in this publication under the new standards and interpretations not yet adopted, as the appropriate level of disclosures will depend on the circumstances of a particular entity.

In November 2008 the IASB issued the revised IFRS 1 *First-time Adoption of International Financial Reporting Standards*, with an effective date of 1 July 2009.

In November 2008 the IASB issued IFRIC 17 *Distributions of Non-cash Assets to Owners*, with an effective date of 1 July 2009.

In March 2009 the IASB amended IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives*, with an effective date of 1 July 2009.

In October 2009 the IASB issued *Classification of Rights Issues – Amendment to IAS 32 Financial Instruments: Presentation* with an effective date of 1 February 2010.

In November 2009 the IASB revised IAS 24 *Related Party Disclosures* with an effective date of 1 January 2011.

In November 2009 the IASB issued *Prepayments of a Minimum Funding Requirement – Amendments to IFRIC 14: IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* with an effective date of 1 January 2011.

In November 2009 the IASB issued IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*, with an effective date of 1 July 2010.

**2.** *IAS 1.31* When new standards, amendments to standards and interpretations will have no effect on the consolidated financial statements of the Group, we believe that it is not necessary to list them as such a disclosure would not be material.

## Reference

## Notes to the consolidated financial statements

**3. Significant accounting policies (continued)**

IAS 8.30, 31

**(ab) New standards and interpretations not yet adopted<sup>1,2</sup>**

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these consolidated financial statements. None of these will have an effect on the consolidated financial statements of the Group, with the exception of:

- IFRS 9 *Financial Instruments*, published on 12 November 2009 as part of phase I of the IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of *held to maturity*, *available for sale* and *loans and receivables*. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss.

The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value.

The standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

The Group is currently in the process of evaluating the potential effect of this standard. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.

- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments will become mandatory for the Group's 2010 consolidated financial statements, with retrospective application required. The amendments are not expected to have a significant impact on the consolidated financial statements.

Note Reference **Explanatory note**

- 1.** *IAS 1.122, 125* Disclosures in respect of areas of estimation uncertainty and critical accounting judgements are included within the text of note 4, but are not referenced to paragraphs 122 and 125 of IAS 1 *Presentation of Financial Statements*. Further disclosure is contained in note 5.
- 2.** *IFRS 7.31* An entity discloses information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the Group is exposed at the reporting date. Those risks typically include, but are not limited to, credit risk, liquidity risk and market risk.
- IFRS 7.33* For each type of risk, an entity discloses:
- (1) the exposures to risk and how they arise
  - (2) its objectives, policies and processes for managing the risk and the methods used to measure the risk
  - (3) any changes in (1) or (2) from the previous period.
- IFRS 7.B6* The disclosures required by IFRS 7.31 - .42 in respect of the nature and extent of risks arising from financial instruments are either presented in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. The location of these disclosures may be limited by local laws.
- In these illustrative financial statements, these disclosures have been presented in the financial statements.
- IFRS 7 requires only risk disclosures for financial instruments. Financial risk exposures from non-financial instruments, e.g., credit risk from operating leases, are disclosed separately if an entity chooses to disclose its entire financial risk position.
- IAS 1.134* In addition, the entity discloses information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Reference Notes to the consolidated financial statements

IFRS 7.31 **4. Financial risk management<sup>1</sup>**

**(a) Introduction and overview<sup>2</sup>**

IFRS 7.31, 32 The Group has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks.

IFRS 7.33 This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

IAS 1.134

**Risk management framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Group Asset and Liability (ALCO) Credit and Operational Risk committees, which are responsible for developing and monitoring Group risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Group Audit Committee is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Group Audit Committee.

IFRS 7.33 **(b) Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers and other banks, and investment debt securities. For risk management reporting purposes the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

For risk management purposes, credit risk arising on trading assets is managed independently; and information thereon is disclosed below. The market risk in respect of changes in value in trading assets arising from changes in market credit spreads applied to debt securities and derivatives included in trading assets is managed as a component of market risk, further details are provided in note 4(d) below.

Note *Reference* **Explanatory note**

- |                            |  |
|----------------------------|--|
| <b>1.</b> <i>IFRS 7.33</i> | The nature and extent of information provided by an entity in this section will depend greatly on its activities with financial instruments and exposure to credit risk. |
|----------------------------|--|

## Reference

## Notes to the consolidated financial statements

IFRS 7.31

**4. Financial risk management (continued)****(b) Credit risk (continued)****Management of credit risk<sup>1</sup>**

The Board of Directors has delegated responsibility for the oversight of credit risk to its Group Credit Committee. A separate Group Credit department, reporting to the Group Credit Committee, is responsible for management of the Group's credit risk, including:

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Establishing the authorisation structure* for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Group Credit, Head of Group Credit, Group Credit Committee or the Board of Directors as appropriate.
- *Reviewing and assessing credit risk*. Group Credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).
- *Developing and maintaining the Group's risk gradings* in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by Group Risk.
- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to Group Credit who may require appropriate corrective action to be taken.
- *Providing advice, guidance and specialist skills* to business units to promote best practice throughout the Group in the management of credit risk.

Each business unit is required to implement Group credit policies and procedures, with credit approval authorities delegated from the Group Credit Committee. Each business unit has a Chief Credit Risk officer who reports on all credit related matters to local management and the Group Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of business units and Group Credit processes are undertaken by Internal Audit.

Note Reference **Explanatory note**

- 1.** *IFRS 7.34, 36-38* IFRS 7 *Financial Instruments: Disclosures* requires disclosure of information on each risk in a format based on the information provided internally to key management personnel of the entity (as defined in IAS 24 *Related Party Disclosures*), e.g., the entity's board of directors or chief executive.

The standard also requires specific additional disclosures to be made unless covered by the information provided to management.

The example shown in these illustrative financial statements in relation to credit risk assumes that the primary basis for reporting to key management personnel on credit risk is an analysis of the value of each class of non-trading assets for each internal risk grade, and the provisions recognised to cover impairment losses. The illustrative table of quantitative credit risk information therefore combines a number of the specific requirements of IFRS 7.36-38 with the management information required under IFRS 7.34. However, other presentations are possible.

- 2.** *IFRS 7.34* In these illustrative financial statements assets that are part of a portfolio that has a collective provision for impairment are disclosed separately, since this information is provided internally to management. Alternatively these assets can be analysed in the "neither past due nor impaired" category.

## Reference Notes to the consolidated financial statements

IFRS 7.31 **4. Financial risk management (continued)****(b) Credit risk (continued)****Exposure to credit risk<sup>1</sup>**

		Loans and advances to customers		Loans and advances to banks		Investment securities		
IFRS 7.36		2009	2008	2009	2008	2009	2008	
IFRS 7.34(a)	<i>In millions of euro</i>							
	<b>Note</b>							
IFRS 7.36(a)	Carrying amount	20, 21, 22	63,070	56,805	5,572	4,707	5,807	4,843
	<b>Assets at amortised cost</b>							
	Individually impaired:							
IFRS 7.37(b)	Grade 6: Impaired		2,920	2,277	15	12	-	-
IFRS 7.37(b)	Grade 7: Impaired		1,460	1,139	7	6	-	-
IFRS 7.37(b)	Grade 8: Impaired		487	380	2	2	-	-
IFRS 7.37(b)	Gross amount		4,867	3,796	24	20	-	-
IFRS 7.37(b)	Allowance for impairment	20, 21	(1,453)	(1,324)	(12)	(5)	-	-
IFRS 7.37(b)	Carrying amount		3,414	2,472	12	15	-	-
	Collectively impaired: <sup>2</sup>							
IFRS 7.34(a)	Grade 1-3: Low-fair risk		1,812	1,476	-	-	-	-
IFRS 7.34(a)	Grade 4-5: Watch list		389	317	-	-	-	-
IFRS 7.34(a)	Grade 6: Impaired		207	169	-	-	-	-
IFRS 7.34(a)	Grade 7: Impaired		130	106	-	-	-	-
IFRS 7.34(a)	Grade 8: Impaired		52	42	-	-	-	-
IFRS 7.34(a)	Gross amount		2,590	2,110	-	-	-	-
IFRS 7.34(a)	Allowance for impairment	21	(220)	(198)	-	-	-	-
IFRS 7.34(a)	Carrying amount		2,370	1,912	-	-	-	-
	Past due but not impaired:							
IFRS 7.34(a)	Grade 1-3: Low-fair risk		470	328	-	-	-	-
IFRS 7.34(a)	Grade 4-5: Watch list		202	141	-	-	-	-
IFRS 7.34(a)	Carrying amount		672	469	-	-	-	-
	<i>Past due comprises:</i>							
IFRS 7.37(a)	30-60 days		512	461	-	-	-	-
IFRS 7.37(a)	60-90 days		141	-	-	-	-	-
IFRS 7.37(a)	90-180 days		14	8	-	-	-	-
IFRS 7.37(a)	180 days +		5	-	-	-	-	-
IFRS 7.37(a)	Carrying amount		672	469	-	-	-	-
	Neither past due nor impaired:							
IFRS 7.36(c)	Grade 1-3: Low-fair risk		48,665	45,607	5,560	4,692	101	101
IFRS 7.36(c)	Grade 4-5: Watch list		3,963	3,200	-	-	-	-
IFRS 7.36(c)	Carrying amount		52,628	48,807	5,560	4,692	101	101
IFRS 7.36(d)	<i>Includes accounts with renegotiated terms</i>		1,132	1,048	111	94	-	-
	Carrying amount							
	- amortised cost	20, 21, 22	59,084	53,660	5,572	4,707	101	101

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## Reference Notes to the consolidated financial statements

IFRS 7.31 **4. Financial risk management (continued)****(b) Credit risk (continued)****Past due but not impaired loans and investment debt securities**

Past due but not impaired loans and investment debt securities, other than those carried at fair value through profit or loss, are those for which contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Group.

**Loans with renegotiated terms**

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

**Allowances for impairment**

The Group establishes an allowance for impairment losses on assets carried at amortised cost or classified as available for sale that represents its estimate of incurred losses in its loan and investment debt security portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that are considered individually insignificant as well as individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired. Assets carried at fair value through profit or loss are not subject to impairment testing as the measure of fair value reflects the credit quality of each asset.

**Write-off policy**

The Group writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when Group Credit determines that the loan or security is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write-off decisions generally are based on a product-specific past due status.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade.

		Loans and advances to customers		Loans and advances to banks		AFS investment debt securities	
		Gross	Net	Gross	Net	Gross	Net
<i>In millions of euro</i>							
<b>31 December 2009</b>							
<i>IFRS 7.37(b)</i>	Grade 6: Individually impaired	2,920	2,348	15	9	144	54
<i>IFRS 7.37(b)</i>	Grade 7: Individually impaired	1,460	947	7	2	72	21
<i>IFRS 7.37(b)</i>	Grade 8: Individually impaired	487	119	2	1	24	5
		<b>4,867</b>	<b>3,414</b>	<b>24</b>	<b>12</b>	<b>240</b>	<b>80</b>
<b>31 December 2008</b>							
<i>IFRS 7.37(b)</i>	Grade 6: Individually impaired	2,277	1,786	12	10	72	59
<i>IFRS 7.37(b)</i>	Grade 7: Individually impaired	1,139	611	6	4	36	22
<i>IFRS 7.37(b)</i>	Grade 8: Individually impaired	380	75	2	1	12	4
		<b>3,796</b>	<b>2,472</b>	<b>20</b>	<b>15</b>	<b>120</b>	<b>85</b>

Note Reference **Explanatory note**

- |                                  |  |
|----------------------------------|--|
| <b>1.</b> IFRS 7.36(b),<br>37(c) | IFRS 7 <i>Financial Instruments: Disclosures</i> requires a description of collateral held as security and other credit enhancements and, unless impracticable, an estimate of their fair value. |
|----------------------------------|--|

## Reference Notes to the consolidated financial statements

IFRS 7.31 **4. Financial risk management (continued)****(b) Credit risk (continued)**

IFRS 7.36(b), 37(c) The Group holds collateral<sup>1</sup> against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2009 or 2008.

An estimate of the fair value of collateral and other security enhancements held against loans and advances to customers and banks is shown below:

IFRS 7.36	In millions of euro	Loans and advances to customers		Loans and advances to banks	
		2009	2008	2009	2008
IFRS 7.34(a)					
IFRS 7.37(c)	Against individually impaired:				
	Property	2,331	1,822	-	-
	Debt securities	885	449	-	-
	Equities	238	289	-	-
	Other	175	213	-	-
	Against collectively impaired:				
	Property	1,205	1,065	-	-
	Debt securities	438	344	-	-
	Equities	227	156	-	-
	Other	102	247	-	-
IFRS 7.37(c)	Against past due but not impaired:				
	Property	327	188	-	-
	Debt securities	221	-	-	-
	Other	74	136	-	-
	Against neither past due nor impaired:				
	Property	38,992	36,221	-	-
	Debt securities	11,022	9,095	579	512
	Equities	2,210	2,325	-	-
	Other	1,530	1,721	-	-
	Against fair value through profit or loss:				
	Property	1,100	1,243	-	-
	Debt securities	432	502	-	-
	Equities	83	98	-	-
	Other	10	11	-	-
IFRS 7.36(b)		<b>61,602</b>	<b>56,125</b>	<b>579</b>	<b>512</b>

## IFRS 7.38

Details of financial and non-financial assets obtained by the Group during the year by taking possession of collateral held as security against loans and advances as well as calls made on credit enhancements and held at the year end are shown below:

In millions of euro	2009	2008
Property	812	794
Debt securities	107	116
Other	63	44

The Group's policy is to pursue timely realisation of the collateral in an orderly manner. The Group generally does not use the non-cash collateral for its own operations.

Note *Reference* **Explanatory note**

1. *IFRS 7.34(c)* IFRS 7 *Financial Instruments: Disclosures* requires separate disclosure of concentrations of risk unless readily apparent from the other information provided.

## Reference Notes to the consolidated financial statements

IFRS 7.31 **4. Financial risk management (continued)****(b) Credit risk (continued)**

IFRS 7.34(c)

The Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and advances and investment securities at the reporting date is shown below:<sup>1</sup>

<i>In millions of euro</i>	<i>Note</i>	<b>Loans and advances to customers</b>		<b>Loans and advances to banks</b>		<b>Investment debt securities</b>	
		<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Carrying amount	20, 21, 22	63,070	56,805	5,572	4,707	5,807	5,143
<b>IFRS 7.34(c)</b>	<b>Concentration by sector</b>						
	Corporate:	42,414	37,987	-	-	4,392	3,854
	<i>Real estate</i>	16,966	15,574	-	-	2,399	2,042
	<i>Transport</i>	12,724	10,636	-	-	1,928	1,650
	<i>Funds</i>	9,331	8,737	-	-	-	-
	<i>Other</i>	3,393	3,040	-	-	65	162
	Government	-	-	-	-	1,317	1,202
	Banks	-	-	5,572	4,707	-	-
	Retail:	20,656	18,818	-	-	98	87
	<i>Mortgages</i>	14,547	13,361	-	-	98	87
	<i>Unsecured lending</i>	6,109	5,457	-	-	-	-
		63,070	56,805	5,572	4,707	5,807	5,143
<b>IFRS 7.34(c)</b>	<b>Concentration by location</b>						
	North America	12,649	11,393	1,118	944	2,374	2,246
	Europe	36,238	32,656	3,139	2,652	2,443	2,061
	Asia Pacific	8,188	7,356	722	664	528	446
	Middle East and Africa	5,995	5,400	593	447	462	390
		63,070	56,805	5,572	4,707	5,807	5,143

Concentration by location for loans and advances is measured based on the location of the Group entity holding the asset, which has a high correlation with the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security.

Note Reference **Explanatory note**

- 1.** *IFRS 7.34, 39(c)* IFRS 7 *Financial Instruments: Disclosures* requires disclosure of information on each risk in a format based on the information provided internally to key management personnel of the entity (as defined in IAS 24 *Related Party Disclosures*), e.g., the entity's board of directors or chief executive.

The example shown in these illustrative financial statements in relation to liquidity risk assumes that the primary basis for reporting to key management personnel on liquidity risk is the ratio of liquid assets to deposits from customers. The example also assumes that this is the entity's approach to managing liquidity risk. However, other presentations are possible.

## Reference Notes to the consolidated financial statements

IFRS 7.31 **4. Financial risk management (continued)**  
**(b) Credit risk (continued)****Trading assets**IFRS 7.34(a),  
7.36(a)

The Group held trading assets, including derivative assets held for risk management purposes, but excluding equity securities, of €17,064 million at 31 December 2009 (2008: €16,079 million). An analysis of the credit quality of the maximum credit exposure, based on rating agency [X] ratings where applicable, is as follows:

IFRS 7.36(c)

*In millions of euro*

	Note	2009	2008
Government bonds and treasury bills:			
Rated AAA	18	10,221	9,842
Corporate bonds:			
Rated AA- to AA+	18	3,054	3,256
Rated A- to A+	18	1,437	814
Asset-backed securities:			
Rated AA- to AA+	18	397	417
Rated A- to A+	18	119	46
Derivative assets:			
Government counterparties		459	375
Bank and financial institution counterparties		1,157	1,193
Corporate counterparties		220	136
Fair value and carrying amount		<u>17,064</u>	<u>16,079</u>

IFRS 7.36(b)

It is the Group's policy to enter into master netting and margining agreements with all derivative counterparties. At 31 December 2009 the Group had obtained collateral of €825 million from derivative counterparties (2008: €777 million) and would be entitled to offset derivative and other liabilities of €434 million (2008: €348 million) against recorded derivative assets in the event of counterparty defaults.

**Cash and cash equivalents**IFRS 7.34(a),  
7.36(a),(c)

The Group held cash and cash equivalents of €2,907 million at 31 December 2009 (2008: €2,992 million) which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with the central bank which is rated AAA and bank and financial institution counterparties which are rated AA- to AA+, based on rating agency [X] ratings.

**Settlement risk**

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Group mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from Group Risk.

IFRS 7.39

**(c) Liquidity risk<sup>1</sup>**

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

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Reference Notes to the consolidated financial statements

IFRS 7.31 **4. Financial risk management (continued)**

IFRS 7.39(c) **(c) Liquidity risk (continued)**

**Management of liquidity risk**

IFRS 7.39(b)

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Central Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Central Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business units and subsidiaries are met through short-term loans from Central Treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

When an operating subsidiary or branch is subject to a liquidity limit imposed by its local regulator, the subsidiary or branch is responsible for managing its overall liquidity within the regulatory limit in co-ordination with Central Treasury. Central Treasury monitors compliance of all operating subsidiaries and foreign branches with local regulatory limits on a daily basis.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of both the Group and operating subsidiaries and foreign branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Group relies on deposits from customers and banks, and issued debt securities and subordinated liabilities as its primary sources of funding. While the Group's debt securities and subordinated liabilities have maturities of over one year, deposits from customers and banks generally have shorter maturities and a large proportion of them are repayable on demand. The short-term nature of these deposits increases the Group's liquidity risk and the Group actively manages this risk through maintaining competitive pricing and constant monitoring of market trends. During 2009 customer deposits in savings products increased as a proportion of total deposits as a result of new deposit products offered by the Group.

**Exposure to liquidity risk**

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Group's compliance with the liquidity limit established by the Group's lead regulator, [Name of regulator]. Details of the reported Group ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period were as follows:

	2009	2008
IFRS 7.34(a), 39(c) At 31 December	22.0%	23.7%
Average for the period	22.6%	23.1%
Maximum for the period	24.2%	24.7%
Minimum for the period	18.9%	21.2%

Note Reference **Explanatory note**

**1.** *IFRS 7.39(a), (b), B11B* IFRS 7 *Financial Instruments: Disclosures* was amended in March 2009 to require enhanced disclosures over liquidity risk. Under the revised IFRS 7 an entity is required to disclose a maturity analysis for:

- non-derivative financial liabilities, including issued financial guarantee contracts, showing their remaining contractual maturities
- derivative financial liabilities, which should include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows (e.g., loan commitments and interest rate swaps designated in a cash flow hedge relationship).

*IFRS 7B11C (c)* In the case of issued financial guarantee contracts, the maximum amount of the guarantee should be disclosed in the earliest period in which the guarantee could be called.

## Reference Notes to the consolidated financial statements

IFRS 7.31 **4. Financial risk management (continued)****(c) Liquidity risk (continued)**IFRS 7.39(a), (b) **Maturity analysis for financial liabilities<sup>1</sup>**

IFRS 7.B11	In millions of euro	Note	Carrying amount	Gross nominal inflow / (outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
<b>31 December 2009</b>									
IFRS 7.39(a)	<i>Non-derivative liabilities</i>								
	Trading liabilities	18	6,618	(6,882)	(5,625)	(926)	(331)	-	-
	Deposits from banks	27	11,678	(12,713)	(10,683)	(1,496)	(534)	-	-
	Deposits from customers	28	53,646	(55,340)	(39,318)	(741)	(3,540)	(11,741)	-
	Debt securities issued	29	11,227	(12,881)	-	-	(201)	(12,680)	-
	Subordinated liabilities	30	5,642	(6,660)	-	-	-	(5,499)	(1,161)
IFRS 7.B11C(c)	Issued financial guarantee contracts	32	32	(58)	-	-	(58)	-	-
IFRS 7.B11D(e)	Unrecognised loan commitments		-	(1,883)	(1,883)	-	-	-	-
			88,843	(96,417)	(57,509)	(3,163)	(4,664)	(29,920)	(1,161)
IFRS 7.39(b), B11B	<i>Derivative liabilities</i>								
	Trading:	18	408	-	-	-	-	-	-
	Outflow		-	(3,217)	(398)	(1,895)	(856)	(68)	-
	Inflow		-	2,789	138	1,799	823	29	-
	Risk management:	19	828	-	-	-	-	-	-
	Outflow		-	(9,855)	(476)	(1,506)	(1,458)	(6,113)	(302)
	Inflow		-	9,010	466	1,472	1,392	5,509	171
			1,236	(1,273)	(270)	(130)	(99)	(643)	(131)
<b>31 December 2008</b>									
IFRS 7.39(a)	<i>Non-derivative liabilities</i>								
	Trading liabilities	18	5,680	(6,627)	(5,568)	(780)	(279)	-	-
	Deposits from banks	27	10,230	(11,324)	(9,516)	(1,332)	(476)	-	-
	Deposits from customers	28	48,904	(50,292)	(36,758)	(713)	(3,443)	(9,378)	-
	Debt securities issued	29	10,248	(11,785)	-	-	-	(11,785)	-
	Subordinated liabilities	30	4,985	(5,898)	-	-	-	(4,782)	(1,116)
IFRS 7.B11C(c)	Issued financial guarantee contracts	32	28	(49)	-	-	(49)	-	-
IFRS 7.B11D(e)	Unrecognised loan commitments		-	(1,566)	(1,566)	-	-	-	-
			80,075	(87,541)	(53,408)	(2,825)	(4,247)	(25,945)	(1,116)
IFRS 7.39(b), B11B	<i>Derivative liabilities</i>								
	Trading:	18	372	-	-	-	-	-	-
	Outflow		-	(2,925)	(381)	(1,651)	(835)	(58)	-
	Inflow		-	2,533	122	1,583	789	39	-
	Risk management:	19	789	-	-	-	-	-	-
	Outflow		-	(7,941)	(313)	(1,041)	(1,423)	(5,125)	(39)
	Inflow		-	7,115	299	972	1,341	4,483	20
			1,161	(1,218)	(273)	(137)	(128)	(661)	(19)

Note Reference **Explanatory note**

- |   |  |
|---|--|
| <p><b>1.</b> <i>IIFRS 7.39(c),<br/>B11E</i></p> | <p>An entity should explain how it manages the liquidity risk inherent in the maturity analyses. This includes a maturity analysis for financial assets it holds as part of managing liquidity risk (e.g., financial assets that are expected to generate cash inflows to meet cash outflows on financial liabilities) if such information is necessary to enable financial statement users to evaluate the nature and extent of liquidity risk.</p> |
|---|--|

*Reference* Notes to the consolidated financial statements*IFRS 7.31* **4. Financial risk management (continued)**  
**(c) Liquidity risk (continued)**

*IFRS 7.39(a), (c),  
B11C, B11D* The previous table shows the undiscounted cash flows on the Group's non-derivative financial liabilities, including issued financial guarantee contracts, and unrecognised loan commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. The Group's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance and unrecognised loan commitments are not all expected to be drawn down immediately.

*IFRS 7.39(b), (c),  
B11B, B11D* The gross nominal inflow / (outflow) disclosed in the previous table represents the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes. The disclosure shows a net amount for derivatives that are net settled, but a gross inflow and outflow amount for derivatives that have simultaneous gross settlement (e.g., forward exchange contracts and currency swaps).

Trading derivative liabilities forming part of the Group's proprietary trading operations are expected to be closed out prior to contractual maturity. Hence, in respect of these derivative liabilities the maturity analysis in the previous table reflects the fair values at the date of the statement of financial position since contractual maturities are not reflective of the liquidity risk exposure arising from these positions. These fair values are disclosed in the less than one month column. In addition, trading derivative liabilities comprise also derivatives that are entered into by the Group with its customers. In respect of these liabilities, which are usually not closed out prior to contractual maturity, the maturity analysis in the previous table reflects the contractual undiscounted cash flows as the Group believes that contractual maturities are essential for understanding the timing of cash flows associated with these derivative positions.

To manage the liquidity risk arising from financial liabilities, the Group holds liquid assets comprising cash and cash equivalents and investment grade investment securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements. Hence, the Group believes that it is not necessary to disclose a maturity analysis in respect of these assets to enable users to evaluate the nature and extent of liquidity risk.<sup>1</sup>

Note Reference **Explanatory note**

1. *IFRS 734, 40, 41* IFRS 7 *Financial Instruments: Disclosures* requires disclosure of information on each risk in a format based on the information provided internally to key management personnel of the entity (as defined in IAS 24 *Related Party Disclosures*), e.g., the entity's board of directors or chief executive.

The example shown in these illustrative financial statements in relation to market risk from interest rates illustrates Value at Risk and a gap analysis, two common approaches to the measurement and management of market risk arising from interest rates. The example assumes that the primary basis for reporting to key management personnel on market risk from interest rates is a Value at Risk measure for traded portfolios and a gap and sensitivity analysis for non-trading portfolios. In respect of foreign exchange risk, the example assumes that the primary basis for reporting to key management personnel on market risk from foreign exchange rates is a Value at Risk measure and an analysis of concentration risk in relation to individual currencies. However, other presentations are possible.

Reference Notes to the consolidated financial statements

IFRS 7.31 **4. Financial risk management (continued)**

IFRS 7.31, 32 **(d) Market risks<sup>1</sup>**

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

**Management of market risks**

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are mainly held by the Investment Banking unit, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

With the exception of translation risk arising on the Group's net investment in its foreign operations, all foreign exchange risk within the Group is transferred and sold down by Central Treasury to the Investment Banking unit. Accordingly, the foreign exchange position is treated as part of the Group's trading portfolios for risk management purposes.

Overall authority for market risk is vested in ALCO. Group Market Risk is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

**Exposure to market risks – trading portfolios**

The principal tool used to measure and control market risk exposure within the Group's trading portfolios is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 10-day holding period. The VaR model used is based mainly on historical simulation. Taking account of market data from the previous two years, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements.

IFRS 7.41(a)

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## Reference Notes to the consolidated financial statements

IFRS 7.31 **4. Financial risk management (continued)****(d) Market risks (continued)**

IFRS 7.41(b)

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A 10-day holding period assumes that it is possible to hedge or dispose of positions within that period. This may not be the case for certain highly illiquid assets or in situations in which there is severe general market illiquidity.
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.
- The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if market price volatility declines and vice versa.

The Group uses VaR limits for total market risk and specific foreign exchange, interest rate, equity, credit spread and other price risks. The overall structure of VaR limits is subject to review and approval by ALCO. VaR limits are allocated to trading portfolios. VaR is measured at least daily and more regularly for more actively traded portfolios. Daily reports of utilisation of VaR limits are submitted to Group Market Risk and regular summaries are submitted to ALCO.

A summary of the VaR position of the Group's trading portfolios at 31 December and during the period is as follows:

IFRS 7.41

	<b>At 31</b>			
	<b>December</b>	<b>Average</b>	<b>Maximum</b>	<b>Minimum</b>
<i>In millions of euro</i>				
<b>2009</b>				
Foreign currency risk	12.04	10.04	15.06	7.97
Interest rate risk	27.41	22.05	39.48	17.53
Credit spread risk	9.07	6.97	9.52	5.66
Other price risk	3.28	3.01	4.02	2.42
Covariance	(2.76)	(3.08)	-	-
Overall	49.04	38.99	62.53	34.01
<b>2008</b>				
Foreign currency risk	9.28	8.40	12.05	4.64
Interest rate risk	20.43	18.05	26.52	13.72
Credit spread risk	6.08	5.11	8.83	3.50
Other price risk	3.32	2.89	4.56	2.07
Covariance	(2.24)	(2.08)	-	-
Overall	36.87	32.37	47.64	26.68

The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios, such as periods of prolonged market illiquidity, on individual trading portfolios and the Group's overall position.

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## Reference

## Notes to the consolidated financial statements

IFRS 7.31

**4. Financial risk management (continued)****(d) Market risks (continued)****Exposure to interest rate risk – non-trading portfolios**

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Central Treasury in its day-to-day monitoring activities. A summary of the Group's interest rate gap position on non-trading portfolios is as follows:

<i>In millions of euro</i>			<b>Carrying</b>	<b>Less</b>	<b>3-6</b>	<b>6-12</b>	<b>1-5</b>	<b>More than</b>
	<b>Note</b>	<b>amount</b>	<b>than 3</b>	<b>months</b>	<b>months</b>	<b>months</b>	<b>years</b>	<b>5 years</b>
<b>31 December 2009</b>								
IFRS 7.34(a)								
Cash and cash equivalents	17	2,907	2,907	-	-	-	-	-
Loans and advances to banks	20	5,572	4,903	669	-	-	-	-
Loans and advances to customers	21	59,084	22,162	7,760	3,259	22,256	3,647	
Investment securities	22	1,882	177	442	720	442	101	
		<b>69,445</b>	<b>30,149</b>	<b>8,871</b>	<b>3,979</b>	<b>22,698</b>	<b>3,748</b>	
Deposits from banks	27	(11,678)	(11,202)	(476)	-	-	-	-
Deposits from customers	28	(53,646)	(39,715)	(1,584)	(1,636)	(10,711)	-	-
Debt securities issued	29	(8,818)	(5,143)	-	(184)	(3,491)	-	-
Subordinated liabilities	30	(5,642)	-	(4,782)	-	-	-	(860)
		<b>(79,784)</b>	<b>(56,060)</b>	<b>(6,842)</b>	<b>(1,820)</b>	<b>(14,202)</b>	<b>(860)</b>	
Effect of derivatives held for risk management	19	-	3,620	1,576	-	(5,196)	-	-
		<b>(10,339)</b>	<b>(22,291)</b>	<b>3,605</b>	<b>2,159</b>	<b>3,300</b>	<b>2,888</b>	
<b>31 December 2008</b>								
IFRS 7.34(a)								
Cash and cash equivalents	17	2,992	2,992	-	-	-	-	-
Loans and advances to banks	20	4,707	4,142	565	-	-	-	-
Loans and advances to customers	21	53,660	20,381	7,227	2,913	19,867	3,272	
Investment securities	22	1,841	162	406	766	406	101	
		<b>63,200</b>	<b>27,677</b>	<b>8,198</b>	<b>3,679</b>	<b>20,273</b>	<b>3,373</b>	
Deposits from banks	27	(10,230)	(9,778)	(452)	-	-	-	-
Deposits from customers	28	(48,904)	(38,735)	(1,493)	(1,065)	(7,611)	-	-
Debt securities issued	29	(8,040)	(4,473)	-	(178)	(3,389)	-	-
Subordinated liabilities	30	(4,985)	-	(4,158)	-	-	-	(827)
		<b>(72,159)</b>	<b>(52,986)</b>	<b>(6,103)</b>	<b>(1,243)</b>	<b>(11,000)</b>	<b>(827)</b>	
Effect of derivatives held for risk management	19	-	3,225	1,240	-	(4,465)	-	-
		<b>(8,959)</b>	<b>(22,084)</b>	<b>3,335</b>	<b>2,436</b>	<b>4,808</b>	<b>2,546</b>	

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Reference

## Notes to the consolidated financial statements

IFRS 7.31

**4. Financial risk management (continued)****(d) Market risks (continued)****Exposure to interest rate risk – non-trading portfolios (continued)**

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide and a 50 bp rise or fall in the greater than 12-month portion of all yield curves. An analysis of the Group's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows:<sup>1</sup>

IFRS 7.40(a)

In millions of euro

	100 bp parallel increase	100 bp parallel decrease	50 bp increase after 1 year	50 bp decrease after 1 year
--	--------------------------------	--------------------------------	-----------------------------------	-----------------------------------

**Sensitivity of projected net interest income****2009**

At 31 December	(435)	461	(222)	230
Average for the period	(425)	452	(220)	226
Maximum for the period	(446)	485	(236)	242
Minimum for the period	(394)	419	(203)	209

**2008**

At 31 December	(394)	417	(202)	209
Average for the period	(383)	412	(199)	207
Maximum for the period	(407)	426	(206)	211
Minimum for the period	(372)	404	(195)	203

**Sensitivity of reported equity to interest rate movements****2009**

At 31 December	(778)	789	(390)	398
Average for the period	(765)	788	(372)	381
Maximum for the period	(792)	802	(396)	401
Minimum for the period	(753)	777	(369)	365

**2008**

At 31 December	(692)	699	(379)	383
Average for the period	(688)	693	(366)	371
Maximum for the period	(702)	716	(382)	391
Minimum for the period	(679)	686	(361)	369

Interest rate movements affect reported equity in the following ways:

- retained earnings arising from increases or decreases in net interest income and the fair value changes reported in profit or loss
- fair value reserves arising from increases or decreases in fair values of available-for-sale financial instruments reported directly in equity
- hedging reserves arising from increases or decreases in fair values of hedging instruments designated in qualifying cash flow hedge relationships.

Overall non-trading interest rate risk positions are managed by Central Treasury, which uses investment securities, advances to banks, deposits from banks and derivative instruments to manage the overall position arising from the Group's non-trading activities. The use of derivatives to manage interest rate risk is described in note 19.

Note Reference **Explanatory note**

1. Operational risk is not a financial risk, and is not specifically required to be disclosed by IFRS 7 *Financial Instruments: Disclosures*. However, operational risk in a financial institution commonly is managed and reported internally in a formal framework similar to financial risks, and may be a factor in capital allocation and regulation.

## Reference

## Notes to the consolidated financial statements

IFRS 7.31

**4. Financial risk management (continued)****(d) Market risks (continued)****Exposure to other market risks – non-trading portfolios**

Equity price risk is subject to regular monitoring by Group Market Risk, but is not currently significant in relation to the overall results and financial position of the Group.

The result of structural foreign exchange positions on the Group's net investments in foreign subsidiaries and branches, together with any related net investment hedges (see note 19), is recognised in equity. The Group's policy is only to hedge such exposures when not to do so would have a significant impact on the regulatory capital ratios of the Group and its banking subsidiaries. The result of this policy is that hedging generally only becomes necessary when the ratio of structural exposures in a particular currency to risk-weighted assets denominated in that currency diverges significantly from the capital ratio of the entity being considered. In addition to monitoring VaR in respect of foreign currency, the Group monitors any concentration risk in relation to any individual currency in regard to the translation of foreign currency transactions and monetary assets and liabilities into the functional currency of Group entities, and with regard to the translation of foreign operations into the presentation currency of the Group (after taking account of the impact of any qualifying net investment hedges). As at the reporting date net currency exposures representing more than 10 percent of the Group's equity are as follows:

IFRS 7.34(c)

**Foreign currency transactions**

	Functional currency of Group entities			
	2009 Euro	2009 US\$	2008 Euro	2008 US\$
<i>In millions</i>				
Net foreign currency exposure:				
Pounds Sterling	(715)	-	-	-
US\$	684	-	650	-
Euro	-	703	-	-

**Foreign operations**

	Net investments	
	2009	2008
<i>In millions</i>		
Functional currency of foreign operation:		
Pounds Sterling	984	782
US\$	680	-

**(e) Operational risks<sup>1</sup>**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

Note Reference **Explanatory note**

1. *IAS 1.134-136* IAS 1 *Presentation of Financial Statements* requires the disclosure of information on an entity's objectives, policies and processes for managing capital, and has specific requirements when the entity's capital is regulated.

The example disclosures presented in these illustrative financial statements assume that the primary basis for capital management is regulatory capital requirements. However, other presentations are possible.

Banks often will be subject to specific local regulatory capital requirements. The example disclosures are not designed to comply with any particular regulatory framework.

*Reference* Notes to the consolidated financial statements*IFRS 7.31***4. Financial risk management (continued)**  
**(e) Operational risks (continued)**

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with Group standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

*IAS 1.134***(f) Capital management<sup>1</sup>**  
**Regulatory capital***IAS 1.135(a)(iii)*

The Group's lead regulator [Name of regulator] sets and monitors capital requirements for the Group as a whole. The parent company and individual banking operations are directly supervised by their local regulators.

*IAS 1.135(c)*

With effect from 1 January 2009 the Group is required to comply with the provisions of the Basel II framework in respect of regulatory capital. The Group has been granted approval by its lead regulator [name of regulator] to adopt the advanced approaches to credit and operational risk management, except in respect of the credit portfolios of certain subsidiaries where the standardised approach is being applied at present pending approval for use of the advanced approach from the lead regulator. Under both Basel I and II the Group calculates requirements for market risk in its trading portfolios based upon the Group's VaR models.

Principal changes arising from the change to the Basel II framework were as follows:

- a reduction in tier 1 capital arising from a 50 percent reduction of the difference between expected loss and accounting impairment provisions for credit portfolios assessed under the advanced approach
- a reduction in tier 2 capital arising from a 50 percent reduction of the difference between expected loss and accounting impairment provisions for credit portfolios assessed under the advanced approach
- a reduction in total risk-weighted assets reflecting the application of the advanced approach to the majority of the Group's credit portfolio, offset in part by the impact of the specific charge for operational risk
- removal of fair value gains / losses, net of deferred tax, arising from the credit spreads on debt securities issued by the Group that are designated at fair value through profit or loss.

Note Reference **Explanatory note**

- |  |  |
|--|--|
| <b>1.</b> <i>IAS 1.135(c),<br/>(e)</i> | When applicable, an entity discloses a description of changes in quantitative and qualitative data about its objectives, policies and processes for managing capital as compared to the prior period, and any instances of non-compliance with any externally imposed capital requirements to which it is subject.   |
| <i>IAS 1.136</i>                       | When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or distorts a financial statement user's understanding of an entity's capital resources, the entity discloses separate information for each capital requirement to which the entity is subject. |

Reference Notes to the consolidated financial statements

IFRS 7.31 **4. Financial risk management (continued)**  
**(f) Capital management (continued)**

IAS 1.135(a)(i)

The Group's regulatory capital is analysed into two tiers:

- tier 1 capital, which includes ordinary share capital, share premium, perpetual bonds (which are classified as innovative tier 1 securities), retained earnings, translation reserve and non-controlling interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes
- tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances (limited to those credit portfolios where the standardised approach is used under Basel II) and the element of the fair value reserve relating to unrealised gains / losses on equity instruments classified as available for sale.

Various limits are applied to elements of the capital base. The amount of innovative tier 1 securities cannot exceed 15 percent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. There also are restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of banks and certain other regulatory items.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and exposures not recognised in the statement of financial position. As noted above, Basel II introduced a risk-weighted asset requirement in respect of operational risk.

IAS 1.135(a)(iii)

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

IAS 1.135(d)

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.<sup>1</sup>

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## Reference Notes to the consolidated financial statements

## IFRS 7.31 4. Financial risk management (continued)

## (f) Capital management (continued)

IAS 1.135(b),(c)

The Group's regulatory capital position under Basel II at 31 December was as follows:

<i>In millions of euro</i>	<b>Note</b>	<b>2009 Basel II Actual</b>	<b>2008 Basel II Pro forma</b>	<b>2008 Basel I Actual</b>
<b>Tier 1 capital</b>				
Ordinary share capital	33	1,759	1,756	1,756
Share premium	33	466	439	439
Perpetual bonds	33	500	500	500
Retained earnings	33	3,373	2,948	2,948
Translation reserve	33	62	72	72
Non-controlling interests	33	156	128	128
Less intangible assets	24	(275)	(259)	(259)
Less 50 percent of excess of expected losses over accounting impairment provisions on credit portfolios		(408)	(352)	-
Less fair value losses, net of deferred tax, arising from the credit spreads on debt securities issued designated at fair value		(6)	(4)	-
Other regulatory adjustments		9	6	5
		5,636	5,234	5,589
<b>Tier 2 capital</b>				
Fair value reserve for available-for-sale equity securities		70	73	73
Collective allowances for impairment	21	25	20	198
Less 50 percent of excess of expected losses over accounting impairment provisions on credit portfolios		(408)	(352)	-
Qualifying subordinated liabilities	30	2,749	2,079	2,079
		2,436	1,820	2,350
<b>Total regulatory capital</b>		8,072	7,054	7,939

Management uses regulatory capital ratios in order to monitor its capital base (see [name of document] for details), and these capital ratios remain the international standards for measuring capital adequacy. The lead regulator's approach to such measurement based upon Basel II is now primarily based on monitoring the relationship of the Capital Resources Requirement (measured as 8 percent of risk-weighted assets) to available capital resources. The lead regulator also sets individual capital guidance (ICG) for each bank and banking group that sets capital requirements in excess of the minimum Capital Resources Requirement. A key input to the ICG setting process is the Group's Internal Capital Assessment Process (ICAP). The Group submitted its ICAP document to the lead regulator in 2007 and the ICG was agreed by 1 January 2008. The agreed ICG remains confidential between each bank and the lead regulator in accordance with accepted practice.

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*Reference* Notes to the consolidated financial statements*IFRS 7.31* **4. Financial risk management (continued)**  
**(f) Capital management (continued)***IAS 1.135(a)***Capital allocation**

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation by Group Risk and Group Credit, and is subject to review by the Group Credit Committee or ALCO as appropriate.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision-making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

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*Reference* Notes to the consolidated financial statements**5. Use of estimates and judgements**

Management discusses with the Group Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see note 4).

*IAS 1.125***Key sources of estimation uncertainty****Allowances for credit losses**

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3(j)(vii).

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances and held-to-maturity investment securities, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

**Determining fair values**

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(j)(vi). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also "Valuation of financial instruments" below.

*IAS 1.122***Critical accounting judgements in applying the Group's accounting policies**

Critical accounting judgements made in applying the Group's accounting policies include:

**Impairment of investment in equity securities**

Investments in equity securities are evaluated for impairment on the basis described in accounting policy 3(j)(vii).

For an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. In this respect, the Group regards a decline in fair value in excess of 20 percent to be "significant" and a decline in a quoted market price that persists for nine months or longer to be "prolonged".

Note Reference **Explanatory note**

1. *IFRS 727, 27A* IFRS 7 *Financial Instruments: Disclosures* was amended in March 2009 to require enhanced disclosures in respect of fair value measurements relating to financial instruments. The amendments require disclosures relating to fair value measurements using a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values and contains the following three levels:
  - Level 1 – fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities
  - Level 2 – fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
  - Level 3 – fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e., unobservable inputs).

*Reference* Notes to the consolidated financial statements**5. Use of estimates and judgements (continued)***IAS 1.122***Critical accounting judgements in applying the Group's accounting policies (continued)**  
**Valuation of financial instruments**

The Group's accounting policy on fair value measurements is discussed in accounting policy 3(j)(vi).

*IFRS 7.27A*

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:<sup>1</sup>

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

*IFRS 7.27*

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, that would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Note Reference **Explanatory note**

**1.**

*The IASB Expert Advisory Panel report (the Panel report) summarises the discussions of the Panel and provides useful information and educational guidance for measuring and disclosing fair values and for meeting the requirements of IFRSs. It does not establish new requirements for entities applying IFRSs.*

*The Panel report states that it would be helpful for an entity to consider disclosure of the control environment and that a description of the entity's governance and controls over the valuation processes, particularly as it applies to identified classes of financial instruments for which enhanced fair value disclosures are provided, i.e., instruments of particular interest to users, provides useful information about the quality of reported fair values and allows users to ascertain why management is satisfied that the values reported are representationally faithful.*

## Reference

## Notes to the consolidated financial statements

**5. Use of estimates and judgements (continued)**

IAS 1.122

**Critical accounting judgements in applying the Group's accounting policies (continued)**  
**Valuation of financial instruments (continued)**

For more complex instruments, the Group uses proprietary valuation models, which usually are developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs include certain over the counter structured derivatives, certain loans and securities for which there is no active market and retained interests in securitisations. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

*The Group has an established control framework<sup>1</sup> with respect to the measurement of fair values. This framework includes a Product Control function, which is independent of front office management and reports to the Chief Financial Officer, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include: verification of observable pricing inputs and reperformance of model valuations; a review and approval process for new models and changes to models involving both Product Control and Group Market Risk; calibration and back testing of models against observed market transactions; analysis and investigation of significant daily valuation movements; review of significant unobservable inputs and valuation adjustments by a committee of senior Product Control and Group Market Risk personnel; and reporting of significant valuation issues to the Group Audit Committee.*

Note Reference **Explanatory note**

- 1.** *IFRS 7.27A* The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustments based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.
- 2.** *IFRS 7.44G* In the first year of application of the amendments to IFRS 7 *Financial Instruments: Disclosures*, issued in March 2009 and effective for annual periods beginning on or after 1 January 2009, an entity need not provide comparative information for the disclosures required by the amendments.
- 3.** *In these illustrative financial statements, comparative information in respect of fair value measurements disclosures within a fair value hierarchy has been provided as similar disclosures were recommended in the Panel report.*
- 4.** *IFRS 7.27B(b)* For fair value measurements recognised in the statement of financial position, an entity discloses any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers. Transfers into each level should be disclosed and discussed separately from transfers out of each level. For this purpose, significance is judged with respect to profit or loss, and total assets or total liabilities.

## Reference Notes to the consolidated financial statements

**5. Use of estimates and judgements (continued)**

IAS 1.122

**Critical accounting judgements in applying the Group's accounting policies (continued)**  
**Valuation of financial instruments (continued)**

IFRS 7.27B(a)

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:<sup>1</sup>

In millions of euro	Note	Level 1	Level 2	Level 3	Total
<b>31 December 2009</b>					
Trading assets	18	10,355	5,627	680	16,662
Derivative assets held for risk management	19	26	832	-	858
Loans and advances to customers	21	389	3,438	159	3,986
Investment securities	22	2,606	2,886	709	6,201
		13,376	12,783	1,548	27,707
Trading liabilities	18	5,719	1,237	70	7,026
Derivative liabilities held for risk management	19	41	787	-	828
Debt securities issued	29	1,928	481	-	2,409
		7,688	2,505	70	10,263
<b>31 December 2008<sup>2,3</sup></b>					
Trading assets	18	10,805	4,631	332	15,768
Derivative assets held for risk management	19	36	690	-	726
Loans and advances to customers	21	346	2,680	119	3,145
Investment securities	22	2,586	2,302	580	5,468
		13,773	10,303	1,031	25,107
Trading liabilities	18	5,112	871	69	6,052
Derivative liabilities held for risk management	19	32	757	-	789
Debt securities issued	29	1,486	722	-	2,208
		6,630	2,350	69	9,049

IFRS 7.27B(b)

During the current year, due to changes in market conditions for certain investment securities, quoted prices in active markets were no longer available for these securities. However, there was sufficient information available to measure fair values of these securities based on observable market inputs. Hence, these securities, with a carrying amount of €369 million, were transferred from Level 1 to Level 2 of the fair value hierarchy.<sup>4</sup>

Note Reference **Explanatory note**

- 1.** *IFRS 7.27B(c)* For fair value measurements in Level 3 of the fair value hierarchy, an entity discloses a reconciliation from the beginning balances to the ending balances, disclosing separately changes during the period attributable to the following:

  - total gains or losses for the period recognised in profit or loss, and a description of where they are presented in the statement of comprehensive income or the separate income statement (if presented)
  - total gains or losses recognised in other comprehensive income
  - purchases, sales, issues and settlements (each type of movement disclosed separately)
  - transfers into or out of Level 3 (e.g., transfers attributable to changes in the observability of market data) and the reasons for those transfers. For significant transfers, transfers into Level 3 should be disclosed and discussed separately from transfers out of Level 3.
  
- 2.** *IFRS 7.27B(d)* For fair value measurements in Level 3 of the fair value hierarchy, an entity discloses the amount of total gains or losses for the period recognised in profit or loss relating to those assets and liabilities held at the end of the reporting period and a description of where those gains or losses are presented in the statement of comprehensive income or the separate income statement (if presented).

## Reference Notes to the consolidated financial statements

**5. Use of estimates and judgements (continued)**

IAS 1.122

**Critical accounting judgements in applying the Group's accounting policies (continued)**  
**Valuation of financial instruments (continued)**IFRS 7.27B(c),  
IG13BThe following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:<sup>1</sup>**2009***In millions of euro*

	<b>Trading assets</b>	<b>Loans and advances to customers</b>	<b>Investment securities</b>	<b>Trading liabilities</b>	<b>Total</b>
IFRS 7.27B(c) Balance at 1 January	332	119	580	(69)	962
Total gains or losses:					
IFRS 7.27B(c)(i) in profit or loss	12	(4)	(71)	5	(58)
IFRS 7.27B(c)(ii) in other comprehensive income	-	-	(81)	-	(81)
IFRS 7.27B(c)(iii) Purchases	41	44	-	-	85
IFRS 7.27B(c)(iii) Issues	-	-	-	(6)	(6)
IFRS 7.27B(c)(iii) Settlements	(51)	-	(6)	-	(57)
IFRS 7.27B(c)(iv) Transfers into Level 3	411	-	293	-	704
IFRS 7.27B(c)(iv) Transfers out of Level 3	(65)	-	(6)	-	(71)
IFRS 7.27B(c) Balance at 31 December	680	159	709	(70)	1,478

Total gains or losses included in profit or loss for the period in the above table are presented in the statement of comprehensive income as follows:

**2009***In millions of euro*

	<b>Trading assets</b>	<b>Loans and advances to customers</b>	<b>Investment securities</b>	<b>Trading liabilities</b>	<b>Total</b>
IFRS 7.27B(c)(i) Total gains or losses included in profit or loss for the period:					
Net trading income	12	-	-	5	17
Net income from other financial instruments carried at fair value	-	(4)	(71)	-	(75)
IFRS 7.27B(d) Total gains or losses for the period included in profit or loss for assets and liabilities held at the end of the reporting period: <sup>2</sup>					
Net trading income	9	-	-	3	12
Net income from other financial instruments carried at fair value	-	(2)	(65)	-	(67)

Note Reference **Explanatory note**

- 1.** *IFRS 7.44G* In the first year of application of the amendments to IFRS 7 *Financial Instruments: Disclosures*, issued in March 2009 and effective for annual periods beginning on or after 1 January 2009, an entity need not provide comparative information for the disclosures required by the amendments.

*In these illustrative financial statements, comparative information in respect of a reconciliation from the beginning to the ending balances for fair value measurements in Level 3 of the fair value hierarchy has been provided as similar disclosures were recommended in the Panel report.*

- 2.** *The Panel report states that providing enhanced and detailed disclosures about the fair value of financial instruments that are of particular interest to the users of financial statements will help the users understand the techniques used and judgements made in measuring fair value. There is a variety of factors to consider in identifying instruments that could be the focus of enhanced disclosure and it might be helpful to include an explanation of why the entity considers these instruments to be of particular interest to users and the criteria it has applied to identify instruments for which additional disclosure would be useful. These instruments of particular interest will change over time as market conditions change and are likely to include those that are the focus of internal management reporting and are receiving external market interest. As the internal and external focus on particular financial instruments changes over time, adjusting the level of detail of disclosure about different financial instruments to reflect this provides users with an appropriate level of information necessary to understand better the fair value measurements that are of most interest. For example, if the market for a particular type of instrument has become extremely volatile and there have been large increases in bid-offer spreads or if there has been a significant decrease in liquidity, then the level of risk associated with the instrument and the difficulty in valuing the instrument are likely to have increased. Providing more detailed or enhanced disclosures about this type of instrument is likely to help users.*

- 3.** *The Panel report states that for instruments of particular interest to users, a detailed description of the terms of the instruments gives a better understanding of what the instruments are and facilitates comparability between entities. In addition to numerical disclosure of the carrying amount of the instruments and the changes in their carrying amounts, numerical disclosure of other important terms of an instrument, for example the notional amount of a debt instrument, might give users a better understanding of the fair value measurement. If the cash flows of an instrument are generated from or secured by specific underlying assets, more detailed information about factors that might affect the value of those underlying assets, such as the maturity, vintage or location of the assets, might help users to assess better the fair value measurement of the asset.*

## Reference Notes to the consolidated financial statements

**5. Use of estimates and judgements (continued)**IAS 1.122 **Critical accounting judgements in applying the Group's accounting policies (continued)**  
**Valuation of financial instruments (continued)****2008<sup>1</sup>**

<i>In millions of euro</i>		<b>Trading assets</b>	<b>Loans and advances to customers</b>	<b>Investment securities</b>	<b>Trading liabilities</b>	<b>Total</b>
IFRS 7.27B(c)	Balance at 1 January	282	119	110	(60)	451
IFRS 7.27B(c)	Total gains or losses:					
IFRS 7.27B(c)(i)	in profit or loss	35	2	6	(4)	39
IFRS 7.27B(c)(ii)	in other comprehensive income	-	-	-	-	-
IFRS 7.27B(c)(iii)	Purchases	86	-	15	-	101
IFRS 7.27B(c)(iii)	Issues	-	-	-	(5)	(5)
IFRS 7.27B(c)(iii)	Settlements	(15)	(2)	(32)	-	(49)
IFRS 7.27B(c)(iv)	Transfers into Level 3	-	-	500	-	500
IFRS 7.27B(c)(iv)	Transfers out of Level 3	(56)	-	(19)	-	(75)
IFRS 7.27B(c)	Balance at 31 December	332	119	580	(69)	962

Total gains or losses included in profit or loss for the period in the above table are presented in the statement of comprehensive income as follows:

**2008**

<i>In millions of euro</i>		<b>Trading assets</b>	<b>Loans and advances to customers</b>	<b>Investment securities</b>	<b>Trading liabilities</b>	<b>Total</b>
IFRS 7.27B(c)(i)	Total gains or losses included in profit or loss for the period:					
	Net trading income	35	-	-	(4)	31
	Net income from other financial instruments carried at fair value	-	2	6	-	8
IFRS 7.27B(d)	Total gains or losses for the period included in profit or loss for assets and liabilities held at the end of the reporting period:					
	Net trading income	28	-	-	(2)	26
	Net income from other financial instruments carried at fair value	-	1	3	-	4

IFRS 7.27B(c)(iv) During 2008 and 2009, certain trading assets and investment securities were transferred out of Level 3 of the fair value hierarchy when significant inputs used in their fair value measurements such as certain credit spreads and long-date option volatilities, which were previously unobservable became observable.

During 2008 and 2009 there was considerable dislocation in asset-backed securities markets. For many securities this has meant greatly reduced or nil trading volumes and severe falls in transaction prices and quotes. As a result certain securities that were previously valued using a quoted market price in an active market must now be valued using a valuation technique that incorporates significant unobservable data. These securities are backed primarily by static pools of residential mortgages and enjoy a senior claim on cash flows. The principal amounts of asset-backed securities valued using significant unobservable inputs at 31 December 2009 was €422 million (2008: €269 million) for trading securities and €685 million for investment securities (2008: €502 million).<sup>2,3</sup>

Note Reference **Explanatory note**

**1.** *The Panel report states that it would be helpful for an entity to consider providing sufficiently detailed disclosure about the unobservable inputs used and how these have been estimated. For assumptions made and inputs applied in the valuation technique that are unobservable or difficult to estimate, more detailed and transparent disclosure allows users to form educated judgements as to the reasonableness of the valuation methodologies and assumptions applied.*

*The Panel report also states that it would be helpful for an entity to consider providing an understandable and suitably detailed description of the valuation techniques used in measuring fair values, particularly those valuation techniques used to measure the fair value of instruments that are of particular interest to users. In disclosing this information an entity might consider providing a description of the risks or shortcomings (if any) of the selected valuation techniques and whether there have been any changes in the valuation techniques used and the reasons for these changes. An entity may also consider providing disclosure of the facts and circumstances that lead to the determination that the market for a particular instrument is active or inactive.*

**2.** *IFRS 7.27B(e)* For fair value measurements in Level 3, if changing one or more of the inputs to reasonably possible alternative assumptions would change fair value significantly, the entity states that fact and discloses, by class of financial instruments, the effect of those changes. For this purpose, significance is judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.

**3.** *IFRS 7.44G* In the first year of application of the amendments to IFRS 7 *Financial Instruments: Disclosures*, issued in March 2009 and effective for annual periods beginning on or after 1 January 2009, an entity need not provide comparative information for the disclosures required by the amendments.

*In these illustrative financial statements, comparative information in respect of disclosures of sensitivity of Level 3 fair value measurements to reasonably possible alternative assumptions has been provided by class of financial instruments as recommended in the Panel report, rather than as a single disclosure as previously required under IFRS 7.*

## Reference

## Notes to the consolidated financial statements

**5. Use of estimates and judgements (continued)**

IAS 1.122

**Critical accounting judgements in applying the Group's accounting policies (continued)**  
**Valuation of financial instruments (continued)**

The Group's valuation methodology for valuing these asset-backed securities uses a discounted cash flow methodology that takes into account original underwriting criteria, borrower attributes (such as age and credit scores), loan-to-value ratios and expected house price movements and unemployment rates. These features are used to estimate expected cash flows which are then allocated using the "waterfall" applicable to the security and discounted at a risk-adjusted rate.<sup>1</sup> The discounted cash flow technique is often used by market participants to price asset-backed securities. However, this technique is subject to inherent limitations, such as estimation of the appropriate risk adjusted discount rate, and different assumptions and inputs would yield different results.

Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions in different mortgage-backed securities and broker quotes. This calibration process is inherently subjective as different input sources may imply different levels of expected losses and discount rates; also, adjustment is required for the differing features of different securities. The calibration process yields ranges of possible inputs and estimates of fair value, and management judgement is required to select the most appropriate point in the range.

IFRS 7.27B(e)

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects:<sup>2</sup>

In millions of euro	Effect on profit or loss		Effect on other comprehensive income	
	Favourable (Unfavourable)	Favourable (Unfavourable)	Favourable (Unfavourable)	Favourable (Unfavourable)
<b>31 December 2009</b>				
Asset-backed securities – trading	38	(41)	-	-
Asset-backed securities – investment	28	(42)	44	(53)
OTC structured derivatives – trading assets and liabilities	36	(16)	-	-
Other	12	(13)	-	-
<b>Total</b>	<b>114</b>	<b>(112)</b>	<b>44</b>	<b>(53)</b>
<b>31 December 2008<sup>3</sup></b>				
Asset-backed securities – trading	23	(25)	-	-
Asset-backed securities – investment	17	(22)	25	(33)
OTC structured derivatives – trading assets and liabilities	30	(12)	-	-
Other	8	(8)	-	-
<b>Total</b>	<b>78</b>	<b>(67)</b>	<b>25</b>	<b>(33)</b>

Note Reference **Explanatory note**

- 1.** *IFRS 7.27B(e)* For fair value measurements in Level 3, if changing one or more of the inputs to reasonably possible alternative assumptions would change fair value significantly, the entity states that fact and discloses, by class of financial instruments, the effect of those changes. The entity discloses how the effect of a change to a reasonably possible alternative assumption was calculated.

*In these illustrative financial statements, comparative information in respect of disclosure of how the effect of changes to reasonably possible alternative assumptions was calculated has been provided as recommended in the Panel report.*

*In disclosing the effect of reasonably possible alternative unobservable inputs, an entity might consider explaining why the assumptions used in fair value measurement were selected rather than the reasonably possible alternative(s).*

- 2.** *The Panel report states that providing enhanced and detailed disclosures about the fair value of financial instruments that are of particular interest to the users of financial statements will help the users understand the techniques used and judgements made in measuring fair value. There is a variety of factors to consider in identifying instruments that could be the focus of enhanced disclosure and it might be helpful to include an explanation of why the entity considers these instruments to be of particular interest to users and the criteria it has applied to identify instruments for which additional disclosure would be useful. These instruments of particular interest will change over time as market conditions change and are likely to include those that are the focus of internal management reporting and are receiving external market interest. As the internal and external focus on particular financial instruments changes over time, adjusting the level of detail of disclosure about different financial instruments to reflect this provides users with an appropriate level of information necessary to understand better the fair value measurements that are of most interest. For example, if the market for a particular type of instrument has become extremely volatile and there have been large increases in bid-offer spreads or if there has been a significant decrease in liquidity, then the level of risk associated with the instrument and the difficulty in valuing the instrument are likely to have increased. Providing more detailed or enhanced disclosures about this type of instrument is likely to help users.*

- 3.** *The Panel report states that it would be helpful for an entity to consider providing sufficiently detailed disclosure about the unobservable inputs used and how these have been estimated. For assumptions made and inputs applied in the valuation technique that are unobservable or difficult to estimate, more detailed and transparent disclosure allows users to form educated judgements as to the reasonableness of the valuation methodologies and assumptions applied.*

*The Panel report also states that it would be helpful for an entity to consider providing an understandable and suitably detailed description of the valuation techniques used in measuring fair values, particularly those valuation techniques used to measure the fair value of instruments that are of particular interest to users. In disclosing this information an entity might consider providing a description of the risks or shortcomings (if any) of the selected valuation techniques and whether there have been any changes in the valuation techniques used and the reasons for these changes. An entity may also consider providing disclosure of the facts and circumstances that lead to the determination that the market for a particular instrument is active or inactive.*

Reference Notes to the consolidated financial statements

**5. Use of estimates and judgements (continued)**

IAS 1.122

**Critical accounting judgements in applying the Group's accounting policies (continued)**  
**Valuation of financial instruments (continued)**

IFRS 7.27B(e)

The favourable and unfavourable effects of using reasonably possible alternative assumptions have been calculated by recalibrating the model values using expected losses and risk-adjusted discount rates based on averages of the upper and lower quartiles respectively of the Group's ranges of possible estimates.<sup>1</sup> Key inputs and assumptions used in the models at 31 December 2009 include expected declines in house prices of 10 percent (with reasonably possible alternative assumptions of 7 percent and 16 percent) (2008: 12 percent, 8 percent and 18 percent respectively) and an average discount rate of 3 percent above LIBOR (with reasonably possible alternative assumptions of 2 percent and 5 percent) (2008: 4 percent, 3 percent and 5 percent respectively above LIBOR).

*As part of its trading activities the Group enters into OTC structured derivatives, primarily options indexed to equity prices, foreign exchange rates and interest rates, with customers and other banks. Some of these instruments are valued using models with significant unobservable inputs,<sup>2</sup> principally expected long-term volatilities and expected correlations between different asset prices or foreign currency exchange rates.<sup>3</sup> These inputs are estimated based on extrapolation from observable shorter-term volatilities, recent transaction prices, quotes from other market participants, data from consensus pricing services and historical data.*

IFRS 7.27B(e)

The favourable and unfavourable effects of using reasonably possible alternative assumptions have been calculated by adjusting unobservable model inputs to the averages of the upper and lower quartile of consensus pricing data or by two standard deviations in the level of such inputs (based on the last two years' historical daily data).<sup>1</sup> The most significant unobservable inputs relate to correlations of changes in prices between different equity indices; the weighted average of the correlations used in the models at 31 December 2009 is 0.47 (with reasonably possible alternative assumptions of 0.30 and 0.58) (2008: 0.40, 0.28 and 0.39 respectively).

*In determining fair values, the Group does not use averages of reasonably possible alternative inputs as averages may not represent a price at which a transaction would take place between market participants on the measurement date. When alternative assumptions are available within a wide range, judgements exercised in selecting the most appropriate point in the range include evaluation of the quality of the sources of inputs (for example, the experience and expertise of the brokers providing different quotes within a range, giving greater weight to a quote from the original broker of the instrument who has the most detailed information about the instrument) and the availability of corroborating evidence in respect of some inputs within the range.<sup>2</sup>*

Note Reference **Explanatory note**

- The Panel report states that entities could make the disclosures relating to the reconciliation of movements in the fair values of instruments measured using significant unobservable inputs more meaningful by providing detail about the actual value changes caused by unobservable inputs. This could be achieved by disclosing those movements that are economically hedged by movement in instruments in other levels of the hierarchy or by separating the movements into those related to observable and unobservable inputs, if this information can be determined.*

## Reference

## Notes to the consolidated financial statements

**5. Use of estimates and judgements (continued)**

IAS 1.122

**Critical accounting judgements in applying the Group's accounting policies (continued)**  
**Valuation of financial instruments (continued)**

*The Group's reporting systems and the nature of the instruments and the valuation models do not allow it to analyse accurately the total annual amounts of gains / losses reported above that are attributable to observable and unobservable inputs. However, the losses on asset-backed securities in 2009 are principally dependent on the unobservable expected loss and discount rate assumptions described above. In addition, a loss of approximately €11 million was incurred as a result of increasing expected equity index correlation estimates during 2009.<sup>1</sup>*

**Financial asset and liability classification**

The Group's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as "trading", the Group has determined that it meets the description of trading assets and liabilities set out in accounting policy 3(l).
- In designating financial assets or liabilities at fair value through profit or loss, the Group has determined that it has met one of the criteria for this designation set out in accounting policy 3(j)(viii).
- In classifying financial assets as held-to-maturity, the Group has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy 3(o)(i).

Details of the Group's classification of financial assets and liabilities are given in note 7.

**Qualifying hedge relationships**

In designating financial instruments in qualifying hedge relationships, the Group has determined that it expects the hedges to be highly effective over the period of the hedging relationship.

In accounting for derivatives as cash flow hedges, the Group has determined that the hedged cash flow exposure relates to highly probable future cash flows.

**Securitisations**

In applying its policies on securitised financial assets, the Group has considered both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Group over the other entity:

- When the Group, in substance, controls the entity to which financial assets have been transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the Group's statement of financial position.
- When the Group transfers financial assets to an unconsolidated entity and it retains substantially all of the risk and rewards relating to the transferred assets, the transferred assets are recognised in the Group's statement of financial position.
- When the Group transfers substantially all the risks and rewards relating to the transferred financial assets to an unconsolidated entity, the assets are derecognised from the Group's statement of financial position.
- When the Group neither transfers nor retains substantially all the risks and rewards relating to a transferred financial asset and it retains control of the transferred asset, the Group continues to recognise the transferred financial asset to the extent of its continuing involvement in that transferred financial asset.

Details of the Group's securitisation activities are given in note 35.

Note Reference **Explanatory note**

- 1.** *IFRS 8.2, 3* An entity is required to present segment information if its securities are publicly traded, or if it is in the process of issuing equity or debt securities in public securities markets. Other entities may choose to present segment information, but such entities should not describe information as segment information unless this information complies fully with IFRS 8 *Operating Segments*.
- 2.** *IFRS 8.23* Entities are required to disclose the following about each reportable segment if the specified amounts are included in the measure of profit or loss reviewed by the chief operating decision maker (CODM), or are otherwise provided regularly to the CODM, even if not included in that measure of segment profit or loss:

  - revenues from external customers
  - revenues from transactions with other operating segments of the same entity
  - interest revenue
  - interest expense
  - depreciation and amortisation
  - material items of income and expense disclosed in accordance with paragraph 97 of IAS 1 *Presentation of Financial Statements (2007)*
  - the entity's interest in the profit or loss of associates and joint ventures accounted for by the equity method
  - income tax expense or income
  - material non-cash items other than depreciation and amortisation.

## Reference

## Notes to the consolidated financial statements

**6. Operating segments<sup>1, 2</sup>**

IFRS 8.20-22, A

The Group has five reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting structure. For each of the strategic business units, the Group Management Committee reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- *Investment Banking*                      Includes the Group's trading and corporate finance activities
- *Corporate Banking*                      Includes loans, deposits and other transactions and balances with corporate customers
- *Retail Banking*                              Includes loans, deposits and other transactions and balances with retail customers
- *Asset Management*                        Operates the Group's funds management activities
- *Central Treasury*                            Undertakes the Group's funding and centralised risk management activities through borrowings, issues of debt securities, use of derivatives for risk management purposes and investing in liquid assets such as short-term placements and corporate and government debt securities.

IFRS 8.20, 27(a)

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Group Management Committee. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

Note Reference **Explanatory note**

- 1.** *IFRS 8.16* IFRS 8 *Operating Segments* requires that information about other business activities and operating segments that are not reportable be combined and disclosed in an “all other segments” category separate from other reconciling items in the reconciliations required by paragraph 28 of IFRS 8. The sources of the revenue included in the “all other segments” category are described. In our view, business activities which do not meet the definition of an operating segment (e.g., corporate activities) should not be included in the “all other segments” category; instead the amounts for these activities should be reported in the reconciliation of the total reportable segment amounts to the financial statements. This issue is discussed in our publication *Insights into IFRS* (5.2.160.40).
- 2.** *IFRS 8.IG5* Because the Group’s reportable segments are based on differences in products and services, no additional disclosures of revenue information about products and services are required, i.e., the disclosures required in paragraph 32 of IFRS 8 with regard to revenue from external customers for each product or service, or each group of similar products and services, are provided already in the overall table on information about reportable segments.
- 3.** *IFRS 8.23* An entity reports interest revenue separately from interest expense for each reportable segment unless a majority of the segment’s revenues are from interest and the CODM relies primarily on net interest revenue to assess the performance of the segment and to make decisions about resources to be allocated to the segment. In that situation, an entity may report that segment’s interest revenue net of interest expense, and disclose that it has done so.

## Reference Notes to the consolidated financial statements

**6. Operating Segments (continued)**  
**Information about operating segments**  
**2009***In millions of euro*

	Investment Banking	Corporate Banking	Retail Banking Management	Asset Management	Central Treasury <sup>3</sup>	Total
IFRS 8.23(a)						
IFRS 8.23(c),(d)						
IFRS 8.23(f)						
IFRS 8.23(f)						
IFRS 8.23(f)						
IFRS 8.23(f)						
IFRS 8.23(b)						
IFRS 8.32						
IFRS 8.23(i)						
IFRS 8.21(b)						
IFRS 8.21(b)						
IFRS 8.21(b)						
External revenue: <sup>2</sup>						
Net interest income	-	1,819	612	-	(496)	1,935
Net fee and commission income	169	234	202	70	-	675
Net trading income	1,253	-	-	-	(57)	1,196
Net income from other financial instruments at fair value through profit or loss	399	-	-	-	(378)	21
Other operating income	60	49	143	-	138	390
Intersegment revenue <sup>3</sup>	-	-	699	-	1,155	1,854
Total segment revenue	1,881	2,102	1,656	70	362	6,071
Other material non-cash items: Impairment losses on financial assets	-	206	117	-	7	330
Reportable segment profit before income tax	47	223	448	20	106	844
Reportable segment assets	24,968	39,248	20,908	362	10,342	95,828
Reportable segment liabilities	7,026	11,453	38,199	206	32,980	89,864

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## Reference Notes to the consolidated financial statements

**6. Operating Segments (continued)**  
**Information about operating segments**  
**2008***In millions of euro*

	Investment Banking	Corporate Banking	Retail Banking Management	Asset Management	Central Treasury <sup>3</sup>	Total
IFRS 8.23(a)						
External revenue:						
IFRS 8.23(c),(d)						
Net interest income	-	1,679	587	-	(424)	1,842
IFRS 8.23(f)						
Net fee and commission income	156	227	176	65	-	624
IFRS 8.23(f)						
Net trading income	919	-	-	-	(7)	912
IFRS 8.23(f)						
Net income from other financial instruments at fair value through profit or loss	240	-	-	-	(159)	81
IFRS 8.23(f)						
Other operating income	34	42	93	-	194	363
IFRS 8.23(b)						
Intersegment revenue	-	-	608	-	904	1,512
IFRS 8.32						
Total segment revenue	1,349	1,948	1,464	65	508	5,334
IFRS 8.23(i)						
Other material non-cash items:	105	139	86	-	4	334
IFRS 8.23(i)						
Impairment losses on financial assets	(241)	332	282	22	277	672
IFRS 8.21(b)						
Reportable segment profit before income tax	22,641	35,558	19,049	332	9,165	86,745
IFRS 8.21(b)						
Reportable segment assets	6,052	10,703	34,086	204	29,993	81,038
IFRS 8.21(b)						
Reportable segment liabilities						

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Reference Notes to the consolidated financial statements

**6. Operating segments (continued)**  
**Reconciliations of reportable segment revenues, profit or loss and assets and liabilities**

*In millions of euro*

	2009	2008
<i>IFRS 8.28(a)</i>		
<b>Revenues</b>		
Total revenue for reportable segments	6,071	5,334
Unallocated amounts	14	8
Elimination of inter-segment revenue	(1,854)	(1,512)
Consolidated revenue	4,231	3,830
<i>IFRS 8.28(b)</i>		
<b>Profit or loss</b>		
Total profit or loss for reportable segments	844	672
Unallocated amounts	5	-
Consolidated profit before income tax	849	672
<i>IFRS 8.28(c)</i>		
<b>Assets</b>		
Total assets for reportable segments	95,828	86,745
Other unallocated amounts	1,306	1,071
Consolidated total assets	97,134	87,816
<i>IFRS 8.28(d)</i>		
<b>Liabilities</b>		
Total liabilities for reportable segments	89,864	81,038
Other unallocated amounts	856	809
Consolidated total liabilities	90,720	81,847

Note Reference **Explanatory note**

- 1.** *IFRS 8.33* An entity reports the following geographical information, unless the necessary information is not available and the cost to develop it would be excessive:

  - (a) revenues from external customers (i) attributed to the entity's country of domicile and (ii) attributed to all foreign countries in total from which the entity derives revenues. If revenues from external customers attributed to an individual foreign country are material, those revenues are disclosed separately. An entity discloses the basis for attributing revenues from external customers to individual countries.
  - (b) non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts (i) located in the entity's country of domicile and (ii) located in all foreign countries in total in which the entity holds assets. If assets in an individual foreign country are material, those assets are disclosed separately. The amounts reported are based on the financial information that is used to produce the entity's financial statements. If the necessary information is not available and the cost to develop it would be excessive, that fact is disclosed. An entity may provide, in addition to the information required by this paragraph, subtotals of geographical information about groups of countries.
- 2.** *IFRS 8.34* If revenues from transactions with a single external customer amount to 10 percent or more of an entity's revenues, the entity discloses that fact, the total amount of revenues from such a customer, and the identity of the segment or segments reporting the revenues.

## Reference Notes to the consolidated financial statements

**6. Operating Segments (continued)****Geographical areas<sup>1</sup>**

In presenting information on the basis of geographical areas, revenue is based on the geographical location of customers and assets are based on the geographical location of the assets.

**Geographical information**

*In millions of euro*

	[Country of domicile]	North America	Europe	Asia Pacific	Middle East and Africa	Other	Total
<b>2009</b>							
IFRS 8.33(a) External revenues	569	1,046	1,370	715	516	15	4,231
IFRS 8.33(b) Non-current assets*	258	225	136	54	32	63	768
<b>2008</b>							
IFRS 8.33(a) External revenues	488	1,038	1,423	619	456	6	4,030
IFRS 8.33(b) Non-current assets*	236	199	127	50	29	67	708

\* Includes property and equipment, intangible assets and investment property.

Note Reference **Explanatory note**

- 1.** *IFRS 7, B2* An entity groups financial instruments into classes that are appropriate to the nature of the information disclosed, and that take into account the characteristics of those financial instruments.

In these illustrative financial statements, the line items in the statement of financial position reflect the Group's activities and are used to group financial instruments into classes. This note reconciles the carrying amount of each of the categories of financial assets and liabilities in IAS 39 to the different classes of financial instruments identified by the Group. Therefore, for example:

- Derivatives are presented either as trading assets or liabilities, or derivative assets or liabilities held for risk management to reflect the Group's two uses of derivatives. Derivatives held for risk management purposes include qualifying hedging instruments and non-qualifying hedging instruments held for risk management purposes rather than for trading.
- Investment securities include financial assets categorised as held-to-maturity, available-for-sale, and at fair value through profit or loss. Held-to-maturity investment securities, which are carried at amortised cost are treated as a separate class from available-for-sale investment securities and investment securities at fair value through profit or loss, which are measured at fair value.
- Loans and advances include financial assets categorised at fair value through profit or loss. Loans and advances, which are carried at amortised cost are treated as a separate class from loans and advances measured at fair value.

However, other presentations are possible.

- 2.** *IFRS 7, 26* The fair values of each class of financial assets and liabilities are disclosed in a way that permits them to be compared with their carrying amounts. In disclosing fair values, an entity groups financial assets and liabilities into classes, but offsets them only to the extent that their carrying amounts are offset in the statement of financial position.

- 3.** The carrying amounts of issued financial liabilities in qualifying fair value hedging relationships for which only the benchmark interest rate is the hedged risk, are adjusted for gains or losses attributable to the hedged interest rate only; therefore these instruments are not carried at fair value. Changes in the credit spread of the issuer are not included in the adjustments made to the carrying amounts.

## Notes to the consolidated financial statements

Reference

**7. Financial assets and liabilities****Accounting classifications and fair values<sup>1,2,3</sup>**

The table below sets out the carrying amounts and fair values of the Group's financial assets and financial liabilities:

*In millions of euro*

	Note	Trading	Designated at fair value	Held-to- maturity	Loans and receivables	Available- for-sale	Other amortised cost	Total carrying amount	Fair value
<b>31 December 2009</b>									
Cash and cash equivalents	17	-	-	-	2,907	-	-	2,907	2,907
Pledged trading assets	18	928	-	-	-	-	-	928	928
Non-pledged trading assets	18	15,734	-	-	-	-	-	15,734	15,734
Derivative assets held for risk management	19	858	-	-	-	-	-	858	858
Loans and advances to banks	20	-	-	-	5,572	-	-	5,572	5,602
Loans and advances to customers:									
Measured at fair value	21	-	3,986	-	-	-	-	3,986	3,986
Measured at amortised cost	21	-	-	-	59,084	-	-	59,084	62,378
Investment securities:									
Measured at fair value	22	-	4,091	-	-	2,110	-	6,201	6,201
Measured at amortised cost	22	-	-	101	-	-	-	101	106
		17,520	8,077	101	67,563	2,110	-	95,371	98,700
Trading liabilities	18	7,026	-	-	-	-	-	7,026	7,026
Derivative liabilities held for risk management	19	828	-	-	-	-	-	828	828
Deposits from banks	27	-	-	-	-	-	11,678	11,678	12,301
Deposits from customers	28	-	-	-	-	-	53,646	53,646	55,696
Debt securities issued:									
Measured at fair value	29	-	2,409	-	-	-	-	2,409	2,409
Measured at amortised cost	29	-	-	-	-	-	8,818	8,818	9,885
Subordinated liabilities	30	-	-	-	-	-	5,642	5,642	5,763
		7,854	2,409	-	-	-	79,784	90,047	93,908

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## Reference Notes to the consolidated financial statements

**7. Financial assets and liabilities (continued)**  
**Accounting classifications and fair values (continued)**

*In millions of euro*

	Note	Trading	Designated at fair value	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
<b>31 December 2008</b>									
Cash and cash equivalents	17	-	-	-	2,992	-	-	2,992	2,992
Pledged trading assets	18	878	-	-	-	-	-	878	878
Non-pledged trading assets	18	14,890	-	-	-	-	-	14,890	14,890
Derivative assets held for risk management	19	726	-	-	-	-	-	726	726
Loans and advances to banks	20	-	-	-	4,707	-	-	4,707	4,729
Loans and advances to customers:									
Measured at fair value	21	-	3,145	-	-	-	-	3,145	3,145
Measured at amortised cost	21	-	-	-	53,660	-	-	53,660	55,304
Investment securities:									
Measured at fair value	22	-	3,239	-	-	1,929	-	5,168	5,168
Measured at amortised cost	22	-	-	101	-	-	-	101	104
		16,494	6,384	101	61,359	1,929	-	86,267	87,936
Trading liabilities	18	6,052	-	-	-	-	-	6,052	6,052
Derivative liabilities held for risk management	19	789	-	-	-	-	-	789	789
Deposits from banks	27	-	-	-	-	-	10,230	10,230	10,622
Deposits from customers	28	-	-	-	-	-	48,904	48,904	49,836
Debt securities issued:									
Measured at fair value	29	-	2,208	-	-	-	-	2,208	2,208
Measured at amortised cost	29	-	-	-	-	-	8,040	8,040	8,525
Subordinated liabilities	30	-	-	-	-	-	4,985	4,985	5,078
		6,841	2,208	-	-	-	72,159	81,208	83,110

Note Reference **Explanatory note**

- 1.** *IFRS 7.20(b)* An entity discloses, either in the statement of comprehensive income or in the notes, total interest income and total interest expense, calculated using the effective interest method, for financial assets and financial liabilities that are not at fair value through profit or loss.

Presentations other than that shown in these illustrative financial statements are possible. For example, an entity may present interest income and interest expense on financial instruments designated at fair value through profit or loss within net interest income.

The level of detail presented in these illustrative financial statements is not always required specifically by IFRS 7 *Financial Instruments: Disclosures*.

- 2.** This publication does not illustrate disclosures that may be applicable to revenue sources that are not specific to banking operations, such as service concession arrangements and construction contracts. For an illustration of such disclosures, see the July 2009 edition of our publication *Illustrative Financial Statements*.

## Reference Notes to the consolidated financial statements

**7. Financial assets and liabilities (continued)**

IFRS 7.29(b), 30

**Investment securities – unquoted equity securities at cost**

The above table includes €24 million (2008: €24 million) of equity investment securities in both the carrying amount and fair value columns that are measured at cost and for which disclosure of fair value is not provided because their fair value cannot be reliably measured. These are investments in mutual entities that provide transaction processing and settlement services to members on a pricing basis intended to recover the entities' operating costs. The investments are neither redeemable nor transferable and there is no market for them. The Group does not intend to dispose of these investments.

**Fair value hedging relationships**

Certain subordinated liabilities and loans and advances to customers shown within other amortised cost and loans and receivables respectively are designated in qualifying fair value interest rate hedging relationships (2009: €3,882 million and €1,564 million; 2008: €3,058 million and €1,438 million) and are fair valued with respect to the hedged interest rate.

IAS 18.35(b)(iii) **8. Net interest income**<sup>1, 2</sup>

In millions of euro

**Interest income**

	2009	2008
Cash and cash equivalents	86	86
Derivative assets held for risk management	56	64
Loans and advances to banks	282	247
Loans and advances to customers	2,772	3,023
Investment securities	139	105
Other	6	3
Total interest income	3,341	3,528

**Interest expense**

Derivative liabilities held for risk management	120	60
Deposits from banks	54	48
Deposits from customers	469	897
Debt securities issued	343	316
Subordinated liabilities	410	353
Other	10	12
Total interest expense	1,406	1,686
Net interest income	1,935	1,842

IFRS 7.20(a)(v)

IFRS 7.20(a)(v)

IFRS 7.20(a)(v)

IFRS 7.20(a)(v)

IFRS 7.20(d)

Included within various line items under interest income for the year ended 31 December 2009 is a total of €14 million (2008: €11 million) accrued on impaired financial assets.

IFRS 7.24(a)

Included within interest income (or expense), in the line item corresponding to where the interest income (or expense) on the hedged item is recognised, are fair value gains of €34 million (2008: €27 million) on derivatives held in qualifying fair value hedging relationships, and €30 million (2008: €26 million) representing net decreases in the fair value of the hedged item attributable to the hedged risk.

IFRS 7.20(b)

Total interest income and expense calculated using the effective interest method reported above that relate to financial assets or liabilities not carried at fair value through profit or loss are €3,283 million (2008: €3,463 million) and €1,788 million (2008: €1,626 million) respectively.

Note Reference **Explanatory note**

- 1.** *IFRS 7.20(c)* An entity discloses, either in the statement of comprehensive income or in the notes, fee income and expense (other than amounts included in determining the effective interest rate) arising from:
- financial assets or financial liabilities that are not at fair value through profit or loss
  - trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions.

- 2.** *IFRS 7.20(a)(i)* An entity discloses, either in the statement of comprehensive income or in the notes, the net gains or net losses on financial assets or financial liabilities at fair value through profit or loss (separately for those designated upon initial recognition and those classified as held for trading in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*).

In these illustrative financial statements, net trading income:

- includes the entire profit or loss impact (gains and losses) for trading assets and liabilities, including derivatives held for trading
- does not include the profit or loss impact of derivatives that are held for risk management purposes.

However, other presentations are possible.

Reference Notes to the consolidated financial statements

IFRS 7.23(d),  
24(b),  
IAS 18.35(b)(iii)

### 8. Net interest income (continued)

During 2009, gains of €10 million (2008: gains of €8 million) and losses of €20 million (2008: losses of €18 million) relating to cash flow hedges were transferred from equity to profit or loss and are reflected in interest income or expense. Net ineffectiveness recognised on cash flow hedges during 2009 was a gain of €4 million (2008: a loss of €4 million).

### 9. Net fee and commission income<sup>1</sup>

*In millions of euro*

IFRS 7.20(c)

#### Fee and commission income

	2009	2008
Retail banking customer fees	240	203
Corporate banking credit related fees	199	177
Investment banking fees	133	123
Brokerage	130	120
Asset management fees	106	96
Financial guarantee contracts issued	34	30
Other	12	10
Total fee and commission income	854	759

#### Fee and commission expense

Brokerage	94	87
Inter bank transaction fees	38	27
Other	47	21
Total fee and commission expense	179	135
Net fee and commission income	675	624

IFRS 7.20(c)(ii)

Asset management fees relate to fees earned by the Group on trust and fiduciary activities where the Group holds or invests assets on behalf of its customers.

IFRS 7.20(c)(i)

Net fee and commission income above excludes amounts included in determining the effective interest rate on financial assets and liabilities that are not at fair value through profit or loss but includes income of €651 million (2008: €523 million) and expense of €71 million (2008: €52 million) relating to such financial assets and liabilities.

### 10. Net trading income<sup>2</sup>

*In millions of euro*

IFRS 7.20(a)(i)

	2009	2008
Fixed income	1,023	906
Equities	70	17
Foreign exchange	90	16
Other	13	(27)
Net trading income	1,196	912

Note Reference **Explanatory note**

- 1.** *IFRS 7.20(a)(i)* An entity discloses, either in the statement of comprehensive income or in the notes, the net gains or losses on financial assets or financial liabilities at fair value through profit or loss (separately for those designated upon initial recognition and those classified as held for trading in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*).

In these illustrative financial statements, net income from other financial instruments at fair value through profit or loss:

- includes the entire profit or loss impact of assets and liabilities designated at fair value through profit or loss upon initial recognition
- includes the realised and unrealised gains and losses on derivatives held for risk management purposes but not forming part of a qualifying hedging relationship.

However, other presentations are possible.

- 2.** *The Expert Advisory Panel report states that in addition to the required disclosure of how the movements in the fair value of the liabilities due to changes in the entity's own credit risk are calculated, disclosing the source of inputs used to calculate the fair value movement provides transparency about the uncertainty of that amount.*

- 3.** *IFRS 7.20(a)(ii), 20(a)(iv)* An entity discloses, either in the statement of comprehensive income or in the notes, the net or losses on financial assets or financial liabilities by measurement category specified in IAS 39 including available-for-sale financial assets and loans and receivables.

In these illustrative financial statements dividends on available-for-sale equity securities and gains on sales / transfers of available-for-sale financial assets and loans and receivables have been included in other operating income. However, other presentations are possible.

## Reference Notes to the consolidated financial statements

**11. Net income from other financial instruments at fair value through profit or loss**

<i>In millions of euro</i>		<b>2009</b>	<b>2008</b>
	Net income from other derivatives held for risk management purposes: <sup>1</sup>		
	Interest rate	(76)	(48)
	Credit	44	(21)
	Equity	(54)	42
	Foreign exchange	(10)	5
	Investment securities at fair value through profit or loss:		
<i>IFRS 7.20(a)(i)</i>	Corporate bonds	221	210
<i>IFRS 7.20(a)(i)</i>	Equities	68	(13)
<i>IFRS 7.20(a)(i)</i>	Asset-backed securities	(131)	(151)
<i>IFRS 7.20(a)(i)</i>	Loans and advances at fair value through profit or loss	153	194
<i>IFRS 7.20(a)(i)</i>	Debt securities issued at fair value through profit or loss	(194)	(137)
		21	81

*IFRS 7.10(a)* At 31 December 2009 the accumulated amount of the change in fair value attributable to changes in credit risk on financial liabilities designated at fair value through profit or loss was a gain of €9 million (2008: a gain of €4 million). During 2009 the change in fair value attributable to changes in credit risk on financial liabilities designated at fair value through profit or loss was a gain of €5 million (2008: a gain of €2 million).

*IFRS 7.11(a)* The change in fair value attributable to changes in credit risk on financial liabilities is calculated using the credit spread observed *for recent issuances of similar structured debt*, adjusted for subsequent changes in the credit spread *observed on credit default swaps on the issuing Group entity's senior debt*.<sup>2</sup>

**12. Other operating income<sup>3</sup>**

<i>In millions of euro</i>		<b>2009</b>	<b>2008</b>
<i>IFRS 7.20(a)(ii), IAS 1.98(d)</i>	Net loss on sale of available-for-sale securities:		
	Government bonds	(12)	(9)
	Corporate bonds	(60)	(43)
	Equities	(20)	(17)
<i>IFRS 7.20(a)(ii)</i>	Dividends on available-for-sale equity securities	13	8
<i>IFRS 7.20(a)(iv)</i>	Gain on securitisation of loans and receivables	264	194
<i>IAS 21.52(a)</i>	Foreign exchange gain	170	188
	Other	31	40
		386	361

*IFRS 7.24(c)* Net ineffectiveness recognised for net investment hedges during 2009 was a gain of €12 million (2008: a gain of €9 million).

Note Reference **Explanatory note**

- |                            |  |
|----------------------------|--|
| <b>1.</b> <i>IFRS 2.56</i> | IFRS 2 <i>Share-based Payment</i> is not required, or permitted, to be applied for all equity-settled share-based payment transactions (e.g., grants made before 7 November 2002 in which the fair value was not disclosed at that time). However, the disclosure requirements in paragraphs 44 and 45 of IFRS 2 apply to equity-settled grants whether or not they are accounted for in accordance with IFRS 2. |
| <i>IFRS 2.52</i>           | An entity provides additional disclosures if the required disclosures in IFRS 2 are not sufficient to enable the user to understand the nature and extent of the share-based payment arrangements, how the fair value of services have been determined for the period, and the effect on profit or loss.   |

## Reference Notes to the consolidated financial statements

**13. Personnel expenses***In millions of euro*

	<i>Note</i>	<b>2009</b>	<b>2008</b>
Wages and salaries		1,605	1,419
Compulsory social security obligations		215	194
<i>IAS 19.46</i> Contributions to defined contribution plans		265	243
<i>IFRS 2.51(a)</i> Equity-settled share-based payment transactions		75	25
<i>IFRS 2.51(a)</i> Cash-settled share-based payment transactions		44	35
Increase in liability for defined benefit plans	32	52	50
Increase in liability for long service-leave		8	8
		<u>2,264</u>	<u>1,974</u>

**Share-based payment transactions<sup>1</sup>***IFRS 2.44, 45(a)*

On 1 January 2008 the Group established a share option programme that entitles key management personnel and senior employees to purchase shares in the Bank. On 1 January 2009 a further grant on similar terms was offered to these employee groups. In accordance with these programmes options are exercisable at the market price of the shares at the date of grant.

Additionally, two share option arrangements granted before 7 November 2002 exist. The recognition and measurement principles in IFRS 2 have not been applied to these grants.

On 1 January 2006 and 1 January 2009 the Group granted share appreciation rights (SARs) to other employees that entitle the employees to a cash payment. The amount of the cash payment is determined based on the increase in the share price of the Bank between grant date and vesting date.

*IFRS 2.45(a)*

The terms and conditions of the grants are as follows; all options are to be settled by physical delivery of shares, while share appreciation rights are settled in cash:

<i>In millions of instruments</i>	<b>Number of instruments</b>	<b>Vesting conditions</b>	<b>Contractual life of options</b>
<b>Grant date / employees entitled</b>			
Option grant to senior employees at 1 January 2001	25	3 years' service and 10 percent increase in operating income in each of the 3 years	10 years
Option grant to senior employees at 1 January 2002	15	3 years' service and 10 percent increase in operating income in each of the 3 years	10 years
Option grant to senior employees at 1 January 2008	10	3 years' service and 10 percent increase in operating income in each of the 3 years	10 years
Option grant to key management personnel at 1 January 2008	10	3 years' service	10 years
Option grant to senior employees at 1 January 2009	25	3 years' service and 10 percent increase in operating income in each of the 3 years	10 years
Option grant to key management personnel at 1 January 2009	10	3 years' service	10 years
Total share options	<u>95</u>		
SARs granted to other employees at 1 January 2006	10	3 years' service	
SARs granted to other employees at 1 January 2009	30	3 years' service	
Total SARs	<u>40</u>		

Note Reference **Explanatory note**

- 1.** *IFRS 2.45(b)(v)* When applicable, an entity discloses the number and the weighted average exercise price of options that expired unexercised during the period.
- 2.** *IFRS 2.10, 11* For equity-settled share-based payment transactions other than transactions with employees and others providing similar services, an entity measures the goods or services received directly at the fair value of goods and services, unless that fair value cannot be estimated reliably.

*IFRS 2.48* If the entity has measured the fair value of goods or services received during the period directly, then the entity discloses how that fair value was determined (e.g., whether fair value was measured at a market price for those goods or services).

*IFRS 2.49* When applicable, if goods and services received in transactions other than with employees and others providing similar services were measured at the fair value of equity instruments granted because the fair value of the goods and services could not be estimated reliably, then the entity discloses that fact and provides an explanation of why the fair value could not be measured reliably.

*IFRS 2.47(b)* When applicable, if the fair value of goods and services received was measured based on the fair value of equity instruments granted, then an entity discloses the number and weighted average fair value at the measurement date of any equity instruments other than share options.

*IFRS 2.47(c)* When applicable, for share-based payment arrangements that were modified during the period, an entity discloses the nature and incremental fair value granted as a result of those modifications.

## Reference Notes to the consolidated financial statements

**13. Personnel expenses (continued)**

IFRS 2.45(b) The number and weighted average exercise price of share options is as follows:<sup>1</sup>

	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	2009	2009	2008	2008
<i>In millions of options</i>				
IFRS 2.45(b)(i) Outstanding at 1 January	€9.9	55.0	€9.5	40.0
IFRS 2.45(b)(iii) Forfeited during the period	€9.5	(2.5)	€9.5	(5.0)
IFRS 2.45(b)(iv) Exercised during the period	€10.0	(3.0)	-	-
IFRS 2.45(b)(ii) Granted during the period	€12.0	35.0	€10.5	20.0
IFRS 2.45(b)(vi) Outstanding at 31 December	€10.8	84.5	€9.9	55.0
IFRS 2.45(b)(vii) Exercisable at 31 December	€10.1	30.0	€9.8	35.0

IFRS 2.45(d) The options outstanding at 31 December 2009 have an exercise price in the range of €9.0 to €12.0 (2008: €9.5 to €11.0) and a weighted average contractual life of 7.3 years (2008: 7.1 years).

IFRS 2.45(c) The weighted average share price at the date of exercise for share options exercised in 2009 was €11.50 (2008: No options exercised).

IFRS 2.46, 47 (a)(i) The fair value of services received in return for share options granted is based on the fair value of share options granted,<sup>2</sup> measured using a binomial lattice model, with the following inputs:

	Key management personnel	Key management personnel	Senior employees	Senior employees
	2009	2008	2009	2008
<i>Fair value of share options and assumptions</i>				
IFRS 2.47(a) Fair value at measurement date	€4.5	€4.0	€3.9	€3.5
IFRS 2.47(a)(i) Share price	€12.0	€10.5	€12.0	€10.5
IFRS 2.47(a)(i) Exercise price	€12.0	€10.5	€12.0	€10.5
IFRS 2.47(a)(i) Expected volatility*	42.5%	40.9%	40.3%	39.5%
IFRS 2.47(a)(i) Option life (expected weighted average life)	8.6 years	8.8 years	5.4 years	5.5 years
IFRS 2.47(a)(i) Expected dividends*	3.2%	3.2%	3.2%	3.2%
IFRS 2.47(a)(i) Risk free interest rate (based on government bonds)*	3.9%	3.9%	3.8%	3.8%

\* Annual rates

**Employee expenses for share-based payment transactions**

*In millions of euro*

	Note	2009	2008
IFRS 2.51(a) Share options granted in 2008		25	25
IFRS 2.51(a) Share options granted in 2009		50	-
IFRS 2.51(a) Expense arising from SARs granted in 2006		-	28
IFRS 2.51(a) Expense arising from SARs granted in 2009		30	-
IFRS 2.51(a) Effect of changes in the fair value of SARs		14	7
IFRS 2.51(a) Total expense recognised as personnel expenses		119	60
IFRS 2.51(b)(i) Total carrying amount of liabilities for cash-settled arrangements	32	44	38
IFRS 2.51(b)(ii) Total intrinsic value of liability for vested benefits		-	38

The carrying amount of the liability at 31 December 2008 was settled in 2009.

Note Reference **Explanatory note**

1. *IAS 40.75(f)(iii)* When applicable, an entity also discloses the direct operating expenses related to investment property that did not generate rental income during the period.
2. *IAS 12.80(h)* An entity discloses the amount of income tax expense (income) relating to those changes in accounting policies and errors that are included in the determination of profit or loss in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* because they cannot be accounted for retrospectively.
3. *IAS 12.80(g)* When applicable, any deferred tax expenses arising from the write-down, or reversal of a previous write-down, of deferred tax assets are disclosed separately.
4. *IAS 12.85* The reconciliation of the effective tax rate is based on an applicable tax rate that provides the most meaningful information to users. In these illustrative financial statements the reconciliation is based on the entity's domestic tax rate, with a reconciling item in respect of tax rates applying to Group entities in other jurisdictions. However, in some cases it might be more meaningful to aggregate separate reconciliations prepared using the domestic tax rate in each individual jurisdiction.  
  
*IAS 12.81(c)* In these illustrative financial statements, both a numerical reconciliation between total income tax expense and the product of accounting profit multiplied by the applicable tax rates, and a numerical reconciliation between the average effective tax rate and the applicable tax rate is disclosed. An entity explains the relationship using either or both of such numerical reconciliations, and also discloses the basis on which the applicable tax rate is computed.

## Reference Notes to the consolidated financial statements

**13. Personnel expenses (continued)**

IFRS 2.52

The fair value of SARs is determined using the Black-Scholes formula. The model inputs as at the grant date were: share price of €12.0, exercise price of €12.0, expected volatility of 41.5 percent a year, expected dividends of 3.2 percent a year, a term of three years and a risk-free interest rate of 4.4 percent a year. The fair value for the liability is remeasured at each reporting date and at settlement date. Expected volatility is estimated by considering historic average share price volatility.

**14. Other expenses***In millions of euro*

	Note	2009	2008
		47	58
IAS 40.75(f)(ii)		1	1
IAS 1.98(b)	31	5	67
IAS 1.98(b)	31	2	33
IAS 1.98(g)	31	(1)	2
		343	324
		397	485

**15. Income tax expense***In millions of euro*

	Note	2009	2008
<b>Current tax expense<sup>2</sup></b>			
IAS 12.80(a)		194	133
IAS 12.80(b)		(5)	(6)
		189	127
<b>Deferred tax expense<sup>2,3</sup></b>			
IAS 12.80(c)		6	(2)
IAS 12.80(d)		(2)	-
IAS 12.80(f)		(6)	(7)
	25	(2)	(9)
		187	118

IAS 12.81(c)

**Reconciliation of effective tax rate<sup>4</sup>***In millions of euro*

	2009	2009	2008	2008
		849		672
	33.0%	280	33.0%	222
	-13.7%	(116)	-13.1%	(88)
	5.3%	45	3.9%	26
	-0.7%	(6)	-3.1%	(21)
	-0.6%	(5)	-1.2%	(8)
	-0.7%	(6)	-1.0%	(7)
	-0.6%	(5)	-0.9%	(6)
	22.0%	187	17.6%	118

IAS 12.81(d)

\* Tax rates in several foreign jurisdictions decreased in 2009.

Note Reference **Explanatory note**

- |           |                     |   |
|-----------|---------------------|---|
| <b>1.</b> | <i>IAS 1.90</i>     | An entity discloses the amount of income tax relating to each component of other comprehensive income, either in the statement of comprehensive income, or in the notes. In these illustrative financial statements, income tax relating to each component of other comprehensive income is presented in the notes.   |
| <b>2.</b> | <i>IAS 33.2</i>     | An entity is required to present earnings per share if its ordinary shares or potential ordinary shares are publicly traded, or if it is in the process of issuing ordinary shares or potential ordinary shares in public securities markets.   |
| <b>3.</b> | <i>IAS 33.64</i>    | When earnings per share calculations reflect changes in the number of shares due to events that happened after the reporting date, an entity discloses that fact.   |
| <b>4.</b> | <i>IAS 33.73</i>    | If an entity discloses, in addition to basic and diluted earnings per share, per share amounts using a reported component of profit other than profit or loss for the period attributable to ordinary shareholders, such amounts are calculated using the weighted average number of ordinary shares determined in accordance with IAS 33 <i>Earnings Per Share</i> . |
|           | <i>IAS 33.73</i>    | If a component of profit is used that is not reported as a line item in the statement of comprehensive income, then an entity presents a reconciliation between the component used and a line item that is reported in the statement of comprehensive income.   |
| <b>5.</b> | <i>IAS 33.70(c)</i> | When applicable, an entity discloses instruments, including contingently issuable shares, that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they were anti-dilutive for the periods presented.   |
| <b>6.</b> |                     | In our view, the method used to determine the average market value of the entity's shares for purposes of calculating the dilutive effect of outstanding share options should be disclosed, particularly with respect to unquoted equity instruments. This issue is discussed in our publication <i>Insights into IFRS</i> (5.3.170.70).                              |

## Reference Notes to the consolidated financial statements

**15. Income tax expense (continued)**

IAS 12.81(ab)

**Income tax recognised in other comprehensive income<sup>1</sup>**

	2009			2008		
	Before tax	(expense) benefit	Net of tax	Before tax	(expense) benefit	Net of tax
<i>In millions of euro</i>						
IAS 1.90 Cash flow hedges	(10)	3	(7)	(9)	3	(6)
IAS 1.90 Available-for-sale investment securities	(31)	10	(21)	(34)	11	(23)
	(41)	13	(28)	(43)	14	(29)

**16. Earnings per share<sup>2</sup>****Basic earnings per share**

The calculation of basic earnings per share at 31 December 2009 was based on the profit attributable to ordinary shareholders of €614 million (2008: €508 million) and a weighted average number of ordinary shares<sup>3</sup> outstanding of 1,757.5 million (2008: 1,756.0 million), calculated as follows:

IAS 33.70(a)

**Profit attributable to ordinary shareholders***In millions of euro*

	Note	2009	2008
Net profit for the period attributable to equity holders of the Bank		634	528
Dividends on perpetual bonds classified as equity	33	(20)	(20)
Net profit attributable to ordinary shareholders		614	508

**Diluted earnings per share**

The calculation of diluted earnings per share at 31 December 2009 was based on the profit attributable to ordinary shareholders of €614 million (2008: €508 million) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 1,770.0 million (2008: 1,764.0 million), calculated as follows:

IAS 33.70(a)

**Profit attributable to ordinary shareholders (diluted)<sup>4</sup>***In millions of euro*

	2009	2008
Profit for the period attributable to ordinary shareholders	614	508

IAS 33.70(b)

**Weighted average number of ordinary shares (diluted)<sup>5</sup>***In millions of shares*

	Note	2009	2008
Weighted average number of ordinary shares (basic)	33	1,757.5	1,756.0
Effect of share options in issue		12.5	8.0
Weighted average number of ordinary shares (diluted)		1,770.0	1,764.0

The average market value of the Bank's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding.<sup>6</sup>

Note Reference **Explanatory note**

- 1.** *IAS 7.48* When applicable, an entity discloses, together with a commentary from management, the amount of significant cash and cash equivalent balances not available for use by the entity.

In these illustrative financial statements, cash balances with central banks that are subject to withdrawal restrictions are disclosed as a component of other assets (see note 26). These balances do not form part of the Group's cash management activities and therefore are not disclosed as part of cash and cash equivalents.

- 2.** *IFRS 7.6, 8* An entity groups financial instruments into classes that are appropriate to the nature of the information disclosed, and that take into account the characteristics of those financial instruments.

In these illustrative financial statements, the line items in the statement of financial position reflect the Group's activities. Accordingly, derivatives are presented either as trading assets or liabilities, or derivative assets or liabilities held for risk management purposes, to reflect the Group's two uses of derivatives. Derivatives held for risk management purposes include qualifying hedge instruments and non-qualifying hedge instruments held for risk management purposes rather than for trading.

## Reference Notes to the consolidated financial statements

IAS 7.45 **17. Cash and cash equivalents<sup>1</sup>***In millions of euro*

	2009	2008
Cash and balances with banks	256	184
Unrestricted balances with central banks	118	128
Money market placements	2,533	2,680
	2,907	2,992

**18. Trading assets and liabilities<sup>2</sup>**

IFRS 7.8(a)(ii)

**Trading assets**

	Pledged trading assets	Non- pledged trading assets	Total trading assets	Pledged trading assets	Non- pledged trading assets	Total trading assets
<i>In millions of euro</i>	2009	2009	2009	2008	2008	2008
Government bonds	632	5,710	6,342	576	5,522	6,098
Corporate bonds	231	4,260	4,491	245	3,825	4,070
Treasury bills	-	3,879	3,879	-	3,744	3,744
Equities	65	391	456	57	358	415
Asset-backed securities	-	516	516	-	463	463
	928	14,756	15,684	878	13,912	14,790
Derivative assets:						
Interest rate	-	78	78	-	91	91
Credit	-	332	332	-	369	369
Equity	-	84	84	-	79	79
Foreign exchange	-	150	150	-	141	141
OTC structured derivatives	-	334	334	-	298	298
	-	978	978	-	978	978
	928	15,734	16,662	878	14,890	15,768

IFRS 7.14(a),  
IAS 39.37(a)

The pledged trading assets presented in the table above are those financial assets that may be repledged or resold by counterparties. The total financial assets that have been pledged as collateral for liabilities, including amounts reflected above, at 31 December 2009 was €2,633 million (2008: €2,249 million).

IFRS 7.14(b)

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the bank acts as an intermediary.

**Collateral accepted as security for assets**

IFRS 7.15(a)

At 31 December 2009 the fair value of financial assets accepted as collateral that the Group is permitted to sell or repledge in the absence of default is €1,083 million (2008: €958 million).

IFRS 7.15(b)

At 31 December 2009 the fair value of financial assets accepted as collateral that have been sold or repledged is €661 million (2008: €705 million). The Group is obliged to return equivalent securities.

IFRS 7.15(c)

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

Note Reference **Explanatory note**

- 1.** *IAS 39.50(b), (c)* Under IAS 39 an entity is permitted to reclassify a non-derivative financial asset, other than one designated at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if it is no longer held for the purpose of being sold or repurchased in the near term. Different criteria apply for reclassifications of loans and of other qualifying assets:
- IAS 39.50D* ● If the financial asset would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held for trading at initial recognition), then it may be reclassified out of the fair value through profit or loss category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- IAS 39.50B* ● If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the fair value through profit or loss category only in rare circumstances.
- IAS 39.50C, 50F* If an entity reclassifies a financial asset out of the fair value through profit or loss category, then the financial asset is reclassified at its fair value on the date of reclassification and this fair value becomes the new cost or amortised cost, as applicable. Any gain or loss previously recognised in profit or loss is not reversed.
- IFRS 7.12A* Additional disclosures are required if an entity has reclassified financial assets.

## Reference Notes to the consolidated financial statements

**18. Trading assets and liabilities (continued)****Reclassifications out of trading assets<sup>1</sup>**

IFRS 7.12A(c)

With effect from 15 September 2008 and 31 March 2009, the Group reclassified certain trading assets, for which it had changed its intent such that it no longer holds these financial assets for the purpose of selling in the short term, to loans and advances to customers and to available-for-sale investment securities. For reclassified trading assets that would have met the definition of loans and receivables, the Group has the intention and ability to hold them for foreseeable future or until maturity. For other trading assets that were reclassified in 2008, the Group determined that the bankruptcy of [Bank X] on 15 September 2008 in the context of the deterioration of the financial markets during the third quarter of 2008 constituted rare circumstances that permit reclassification out of the trading category.

IFRS 7.12A(a), (b)

The table below sets out the financial assets reclassified and their carrying and fair values:

<i>In millions of euro</i>	Amounts reclassified	2009		2008	
		Carrying value	Fair value	Carrying value	Fair value
Assets reclassified in 2009:					
Trading assets reclassified to loans and advances to customers	296	276	256		
	296	276	256		
Assets reclassified in 2008:					
Trading assets reclassified to loans and advances to customers	1,140	1,069	1,005	1,135	1,125
Trading assets reclassified to available-for-sale investment securities	240	182	182	226	226
	1,380	1,251	1,187	1,361	1,351

IFRS 7.12A(d), (e)

The table below sets out the amounts actually recognised in profit or loss and equity in 2009 and 2008 in respect of financial assets reclassified out of trading assets:

<i>In millions of euro</i>	Reclassifications in 2009		Reclassifications in 2008		Other comprehensive income 2008
	Profit or loss 2009	Other comprehensive income 2009	Profit or loss 2009	Other comprehensive income 2009	
<b>Period before reclassification</b>					
Trading assets reclassified to loans and advances to customers:					
Net trading income	(18)	-	-	-	(80)
<b>Period after reclassification</b>					
Trading assets reclassified to loans and advances to customers:					
Interest income	13	-	51	-	50
Net impairment loss on financial assets	(5)	-	(17)	-	(55)
Trading assets reclassified to available-for-sale investment securities:					
Interest income	-	-	17	-	16
Net impairment loss on financial assets	-	-	(18)	-	(20)
Net change in fair value	-	-	-	(17)	(10)
	8	-	33	(17)	(9)

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## Reference Notes to the consolidated financial statements

**18. Trading assets and liabilities (continued)****Reclassifications out of trading assets (continued)**

IFRS 7.12A(d)

For assets reclassified in 2009, net trading income for 2008 included net losses of €19 million for trading assets reclassified to loans and advances to customers.

For assets reclassified in 2008, net trading income for 2007 included net gains of €81 million and €12 million for trading assets reclassified to loans and advances to customers and available-for-sale investment securities respectively.

IFRS 7.12A(e)

The table below sets out the amounts that would have been recognised in the period following reclassification during 2009 and 2008 if the reclassifications had not been made:

	Reclassifi-	Reclassifications	Profit or loss 2008
	cations in 2009	in 2008	
	Profit or loss 2009	Profit or loss 2009	
<i>In millions of euro</i>			
Trading assets reclassified to loans and advances to customers:			
Net trading income	(12)	(20)	(15)
Trading assets reclassified to available-for-sale investment securities:			
Net trading income	-	(18)	(14)
	(12)	(38)	(29)

IFRS 7.12A(f)

At 31 March 2009 the effective interest rates on trading assets reclassified to loans and advances to customers ranged from 6 percent to 10 percent with expected recoverable cash flows of €336 million.

At 15 September 2008 the effective interest rates on trading assets reclassified to loans and advances to customers ranged from 8 percent to 12 percent with expected recoverable cash flows of €1,345 million.

IFRS 7.12A(f)

At 15 September 2008 the effective interest rates on trading assets reclassified to available-for-sale investment securities ranged from 7 percent to 11 percent with expected recoverable cash flows of €280 million.

Note Reference **Explanatory note**

- |  |
|--|
| <p><b>1.</b> <i>IFRS 7.28</i> An entity discloses for any difference between the fair value at initial recognition (i.e., the fair value of the consideration given or received unless conditions described in AG76 of IAS 39 <i>Financial Instruments: Recognition and Measurement</i> are met) and the amount that would be determined at that date using its valuation technique (see paragraphs AG74-AG79 of IAS 39) for each class of financial instruments:</p> <ul style="list-style-type: none"><li>● its accounting policy for recognising that difference in profit or loss to reflect a change in factors, including time, that market participants would consider in setting a price (see paragraph AG76A of IAS 39)</li><li>● the aggregate difference yet to be recognised in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference.</li></ul> |
|--|

## Reference Notes to the consolidated financial statements

**18. Trading assets and liabilities (continued)**

IFRS 7.8(e)(ii)

**Trading liabilities***In millions of euro*

	2009	2008
Short sold positions – debt	6,355	5,453
Short sold positions – equity	263	227
	<u>6,618</u>	<u>5,680</u>
Derivative liabilities:		
Interest rate	23	25
Credit	145	133
Equity	42	32
Foreign exchange	122	108
OTC structured derivatives	76	74
	<u>408</u>	<u>372</u>
	<u>7,026</u>	<u>6,052</u>

**Unobservable valuation differences on initial recognition<sup>1</sup>**

IFRS 7.28

Any difference between the fair value at initial recognition and the amount that would be determined at that date using a valuation technique in a situation in which the valuation is dependent on unobservable parameters is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

The table below sets out the aggregate difference yet to be recognised in profit or loss at the beginning and end of the year with a reconciliation of the changes of the balance during the year for trading assets and liabilities:

*In millions of euro*

	2009	2008
Balance at 1 January	22	16
Increase due to new trades	24	14
Reduction due to passage of time	(8)	(4)
Reduction due to redemption / sales / transfers / improved observability	(12)	(4)
Balance at 31 December	<u>26</u>	<u>22</u>

Note Reference **Explanatory note**

- 1.** *IFRS 7.6, 8* An entity groups financial instruments into classes that are appropriate to the nature of the information disclosed, and that take into account the characteristics of those financial instruments.

In these illustrative financial statements, the line items in the statement of financial position reflect the Group's activities. Accordingly derivatives are presented either as trading assets or liabilities, or derivative assets or liabilities held for risk management purposes, to reflect the Group's two uses of derivatives. Derivatives held for risk management purposes include qualifying hedge instruments and non-qualifying hedge instruments held for risk management purposes rather than for trading.

- 2.** *IFRS 7.23(b)* When applicable, an entity discloses a description of any forecast transaction for which hedge accounting had previously been used, but which is no longer expected to occur.

## Reference Notes to the consolidated financial statements

**19. Derivatives held for risk management<sup>1</sup>***In millions of euro*

	Assets	Liabilities	Assets	Liabilities
	2009		2008	
IFRS 7.22(b) Instrument type:				
Interest rate	404	225	309	192
Credit	74	64	67	55
Equity	80	94	73	92
Foreign exchange	300	445	277	450
	858	828	726	789

IFRS 7.22(a) **Fair value hedges of interest rate risk**

The Group uses interest rate swaps to hedge its exposure to changes in the fair values of its fixed rate euro notes and certain loans and advances attributable to changes in market interest rates. Interest rate swaps are matched to specific issuances of fixed rate notes or loans.

IFRS 7.22(b) The fair values of derivatives designated as fair value hedges are as follows:

*In millions of euro*

	Assets	Liabilities	Assets	Liabilities
	2009		2008	
IFRS 7.22(b) Instrument type:				
Interest rate	175	99	101	89
	175	99	101	89

IFRS 7.22(a) **Cash flow hedges of foreign currency debt securities issued<sup>2</sup>**

The Group uses interest rate and cross-currency swaps to hedge the foreign currency and interest rate risks arising from its issuance of floating rate notes denominated in foreign currencies.

IFRS 7.22(b) The fair values of derivatives designated as cash flow hedges are as follows:

*In millions of euro*

	Assets	Liabilities	Assets	Liabilities
	2009		2008	
IFRS 7.22(b) Instrument type:				
Interest rate	210	117	151	95
Foreign exchange	133	288	99	269
	343	405	250	364

IFRS 7.23(a) The time periods in which the hedged cash flows are expected to occur and affect the consolidated statement of comprehensive income are as below:

*In millions of euro*

	Within 1 year	1-5 years	Over 5 years
<b>31 December 2009</b>			
Cash inflows	798	2,145	115
Cash outflows	674	1,980	187
<b>31 December 2008</b>			
Cash inflows	455	1,790	10
Cash outflows	525	2,085	12

IFRS 7.23(c) During 2009 net losses of €17 million (2008: net losses of €14 million) relating to the effective portion of cash flow hedges were recognised in other comprehensive income.

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## Reference Notes to the consolidated financial statements

**19. Derivatives held for risk management (continued)**

IFRS 7.22(a)

**Net investment hedges**

The Group uses a mixture of forward foreign exchange contracts and foreign currency denominated debt to hedge the foreign currency translation risk on its net investment in foreign subsidiaries.

IFRS 7.22(b)

The fair value of derivatives designated as net investment hedges are as follows:

*In millions of euro*

	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
	<b>2009</b>		<b>2008</b>	
Instrument type:				
Foreign exchange	85	93	77	78
	85	93	77	78

US dollar denominated debt, which is included within debt securities issued (see note 29), is used to hedge the net investment in the Group's subsidiaries in the Americas with a US dollar functional currency and has a fair value of €965 million (2008: €831 million) at the reporting date.

**Other derivatives held for risk management**

The Group uses other derivatives, not designated in a qualifying hedge relationship, to manage its exposure to foreign currency, interest rate, equity market and credit risks. The instruments used include interest rate swaps, cross-currency swaps, forward contracts, futures, options, credit swaps and equity swaps.

**20. Loans and advances to banks**

*In millions of euro*

	<b>2009</b>	<b>2008</b>
Loans and advances to banks	5,584	4,712
Less specific allowances for impairment	(12)	(5)
	5,572	4,707

IFRS 7.16

**Specific allowances for impairment**

IFRS 7.20(e)

Balance at 1 January	5	-
Impairment loss for the year:		
Charge for the year	7	5
Effect of foreign currency movements	1	-
Effect of discounting	(1)	-
Balance at 31 December	12	5

Note Reference **Explanatory note**

- 1.** *IFRS 7, 8* An entity groups financial instruments into classes that are appropriate to the nature of the information disclosed, and that take into account the characteristics of those financial instruments.

Loans and advances as presented in the statement of financial position include loans and advances that are carried at amortised cost and those that have been designated upon initial recognition at fair value through profit or loss. However, other presentations are possible.

- 2.** *IAS 39.9, 11A* Financial assets or liabilities, other than those classified as held for trading, may be designated upon initial recognition at fair value through profit or loss, in any of the following circumstances, if they:

- eliminate or significantly reduce a measurement or recognition inconsistency (“accounting mismatch”) that would otherwise arise from measuring assets and liabilities or recognising the gains or losses on them on different bases
- are part of a group of financial assets and / or financial liabilities that is managed and whose performance is evaluated and reported to key management on a fair value basis in accordance with a documented risk management or investment strategy
- are hybrid contracts where an entity is permitted to designate the entire contract at fair value through profit or loss.

This note demonstrates the fair value option for loans and advances of the Group’s investment banking segment that are managed and evaluated on a fair value basis as part of its documented risk management and investment strategy. However, other presentations are possible.

## Reference Notes to the consolidated financial statements

**21. Loans and advances to customers<sup>1</sup>***In millions of euro*

		2009	2008
<i>IFRS 7.8(a)(i)</i>	Loans and advances to customers at fair value through profit or loss <sup>2</sup>	3,986	3,145
<i>IFRS 7.8(c)</i>	Loans and advances to customers at amortised cost	59,084	53,660
		<u>63,070</u>	<u>56,805</u>

*IAS 1.61*

At 31 December 2009 €27,137 million (2008: €24,262 million) of loans and advances to customers are expected to be recovered more than 12 months after the reporting date.

**Loans and advances to customers at amortised cost**

<i>In millions of euro</i>	2009			2008		
	Gross impairment amount	allowance	Carrying amount	Gross impairment amount	allowance	Carrying amount
Retail customers:						
Mortgage lending	14,856	(309)	14,547	13,629	(268)	13,361
Personal loans	4,164	(225)	3,939	3,621	(207)	3,414
Credit cards	2,421	(251)	2,170	2,284	(241)	2,043
Corporate customers:						
Finance leases	939	(17)	922	861	(16)	845
Other secured lending	32,059	(871)	31,188	28,653	(790)	27,863
Reverse repos	6,318	-	6,318	6,134	-	6,134
	<u>60,757</u>	<u>(1,673)</u>	<u>59,084</u>	<u>55,182</u>	<u>(1,522)</u>	<u>53,660</u>

**Allowances for impairment***In millions of euro*

	2009	2008
<i>IFRS 7.16</i>		
<b>Specific allowances for impairment</b>		
Balance at 1 January	1,324	1,133
<i>IFRS 7.20(e)</i>		
Impairment loss for the year:		
Charge for the year	197	191
Recoveries	(18)	(3)
Effect of foreign currency movements	7	9
Effect of discounting	(10)	(6)
Write-offs	(47)	-
Balance at 31 December	<u>1,453</u>	<u>1,324</u>
<i>IFRS 7.16</i>		
<b>Collective allowances for impairment</b>		
Balance at 1 January	198	174
<i>IFRS 7.20(e)</i>		
Impairment loss for the year:		
Charge for the year	22	24
Balance at 31 December	<u>220</u>	<u>198</u>
Total allowances for impairment	<u>1,673</u>	<u>1,522</u>

Note *Reference* **Explanatory note**

- |  |  |
|--|--|
| <p><b>1.</b> <i>IAS 17.47</i><br/><i>(c)-(e)</i></p> | <p>An entity discloses, when applicable, the unguaranteed residual values accruing to its benefit, the accumulated allowance for uncollectible minimum lease payments receivable, and any contingent rents recognised as income in the period.</p> |
|--|--|

## Reference Notes to the consolidated financial statements

**21. Loans and advances to customers (continued)**

IAS 17.47

**Finance lease receivables<sup>1</sup>**

IAS 17.47(f)

Loans and advances to customers include the following finance lease receivables for leases of certain property and equipment where the Group is the lessor:

*In millions of euro*

IAS 17.47(a)

Gross investment in finance leases, receivable:

IAS 17.47(a)(i)

Less than one year

IAS 17.47(a)(ii)

Between one and five years

IAS 17.47(a)(iii)

More than five years

IAS 17.47(b)

Unearned finance income

Net investment in finance leases

IAS 17.47(a)

Net investment in finance leases, receivable:

IAS 17.47(a)(i)

Less than one year

IAS 17.47(a)(ii)

Between one and five years

IAS 17.47(a)(iii)

More than five years

	2009	2008
	251	203
	805	741
	104	106
	1,160	1,050
	(221)	(189)
	939	861
	205	181
	650	597
	84	83
	939	861

**Loans and advances to customers at fair value through profit or loss**

Loans and advances to customers held by the investment banking business have been designated at fair value through profit or loss as the Group manages these loans and advances on a fair value basis in accordance with its documented investment strategy. Internal reporting and performance measurement of these loans and advances are on a fair value basis.

IFRS 7.9(a), 9(b)

At 31 December 2009 the maximum exposure to credit risk on loans and advances at fair value through profit or loss was €3,986 million (2008: €3,145 million). The Group has mitigated the credit risk exposure to these loans and advances by purchasing credit risk protection in the form of credit derivatives. At 31 December 2009 these derivative contracts provided a notional principal protection of €3,108 million (2008: €2,325 million).

IFRS 7.9(c), 9(d)

Details of changes in the fair value recognised on these loans and advances on account of credit risk changes and fair value changes on the related derivatives are set out below.

<i>In millions of euro</i>	For the year		For the year	
	2009	Cumulative 2009	2008	Cumulative 2008
Loans and advances at fair value through profit or loss	(32)	(11)	21	21
Related credit derivative contracts	38	21	(17)	(17)

IFRS 7.11(a)

The change in fair value attributable to changes in credit risk, as disclosed above, is determined based on changes in the prices of credit-default swaps referenced to similar obligations of the same borrower where such prices are observable or, where they are not observable, as the total amount of the change in fair value that is not attributable to changes in the observed benchmark interest rate or in other market rates.

Note Reference **Explanatory note**

- 1.** *IFRS 7, 8* An entity groups financial instruments into classes that are appropriate to the nature of the information disclosed, and that take into account the characteristics of those financial instruments.

Investment securities as presented in the statement of financial position include available-for-sale securities, held-to-maturity securities and securities that have been designated upon initial recognition at fair value through profit or loss. However, other presentations are possible.

- 2.** *IAS 39.9, 11A* Financial assets or liabilities, other than those classified as held for trading, may be designated upon initial recognition at fair value through profit or loss, in any of the following circumstances, if they:

- eliminate or significantly reduce a measurement or recognition inconsistency (“accounting mismatch”) that would otherwise arise from measuring assets and liabilities or recognising the gains or losses on them on different bases
- are part of a group of financial assets and / or financial liabilities that is managed and whose performance is evaluated and reported to key management on a fair value basis in accordance with a documented risk management or investment strategy
- are hybrid contracts where an entity is permitted to designate the entire contract at fair value through profit or loss.

These illustrative financial statements demonstrate the fair value option for investment securities when the Group holds related derivatives at fair value through profit or loss, and designation therefore eliminates or substantially reduces an accounting mismatch that would otherwise arise and when venture capital investments are managed on a fair value basis. However, other presentations are possible.

## Reference Notes to the consolidated financial statements

**22. Investment securities<sup>1</sup>***In millions of euro*

		<b>2009</b>	<b>2008</b>
<i>IFRS 78(a)(i)</i>	Investment securities at fair value through profit or loss	4,091	3,239
<i>IFRS 78(b)</i>	Held-to-maturity investment securities	101	101
<i>IFRS 78(d)</i>	Available-for-sale investment securities	2,110	1,929
		<u>6,302</u>	<u>5,269</u>

*IAS 1.61* At 31 December 2009 €2,668 million (2008: €2,613 million) of investment securities are expected to be recovered more than 12 months after the reporting date.

**Investment securities at fair value through profit or loss<sup>2</sup>***In millions of euro*

	<b>2009</b>	<b>2008</b>
Corporate bonds	3,278	2,602
Asset-backed securities	647	500
Debt securities	3,925	3,102
Equities	166	137
	<u>4,091</u>	<u>3,239</u>

*IFRS 7.21, B5(a)* Investment securities have been designated at fair value through profit or loss upon initial recognition when the Group holds related derivatives at fair value through profit or loss, and designation therefore eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Also included in investment securities that have been designated at fair value through profit or loss are the Group's equity investments in certain entities held by its venture capital subsidiary. These investments (2009: €101 million; 2008: €82 million) represent equity holdings in investee companies that give the Group between 20 percent and 45 percent of the voting rights of these venture capital investees. The venture capital subsidiary is managed on a fair value basis by the Group.

**Held-to-maturity investment securities***In millions of euro*

	<i>Note</i>	<b>2009</b>	<b>2008</b>
Government bonds		56	56
Corporate bonds		45	45
Less specific allowances for impairment		-	-
Debt securities		<u>101</u>	<u>101</u>

**Available-for-sale investment securities**

Government bonds		768	653
Asset-backed securities		333	358
Corporate bonds		582	542
Retained interests in securitisations	<i>35</i>	98	87
Debt securities		1,781	1,640
Equity securities with readily determinable fair values		305	265
Unquoted equity securities at cost		24	24
		<u>2,110</u>	<u>1,929</u>

*IFRS 7.16* **Specific allowances for impairment against available-for-sale investment securities**

<i>IFRS 7.20(e)</i>	Balance at 1 January	35	21
	Impairment loss for the year:		
	Charge for the year	128	116
	Effect of discounting	(3)	(2)
	Balance at 31 December	<u>160</u>	<u>135</u>

Note Reference **Explanatory note**

**1.** *IAS 39.50E* A financial asset that is classified as available-for-sale that would have met the definition of loans and receivables if it had not been designated as available for sale, may be reclassified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

*IAS 39.50F* If an entity reclassifies a financial asset from the available-for-sale category, the financial asset is reclassified at its fair value on the date of reclassification and this fair value becomes its new cost or amortised cost, as applicable. Any gain or loss previously recognised in other comprehensive income, is accounted for in accordance with paragraph 54 of IAS 39, which states that if the financial asset has a fixed maturity, then the gain or loss is amortised to profit or loss over the remaining life of the financial asset using the effective interest method, and if the financial asset does not have a fixed maturity, then the gain or loss is recognised in profit or loss when the financial asset is sold or otherwise disposed of, except in each case that, if the financial asset is subsequently impaired, the gain or loss is immediately reclassified to profit or loss.

## Reference Notes to the consolidated financial statements

**22. Investment securities (continued)****Reclassifications out of available-for-sale investment securities**

IFRS 7.12A

With effect from 15 September 2008, the Group reclassified certain available-for-sale investment securities to loans and advances to customers. The Group identified financial assets that would have met the definition of loans and receivables (if they had not been designated as available-for-sale) for which at the date of reclassification it had the intention and ability to hold them for the foreseeable future or until maturity. There were no reclassifications of available-for-sale investment securities to loans and advances to customers in 2009.

IFRS 7.12A(a), (b)

The reclassifications were made with effect from 15 September 2008 at fair value at that date. The table below sets out the financial assets reclassified and their carrying and fair values:

<i>In millions of euro</i>	2009		2008		
	Amounts reclassified	Carrying value	Fair value	Carrying value	Fair Value
Available-for-sale investment securities reclassified to loans and advances to customers	425	380	341	410	391

IFRS 7.12A(d), (e)

The table below sets out the amounts actually recognised in profit or loss and other comprehensive income in respect of the financial assets reclassified out of available-for-sale investment securities:

<i>In millions of euro</i>	Profit or loss	Other comprehensive income	Profit or loss	Other comprehensive income
	2009	2009	2008	2008
<b>Period before reclassification</b>				
Available-for-sale investment securities reclassified to loans and advances to customers:				
Interest income	-	-	28	-
Net impairment loss on financial assets	-	-	(60)	-
Net change in fair value	-	-	-	(15)
	-	-	(32)	(15)
<b>Period after reclassification</b>				
Available-for-sale investment securities reclassified to loans and advances to customers:				
Interest income	20	-	24	-
Net impairment loss on financial assets	(18)	-	(39)	-
Amount transferred from fair value reserve to profit or loss	-	2	-	3
	2	2	(15)	3

IFRS 7.12A(d)

During 2007 the Group recognised interest income of €54 million, net impairment loss of €5 million and increase in fair value reserve (equity) of €6 million in respect of the financial assets reclassified from available-for-sale investment securities to loans and advances to customers during 2008.

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Reference Notes to the consolidated financial statements

## 22. Investment securities (continued)

### Reclassifications out of available-for-sale investment securities (continued)

IFRS 7.12A(e)

The table below sets out the amounts that would have been recognised in the period following reclassification if the reclassifications had not been made:

	2009		2008	
	Profit or loss	Other compre- hensive income	Profit or loss	Other compre- hensive income
<i>In millions of euro</i>				
Available-for-sale investment securities reclassified to loans and advances:				
Interest income	20	-	26	-
Net impairment loss on financial assets	(30)	-	(54)	-
Net change in fair value	-	(8)	-	(6)
	(10)	(8)	(28)	(6)

IFRS 7.12A(f)

At 15 September 2008 the effective interest rates on reclassified available-for-sale investment securities ranged from 8 percent to 11 percent with expected recoverable cash flows of €495 million.

Note Reference **Explanatory note**

- |           |  |
|-----------|--|
| <b>1.</b> | For a more comprehensive illustration of disclosures that may be applicable to property, plant and equipment, see the July 2009 edition of our publication <i>Illustrative financial statements</i> .      |
| <b>2.</b> | <i>IAS 23.26</i> An entity discloses the amount of borrowing costs capitalised during the period, and the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation. |

## Reference Notes to the consolidated financial statements

**23. Property and equipment<sup>1</sup>**

<i>IAS 16.73(d), (e)</i>	<i>In millions of euro</i>	<b>Land and buildings</b>	<b>IT equipment</b>	<b>Fixtures and fittings</b>	<b>Total</b>
<b>Cost</b>					
	Balance at 1 January 2008	234	154	78	466
	Acquisitions	24	21	18	63
	Disposals	(14)	(5)	(5)	(24)
	Balance at 31 December 2008	244	170	91	505
	Balance at 1 January 2009	244	170	91	505
	Acquisitions	34	32	22	88
	Disposals	(26)	(15)	(6)	(47)
	Balance at 31 December 2009	252	187	107	546
<b>Depreciation and impairment losses</b>					
	Balance at 1 January 2008	37	53	24	114
	Depreciation for the period	6	9	4	19
	Impairment losses	-	-	-	-
	Disposals	(4)	(1)	(1)	(6)
	Balance at 31 December 2008	39	61	27	127
	Balance at 1 January 2009	39	61	27	127
	Depreciation for the period	7	10	4	21
	Impairment losses	-	-	-	-
	Disposals	(7)	(3)	(1)	(11)
	Balance at 31 December 2009	39	68	30	137
<b>Carrying amounts</b>					
	Balance at 1 January 2008	197	101	54	352
	Balance at 31 December 2008	205	109	64	378
	Balance at 31 December 2009	213	119	77	409

*IAS 1.78(a)*

*IAS 23.26* There were no capitalised borrowing costs related to the acquisition of plant and equipment during the year (2008: nil).<sup>2</sup>

Note Reference **Explanatory note**

**1.** IAS 38.122 When applicable, an entity discloses the following:

- for an intangible asset assessed as having an indefinite useful life, the carrying amount of that asset and the reasons supporting the assessment of an indefinite useful life. In giving these reasons, the entity describes the factor(s) that played a significant role in determining that the asset has an indefinite useful life
- a description, the carrying amount and remaining amortisation period of any individual intangible asset that is material to the financial statements
- for intangible assets acquired by way of a government grant and recognised initially at fair value:
  - the fair value recognised initially for these assets
  - their carrying amount
  - whether they are measured after recognition under the cost model or the revaluation model
- the existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities
- the amount of contractual commitments for the acquisition of intangible assets.

IAS 38.118, IFRS 3.61, B67(d)(iii)-(v) In presenting a reconciliation of the carrying amount of intangible assets and goodwill, an entity also discloses, if applicable:

- assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and other disposals
- decreases and increases in the carrying amount of intangible assets during the period resulting from impairment losses recognised or reversed directly in equity
- adjustments to goodwill resulting from the recognition of deferred tax assets subsequent to a business combination.

IAS 38.124 If an entity uses the revaluation model to account for intangible assets, then it discloses:

- the effective date of the revaluation for each class of the intangible assets
- the carrying amount of each class of revalued intangible assets
- the carrying amount that would have been recognised had the revalued class of intangible assets been measured after recognition using the cost model
- the amount of the revaluation surplus that relates to intangible assets at the beginning and end of the period, indicating the changes during the period and any restrictions on the distribution of the balance to shareholders
- the methods and significant assumptions applied in estimating the assets' fair values.

**2.** For a more comprehensive illustration of disclosures that may be applicable to intangible assets, including goodwill and the disclosures required by IAS 36 *Impairment of Assets* for each material impairment loss recognised or reversed during the period, see the July 2009 edition of our publication *Illustrative financial statements*.

**3.** IAS 23.26 An entity discloses the amount of borrowing costs capitalised during the period, and the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation.

## Reference Notes to the consolidated financial statements

**24. Intangible assets**<sup>1,2</sup>

<i>IAS 38.118(c), (e)</i>	<i>In millions of euro</i>	<b>Goodwill</b>	<b>Purchased software</b>	<b>Developed software</b>	<b>Total</b>
<b>Cost</b>					
	Balance at 1 January 2008	78	94	116	288
	Acquisitions	-	20	-	20
	Internal development	-	-	14	14
	Balance at 31 December 2008	78	114	130	322
	Balance at 1 January 2009	78	114	130	322
	Acquisitions	-	26	-	26
	Internal development	-	-	16	16
	Balance at 31 December 2009	78	140	146	364
<b>Amortisation and impairment losses</b>					
	Balance at 1 January 2008	5	20	18	43
	Amortisation for the period	-	10	10	20
	Impairment losses	-	-	-	-
	Balance at 31 December 2008	5	30	28	63
	Balance at 1 January 2009	5	30	28	63
	Amortisation for the period	-	16	10	26
	Impairment losses	-	-	-	-
	Balance at 31 December 2009	5	46	38	89
<b>Carrying amounts</b>					
	Balance at 1 January 2008	73	74	98	245
	Balance at 31 December 2008	73	84	102	259
	Balance at 31 December 2009	73	94	108	275

*IAS 23.26* There were no capitalised borrowing costs related to the internal development of software during the year (2008: nil).<sup>3</sup>

Note Reference **Explanatory note**

**1.** *IAS 36.130(f)* If the recoverable amount of an individual asset, including goodwill, or a cash-generating unit, is determined based on its fair value less costs to sell and a material impairment loss is recognised or reversed during the period, then an entity discloses the basis used to determine fair value less costs to sell.

*IAS 36.130(c)* If a material impairment loss is recognised for an individual asset, then an entity discloses:

- the nature of the asset
- if the entity reports segment information in accordance with IFRS 8 *Operating Segments*, the reportable segment to which the asset belongs.

*IAS 36.130(d)(iii)* If a material impairment loss is recognised for a cash-generating unit and the aggregation of assets for identifying the cash-generating unit has changed since the previous estimate of recoverable amount, then an entity describes the current and former way of aggregating assets and the reasons for changing the way in which the cash-generating unit is identified.

*IAS 36.130(a)* If an impairment loss, or a reversal thereof, is material, then an entity discloses the events and circumstances that led to the recognition or reversal of the impairment loss.

*IAS 36.126(c)(d)* If applicable, an entity discloses the amount of impairment losses or reversals of impairment losses on revalued assets recognised directly in equity during the period.

**2.** *IAS 36.133* If any portion of the goodwill acquired in a business combination during the period has not been allocated to a cash-generating unit at the reporting date, then the entity discloses the amount of the unallocated goodwill together with the reasons why that amount remains unallocated. The practical difficulties of this exception, combined with the requirement for annual impairment testing, are discussed in our publication *Insights into IFRS* (3.10.130).

**3.** *IAS 36.99* Instead of calculating the recoverable amount, an entity may use its most recent previous calculation of the recoverable amount of a cash-generating unit containing goodwill, if all of the following criteria are met:

- There have been no significant changes in the assets and liabilities making up the unit since the calculation.
- The calculation resulted in a recoverable amount that exceeded the carrying amount of the unit by a substantial margin.
- Based on an analysis of the events and circumstances since the calculation, the likelihood that the current recoverable amount would be less than the current carrying amount of the unit is remote.

The disclosures illustrated here are based on the assumption that the calculation of the recoverable amount was prepared in the current period. If a calculation made in a preceding period is used, then the disclosures are adjusted accordingly.

**4.** *IAS 36.134(d)(i), (ii)* An entity discloses a description of management's approach to determining the value applied to each key assumption on which the cash flow projections are based. This publication also illustrates a description of the approach to determining the discount rate.

**5.** *IAS 36.134(f)* If a reasonably possible change in a key assumption on which management has based its determination of the unit's (group of units') recoverable amount would cause the unit's (group of units') carrying amount to exceed its recoverable amount, then an entity discloses:

- the amount by which the unit's (group of units') recoverable amount exceeds its carrying amount
- the value assigned to the key assumption
- the amount by which the value assigned to the key assumption must change, after incorporating any consequential effects of that change on the other variables used to measure recoverable amount, in order for the unit's (group of units') recoverable amount to be equal to its carrying amount.

## Reference Notes to the consolidated financial statements

**24. Intangible assets (continued)****Impairment testing for cash-generating units containing goodwill<sup>1, 2, 3</sup>**

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes, which is not higher than the Group's operating segments as reported in note 6.

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

<i>IAS 36.134(a)</i>	<i>In millions of euro</i>	<b>2009</b>	<b>2008</b>
	European investment banking	53	53
	European retail banking	25	25
		<u>78</u>	<u>78</u>

*IAS 36.126(a), (b)* No impairment losses on goodwill were recognised during 2009 (2008: nil).

*IAS 36.134(c), (d)* The recoverable amounts for the European investment banking and retail banking units have been calculated based on their value in use.

*IAS 1.125, 36.134(d), (f)* Value in use for each unit was determined by discounting the future cash flows expected to be generated from the continuing use of the unit. Unless indicated otherwise, value in use in 2009 was determined similarly as in 2008. The calculation of the value in use was based on the following key assumptions:

- Cash flows were projected based on past experience, actual operating results and the 5-year business plan in both 2008 and 2009. Cash flows for a further 20-year period were extrapolated using a constant growth rate of 2 percent (2008: 3.8 percent), which is based on the long-term forecast GDP growth rates in the countries in which the units operate. The forecast period is based on the Group's long-term perspective with respect to the operation of these units.
- Pre-tax discount rates of 10 percent and 6 percent (2008: 8 percent and 5 percent) respectively were applied in determining the recoverable amounts for the investment banking and retail banking units. These discount rates were estimated based on past experience and the weighted average cost of capital allocated by the Group to these units.<sup>4</sup>

The key assumptions described above may change as economic and market conditions change. The Group estimates that reasonably possible changes in these assumptions are not expected to cause the recoverable amount of either unit to decline below the carrying amount.<sup>5</sup>

Note Reference **Explanatory note**

- 1.** *IAS 12.81(g)* An entity discloses, in respect of each *type* of temporary difference, the amount of deferred tax assets and liabilities recognised in the statement of financial position. IFRSs are unclear as to what constitutes a *type* of a temporary difference. Disclosures presented in these illustrative financial statements are based on the statement of financial position captions related to the temporary differences. Another possible interpretation is to present disclosures based on the reason for the temporary difference, e.g., depreciation.

In our view, it is not appropriate to disclose gross deductible temporary differences with the related valuation allowance shown separately because, under IFRSs, it is *recognised* temporary differences that are required to be disclosed.

These issues are discussed in our publication *Insights into IFRS* (3.13.670.40 - .50).

- 2.** *IAS 12.82* When applicable, an entity discloses the amount of a deferred tax asset and the nature of the evidence supporting its recognition when:
- utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences
  - the entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.

- 3.** *IAS 12.87A,* An entity discloses the important features of the income tax system(s) and the factors that will affect the amount of the potential income tax consequences of dividends.

## Reference Notes to the consolidated financial statements

**25. Deferred tax assets and liabilities****Recognised deferred tax assets and liabilities<sup>1, 2</sup>**

IAS 12.81(g)(i) Deferred tax assets and liabilities are attributable to the following:

*In millions of euro*

	Assets	Liabilities	Net	Assets	Liabilities	Net
	2009			2008		
Property and equipment, and software	-	(33)	(33)	-	(21)	(21)
Available-for-sale securities	-	(60)	(60)	-	(70)	(70)
Cash flow hedges	31	-	31	28	-	28
Allowances for loan losses	72	-	72	68	-	68
Tax loss carry-forwards	25	-	25	31	-	31
Share-based payment transactions	150	-	150	125	-	125
Other	38	(40)	(2)	44	(33)	11
Net tax assets / (liabilities)	316	(133)	183	296	(124)	172

**Unrecognised deferred tax liabilities<sup>3</sup>**

IAS 12.81(f), 87

At 31 December 2009 deferred tax liabilities of €7.7 million (2008: €6.6 million) for temporary differences of €25.3 million (2008: €22.0 million) related to investments in subsidiaries were not recognised because the Bank controls whether the liabilities will be incurred and it is satisfied that they will not be incurred in the foreseeable future.

IAS 12.82A

In some of the countries where the Group operates, local tax laws provide that gains on the disposal of certain assets are tax exempt, provided that the gains are not distributed. At 31 December 2009 the total tax exempt reserves amounted to €0.6 million, which would result in a tax liability of €0.2 million (2008: €0.2 million) should the subsidiaries pay dividends from these reserves.

IAS 12.81(e)

**Unrecognised deferred tax assets**

Deferred tax assets have not been recognised in respect of the following items:

*In millions of euro*

	2009	2008
Tax losses	10	16
	10	16

The tax losses relate to an overseas investment banking subsidiary and expire in 2010. Deferred tax assets have not been recognised in respect of these losses because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

Note Reference **Explanatory note**

- |  |   |
|--|---|
| <p><b>1.</b> IAS 12.81<br/>(g)(ii)</p> | <p>When the amount of deferred tax recognised in the statement of comprehensive income in respect of each type of temporary difference is apparent from the changes in the amounts recognised in the statement of financial position, this disclosure is not required.</p>  |
| <p><b>2.</b> IAS 1.54</p>              | <p>In these illustrative financial statements, immaterial assets held for sale, investment property and trade receivables have not been disclosed separately in the statement of financial position, but are disclosed separately as a component of other assets, and the disclosures in respect of assets held for sale that may be required by IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> are not included. For a more comprehensive illustration of the presentation and disclosures that may apply when such items are material, see the July 2009 edition of our publication <i>Illustrative financial statements</i>.</p> |

## Reference Notes to the consolidated financial statements

**25. Deferred tax assets and liabilities (continued)**

IAS 12.81(g)(ii)

**Movements in temporary differences during the year<sup>1</sup>**

<i>In millions of euro</i>	Balance at 1 January	Recognised in profit or loss	Recognised in other comprehen- sive income	Balance at 31 December
<b>2009</b>				
Property and equipment, and software	(21)	(12)	-	(33)
Available-for-sale securities	(70)	-	10	(60)
Cash flow hedges	28	-	3	31
Allowances for loan losses	68	4	-	72
Tax loss carry-forwards	31	(6)	-	25
Share-based payment transactions	125	25	-	150
Other	11	(13)	-	(2)
	172	(2)	13	183
<b>2008</b>				
Property and equipment, and software	(7)	(14)	-	(21)
Available-for-sale securities	(81)	-	11	(70)
Cash flow hedges	25	-	3	28
Allowances for loan losses	62	6	-	68
Tax loss carry-forwards	38	(7)	-	31
Share-based payment transactions	117	8	-	125
Other	13	(2)	-	11
	167	(9)	14	172

IAS 1.77

**26. Other assets<sup>2</sup>***In millions of euro*

	2009	2008
IAS 1.54 Assets held for sale	200	165
IAS 1.54(b) Investment property	84	71
IAS 1.54(h) Accounts receivable and prepayments	160	115
IAS 1.54(h) Accrued income	177	114
IAS 7.48 Restricted deposits with central banks	56	56
Other	37	42
	714	563

Restricted deposits with central banks are not available for use in the Group's day-to-day operations.

The Group holds some investment property as a consequence of the ongoing rationalisation of its retail branch network. Other properties have been acquired through enforcement of security over loans and advances.

IAS 40.75(d), (e)

The carrying amount of investment property is the fair value of the property as determined by a registered independent appraiser having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Fair values were determined having regard to recent market transactions for similar properties in the same location as the Group's investment property.

Investment property includes a number of commercial properties that are leased to third parties. On average the leases contain an initial non-cancellable period of 10 years. Subsequent renewals are negotiated with the lessee.

IAS 40.76(d)

The change in fair value of investment property recorded in other income in the profit or loss is a gain of €15 million (2008: a gain of €8 million).

Note Reference **Explanatory note**

- 1.** *IFRS 7, 8* An entity groups financial instruments into classes that are appropriate to the nature of the information disclosed, and that take into account the characteristics of those financial instruments.

The carrying amounts of each of the categories of financial assets and financial liabilities in IAS 39 *Financial Instruments: Recognition and Measurement* are disclosed either in the statement of financial position or in the notes. However, other presentations are possible.

- 2.** *IAS 39.9, 11A* Financial assets or liabilities, other than those classified as held for trading, may be designated upon initial recognition at fair value through profit or loss, in any of the following circumstances, if they:

- eliminate or significantly reduce a measurement or recognition inconsistency (“accounting mismatch”) that would otherwise arise from measuring assets and liabilities or recognising the gains or losses on them on different bases
- are part of a group of financial assets and / or financial liabilities that is managed and whose performance is evaluated and reported to key management on a fair value basis in accordance with a documented risk management or investment strategy
- are hybrid contracts where an entity is permitted to designate the entire contract at fair value through profit or loss.

These illustrative financial statements demonstrate the fair value option for hybrid debt securities that contain an embedded derivative. However, other presentations are possible.

- 3.** *IAS 7.50(a)* An entity is encouraged, but not required, to disclose the amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities.

## Reference Notes to the consolidated financial statements

**26. Other assets (continued)**

IAS 40.75(f)(i) Rental income from investment property recorded in other income in the profit or loss was €3 million (2008: €2 million).

**27. Deposits from banks**

*In millions of euro*

	2009	2008
Money market deposits	10,956	9,231
Other deposits from banks	478	762
Items in the course of collection	244	237
	11,678	10,230

**28. Deposits from customers**

*In millions of euro*

	2009	2008
Retail customers:		
Term deposits	12,209	10,120
Current deposits	26,173	24,136
Corporate customers:		
Term deposits	1,412	1,319
Current deposits	10,041	9,384
Other	3,811	3,945
	53,646	48,904

IAS 1.61 At 31 December 2009 €10,808 million (2008: €8,789 million) of deposits from customers are expected to be settled more than 12 months after the reporting date.

**29. Debt securities issued<sup>1, 2, 3</sup>**

*In millions of euro*

	2009	2008
IFRS 7.8(e)(i) Debt securities issued at fair value through profit or loss	2,409	2,208
IFRS 7.8(f) Debt securities issued at amortised cost	8,818	8,040
	11,227	10,248

IAS 1.61 At 31 December 2009 €8,991 million (2008: €7,723 million) of debt securities issued are expected to be settled more than 12 months after the reporting date.

IFRS 7.21, B5(a),  
IAS 39.11A Debt securities issued have been designated at fair value through profit or loss when they contain embedded derivatives that significantly modify the cash flows that otherwise would be required to be separated.

IFRS 7.10(b) The carrying amount of financial liabilities designated at fair value through profit or loss at 31 December 2009 was €59 million lower than the contractual amount due at maturity (2008: €43 million).

*In millions of euro*

	2009	2008
Debt securities at amortised cost:		
Floating rate debt securities	5,143	4,473
Medium-term notes	3,675	3,567
	8,818	8,040

IFRS 7.18, 19 The Group has not had any defaults of principal, interest or other breaches with respect to its debt securities during 2009 and 2008.

Note *Reference* **Explanatory note**

- |                         |  |
|-------------------------|--|
| <b>1.</b> <i>IFRS 7</i> | An entity discloses information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance. |
|-------------------------|--|

## Reference Notes to the consolidated financial statements

**30. Subordinated liabilities***In millions of euro*

	2009	2008
Redeemable preference shares	860	827
Subordinated notes issued	4,782	4,158
	<u>5,642</u>	<u>4,985</u>

IAS 1.61

At 31 December 2009 the redeemable preference shares and subordinated notes issued are all expected to be settled more than 12 months after the reporting date (2008: €4,985 million).

IFRS 7.7

The terms and conditions of the subordinated notes issued are as follows:<sup>1</sup>

<i>In millions of euro</i>	Year of maturity	2009	2008
€1,500 million undated floating rate primary capital notes	N/A	1,315	1,494
€750 million callable subordinated floating rate notes	2023	725	743
€500 million callable subordinated notes	2008-2010	-	178
€300 million callable subordinated floating rate notes	2018	300	300
US\$1,200 million undated floating rate primary capital notes	N/A	744	888
US\$750 million callable subordinated floating rate notes	2012	567	555
£1,000 million callable subordinated variable coupon notes	2015	1,131	-
		<u>4,782</u>	<u>4,158</u>

The above liabilities will, in the event of the winding-up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer.

IFRS 7.18, 19

The Group has not had any defaults of principal, interest or other breaches with respect to its subordinated liabilities during 2009 and 2008.

Note Reference **Explanatory note**

- 1.** *IAS 37.85* An entity discloses the following for each class of provision:
- IAS 37.85(a)* ● a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits
  - IAS 37.85(b)* ● an indication of the uncertainties about the amount or timing of those outflows; when necessary to provide adequate information, the major assumptions made concerning future events
  - IAS 37.85(c)* ● the amount of any expected reimbursement, stating the amount of any asset that has been recognised in that regard.
- IAS 37.92* In extremely rare cases, disclosure of some or all of the information required in respect of provisions can be expected to seriously prejudice the position of the entity in a dispute with other parties. In such cases only the following need be disclosed:
- the general nature of the dispute
  - the fact that the required information has not been disclosed
  - the reason why the required information has not been disclosed.
- IAS 37.84* There is no requirement to disclose comparative information in the reconciliation of provisions.

- 2.** In our view, the reversal of a provision should be presented in the same statement of comprehensive income line item as the original estimate. This issue is discussed in our publication *Insights into IFRS* (3.12.850).
- IAS 1.98(f),(g)* When applicable, an entity discloses separately, the items of income and expense related to reversals of provisions and litigation settlements.

## Reference Notes to the consolidated financial statements

**31. Provisions<sup>1</sup>**

			Redun- dancy	Branch closures	Onerous contracts	Total
	<i>In millions of euro</i>	<b>Note</b>				
IAS 37.84(a)	Balance at 1 January 2009		33	28	23	84
IAS 37.84(b)	Provisions made during the year	14	2	5	-	7
IAS 37.84(c)	Provisions used during the year		-	(2)	-	(2)
IAS 37.84(d)	Provisions reversed during the year <sup>2</sup>	14	-	-	(1)	(1)
IAS 37.84(e)	Unwind of discount		1	1	-	2
IAS 37.84(a)	Balance at 31 December 2009		36	32	22	90

IAS 37.85(a), (b),  
1.87(b)

**Redundancy**

In accordance with the *Delivery Channel Optimisation Plan* announced by the Group in November 2007, the Group is in the process of rationalising its retail branch network and related processing functions. The remaining provision relates to the Asia Pacific and Americas regions and is expected to be used during 2010.

IAS 37.85(a), (b),  
1.87(b)

**Branch closures**

In accordance with the plans announced by the Group in November 2007, the Group is in the process of rationalising the branch network to optimise its efficiency and improve overall services to customers. One part of this plan continues to involve the closure of some branches. Twenty three of the branches outlined in the Group's *Delivery Channel Optimisation Plan* were closed during 2008 and 2009. The remaining provision relates to the balance of the branches set out in that plan, which will be completed during 2010.

IAS 37.85(a), (b)

**Onerous contracts**

Partly as a result of the Group's restructuring of its retail branch network, the Group is a lessee in a number of non-cancellable leases over properties that it no longer occupies. In some cases the rental income from sub-leasing these properties is lower than the rental expense. The present value of the future lease payments less the lease receivables for those properties has been provided for.

**32. Other liabilities**

		<b>Note</b>	<b>2009</b>	<b>2008</b>
	<i>In millions of euro</i>			
IAS 1.78(d)	Recognised liability for defined benefit obligations		174	158
IAS 1.78(d)	Liability for long-service leave		51	44
IAS 1.78(d)	Cash-settled share-based payment liability	13	44	38
IAS 1.78(d)	Short-term employee benefits		62	57
IAS 1.77	Financial guarantee contracts issued		32	28
IAS 1.54(j)	Creditors and accruals		51	68
	Other		36	38
			450	431

Note Reference **Explanatory note**

1. *IAS 19.122* When an entity has more than one defined benefit plan, the disclosures may be made in total, separately for each plan, or in such groupings as are considered to be the most useful, for example, the entity may distinguish groupings by criteria such as geographical location or the risks related to the plans.

*IAS 19.120A* IAS 19 *Employee Benefits* requires extensive disclosures in respect of defined benefit plans, not all of which are relevant to the example in these illustrative financial statements.

## Reference Notes to the consolidated financial statements

**32. Other liabilities (continued)****Defined benefit obligations<sup>1</sup>**

IAS 19.120A(b) The Group makes contributions to two non-contributory defined benefit plans that provide pension and medical benefits for employees upon retirement. The plans entitle a retired employee to receive an annual payment equal to 1/60 of final salary for each year of service the employee provided, and to the reimbursement of certain medical costs. Different benefits apply for directors and executive officers (see note 37).

The amounts recognised in the statement of financial position are as follows:

<i>In millions of euro</i>		<b>2009</b>	<b>2008</b>
IAS 19.120A(d), (f)	Present value of unfunded obligations	104	98
IAS 19.120A(d), (f)	Present value of funded obligations	122	110
	Total present value of obligations	226	208
	Fair value of plan assets	(45)	(49)
IAS 19.120A(d), (f)	Present value of net obligations	181	159
IAS 19.120A(f)(i)	Unrecognised actuarial losses	(7)	(1)
IAS 19.120A(f)	Recognised liability for defined benefit obligations	174	158
IAS 19.120A(j)	Plan assets consist of the following:		
	<i>In millions of euro</i>	<b>2009</b>	<b>2008</b>
	Equity securities	13	9
	Government bonds	12	19
IAS 19.120A(k)(ii)	Property occupied by the Group	15	16
IAS 19.120A(k)(i)	Bank's own ordinary shares	5	5
		45	49
IAS 19.120A(c)	<b>Movement in the present value of defined benefit obligations</b>		
	<i>In millions of euro</i>	<b>2009</b>	<b>2008</b>
	Liability for defined benefit obligations at 1 January	208	190
IAS 19.120A(c)(iv)	Actuarial losses	5	4
IAS 19.120A(c)(vi)	Benefits paid by the plan	(44)	(41)
IAS 19.120A(c)(i), (ii)	Current service costs and interest (see below)	57	55
	Liability for defined benefit obligations at 31 December	226	208
IAS 19.120A(e)	<b>Movement in plan assets</b>		
	<i>In millions of euro</i>	<b>2009</b>	<b>2008</b>
	Fair value of plan assets at 1 January	49	47
IAS 19.120A(e)(iv)	Contributions paid into the plan	36	37
IAS 19.120A(e)(vi)	Benefits paid by the plan	(44)	(41)
IAS 19.120A(e)(ii)	Actuarial (losses) / gains	(1)	1
IAS 19.120A(e)(i)	Expected return on plan assets	5	5
	Fair value of plan assets at 31 December	45	49

Note Reference **Explanatory note**

**1.** IAS 19.120A When applicable, an entity discloses the following:

- (g)(iv) ● expected return on any reimbursement right recognised as an asset
- (g)(v) ● actuarial gains and losses recognised in profit or loss
- (g)(vi) ● past service cost recognised in profit or loss
- (g)(vii) ● the effect of any curtailment or settlement on amounts recognised in profit or loss
- (g)(viii) ● the effect of the limit in paragraph 58(b) of IAS 19 on amounts recognised in profit or loss
- (m) ● the actual return on any reimbursement right recognised as an asset.

**2.** IAS 19.120(n) Principal actuarial assumptions are disclosed in absolute terms – not, for example, as a margin between different percentages or other variables.

**3.** IAS 19.120A If mortality rates are considered a principal actuarial assumption in measuring a defined benefit plan, an entity discloses the mortality assumptions used as at the reporting date. Mortality rates may be significant when, for example, pension benefits are paid as annuities over the lives of participants, rather than as lump sum payments on retirement.

## Reference Notes to the consolidated financial statements

**32. Other liabilities (continued)**

IAS 19.120A(g)	<b>Expense recognised in profit or loss<sup>1</sup></b>			
	<i>In millions of euro</i>	<i>Note</i>	<b>2009</b>	<b>2008</b>
IAS 19.120A(g)(i)	Current service costs		39	41
IAS 19.120A(g)(ii)	Interest on obligation		18	14
IAS 19.120A(g)(iii)	Expected return on plan assets		(5)	(5)
		13	52	50
IAS 19.120A(m)	Actual return on plan assets		4	6

**Actuarial assumptions**

IAS 19.120A(n) Principal actuarial assumptions at the reporting date, expressed as weighted averages, were:<sup>2</sup>

		<b>2009</b>	<b>2008</b>
IAS 19.120A(n)(i)	Discount rate at 31 December	5.0%	4.8%
IAS 19.120A(n)(ii)	Expected return on plan assets at 1 January	5.8%	5.9%
IAS 19.120A(n)(iv)	Future salary increases	2.5%	2.5%
IAS 19.120A(n)(v)	Medical cost trend rate	4.5%	4.0%
IAS 19.120A(n)(vi)	Future pension increases	3.0%	2.0%

IAS 19.120A(n)(vi) Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at age 65 is 18 for males and 20 for females.<sup>3</sup>

IAS 19.120A(l) The overall expected long-term rate of return on assets is 5.75 percent. The expected long-term rate of return is based on the portfolio as a whole. The return is based exclusively on historical returns, without adjustments.

IAS 19.120A(o) Assumed healthcare cost trend rates have a significant effect on the amounts recognised in profit or loss. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

		<b>One percentage point increase</b>	<b>One percentage point decrease</b>
	<i>In millions of euro</i>		
IAS 19.120A(o)(i)	Effect on the aggregate service and interest cost	2	(1)
IAS 19.120A(o)(ii)	Effect on defined benefit obligation	30	(20)

**Historical information**

IAS 19.120A(p)	<i>In millions of euro</i>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
IAS 19.120A(p)(i)	Present value of the defined benefit obligation	226	208	190	159	154
IAS 19.120A(p)(i)	Fair value of plan assets	45	49	47	44	43
IAS 19.120A(p)(i)	Deficit in the plan	181	159	143	115	111
IAS 19.120A(p)(ii)(A)	Experience adjustments arising on plan liabilities	(5)	(4)	2	(1)	4
IAS 19.120A(p)(ii)(B)	Experience adjustments arising on plan assets	(1)	1	(1)	(1)	(1)

IAS 19.120A(q) The Group expects to pay €60 million in contributions to defined benefit plans in 2010.

Note Reference **Explanatory note**

1. *IAS 1.79(a)(iii)* If shares have no par value, then an entity discloses that fact.

2. *IAS 1.79(a)(ii)* When applicable, an entity discloses the number of shares issued but not fully paid.

*IAS 1.79(a)(vi)* When applicable, an entity discloses shares in the entity held by the entity itself or by its subsidiaries or associates.

*IAS 1.79(a)(vii)* When applicable, an entity discloses details of shares reserved for issue under options and sales contracts, including the terms and amounts.

## Reference Notes to the consolidated financial statements

**33. Capital and reserves****IAS 1.79(a)(iv) Share capital and share premium**

	Ordinary shares		Perpetual bonds		Redeemable preference shares	
	2009	2008	2009	2008	2009	2008
<i>In millions of shares</i>						
On issue at 1 January	1,756	1,756	500	500	880	880
Exercise of share options	3	-	-	-	-	-
<b>IAS 1.79(a)(ii) On issue at 31 December</b>	<b>1,759</b>	<b>1,756</b>	<b>500</b>	<b>500</b>	<b>880</b>	<b>880</b>

The Group has also issued employee share options (see note 13).

**IAS 1.79(a)(i), (iii)** At 31 December 2009 the authorised share capital comprised 2 billion ordinary shares (2008: 2 billion), 500 million perpetual bonds (2008: 500 million) and 880 million redeemable preference shares (2008: 880 million). All of these instruments have a par value of €1.<sup>1</sup> All issued shares are fully paid.<sup>2</sup> The redeemable preference shares are classified as liabilities.

**IAS 1.79(a)(v)** The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. Holders of perpetual bonds receive a non-cumulative discretionary coupon of 4.2 percent. Perpetual bonds and preference shares do not carry the right to vote. All shares rank equally with regard to the Bank's residual assets, except that perpetual bondholders and preference shareholders have priority over ordinary shareholders but participate only to the extent of the face value of the bonds / shares plus any accrued coupon / dividends.

**Translation reserve**

**IAS 1.79(b)** The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities and gains and losses on derivatives that hedge the Bank's net investment in foreign operations.

**Hedging reserve**

**IAS 1.79(b)** The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet affected profit or loss.

**Fair value reserve**

**IAS 1.79(b)** The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments, excluding impairment losses, until the investment is derecognised.

Note Reference **Explanatory note**

- 1.** *IAS 1.137(b)* When applicable, an entity discloses the amount of any cumulative preference dividends not recognised.

When applicable, an entity discloses the amount of income tax consequences of dividends to shareholders that were proposed or declared before the financial statements were authorised for issue, but that are not recognised as a liability in the financial statements.

- 2.** *IAS 37.86(c)* If applicable, an entity also discloses the possibilities for any reimbursement with respect to contingent liabilities.

*IAS 37.89* When applicable, in respect of a contingent asset, an entity discloses a brief description of its nature and, where practicable, an estimate of its financial effect.

*IAS 37.91* When it is not practicable to estimate the potential financial effect of a contingent liability or a contingent asset, an entity discloses that fact.

*IAS 37.92* In extremely rare cases, disclosure of some or all of the information required in respect of contingencies can be expected to seriously prejudice the position of the entity in a dispute with other parties. In such cases an entity may disclose only the following:

- the general nature of the provision
- the fact that the required information has not been disclosed
- the reason why the required information has not been disclosed.

- 3.** *IFRS 7.13* When an entity that has transferred financial assets in such a way that part or all of the financial assets do not qualify for derecognition (see paragraphs 15 - 37 of IAS 39 *Financial Instruments: Recognition and Measurement*), it discloses, for each class of financial assets:

- the nature of the assets
- the nature of the risks and rewards of ownership to which the entity remains exposed
- when the entity continues to recognise all the assets, the carrying amounts of the assets and of the associated liabilities
- when the entity continues to recognise the assets to the extent of its continuing involvement, the total carrying amount of the original assets, the amount of the assets the entity continues to recognise, and the carrying amount of the associated liabilities.

## Reference Notes to the consolidated financial statements

**33. Capital and reserves (continued)****Dividends**

IAS 1.107

The following dividends were declared and paid by the Group for the year ended 31 December:

*In millions of euro*

	2009	2008
€0.15 per ordinary share (2008: €0.15)	264	264
€0.04 per perpetual bond (2008: €0.04)	20	20
	284	284

IAS 1.137a),  
10.13, 12.81(i)

After 31 December 2009 the following dividends were proposed by the directors in respect of 2009. The dividends have not been provided for and there are no income tax consequences.<sup>1</sup>

*In millions of euro*

€0.15 per ordinary share	264
€0.04 per perpetual bond	20
	284

**34. Contingencies<sup>2</sup>**

IAS 37.86(a), (b)

A subsidiary is defending an action brought by a consumer rights organisation in Europe in relation to the marketing of specific pension and investment products from 2000 to 2003. While liability is not admitted, if defence against the action is unsuccessful, fines and legal costs could amount to €3 million. Based on legal advice, the directors do not expect the outcome of the action to have a material effect on the Group's financial position.

**35. Securitisations<sup>3</sup>**

In the ordinary course of business, the Group enters into transactions that result in the transfer of financial assets to third parties or special purpose entities. The information below sets out the extent of such transfers, and the Group's retained interest in transferred assets.

**Transferred assets**

*In millions of euro*

	2009	2008
Mumbai mortgage trust	782	667
Bovu investment trust	1,210	1,003
Wellington unit trust:		
Transferred assets	2,562	1,203
Retained interest recorded as investment securities	98	87
London fund	221	190
	4,873	3,150

**Mumbai mortgage trust**

IFRS 7.13

The Group has transferred retail mortgage loans and advances to the Mumbai Mortgage Trust, but has retained substantially all of the credit risk associated with the transferred assets. Due to retention of substantially all the risks and rewards on these assets the Group continues to recognise these assets within loans and advances to customers and the transfers are accounted for as secured financing transactions. The associated liability of €770 million (2008: €650 million), secured by these assets, is included under debt securities and is carried at amortised cost. The Group is exposed to the majority of ownership risks and rewards of this trust and hence, this trust is consolidated.

Note Reference **Explanatory note**

- |                     |   |
|---------------------|---|
| <b>1.</b>           | When applicable, an entity discloses the following:   |
| <i>IAS 27.41(d)</i> | ● the nature and extent of any significant restrictions (e.g., resulting from borrowing arrangements or regulatory requirements) on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans or advances |
| <i>IAS 27.41(b)</i> | ● the reasons why the ownership, directly or indirectly through subsidiaries, of more than half of the voting or potential voting power of an investee does not constitute control  |
| <i>IAS 27.41(a)</i> | ● the nature of its relationship with a subsidiary when it does not own, directly or indirectly through subsidiaries, more than half of the voting power.   |

## Reference Notes to the consolidated financial statements

**35. Securitisations (continued)****Bovu investment trust**

IFRS 7.13

The Group has transferred retail mortgage loans to the Bovu Investment Trust, an entity which is, in substance, controlled by the Group. Accordingly, this trust is consolidated and the loans are included in the Group's statement of financial position.

**Wellington unit trust**

IFRS 7.13

The Group has transferred loans and advances secured against investment property to the Wellington Unit Trust, a specialised investment vehicle. The Group has invested in subordinated debt issued by the trust and is a party to interest rate swap transactions on arm's length terms with the trust, but has no other continuing involvement in the trust or the transferred assets. The subordinated debt held by the Group is approximately 5 percent of the subordinated debt issued by the trust, and as such the Group has transferred substantially all risks and rewards related to the transferred assets. Accordingly, the transferred assets are not included in these financial statements. The Group does not control this trust and hence, it is not consolidated.

The investment in subordinated debt of the trust is included in investment securities. The interest rate swaps are included in trading assets or liabilities.

**London fund**

IFRS 7.13

The Group has transferred investment securities to the London Fund, a specialised investment vehicle to which the Group provides investment management services on an arm's length basis. The Group has transferred substantially all the risks and rewards associated with these securities and hence, they are derecognised. The Group does not control this fund and hence, it is not consolidated. The management fees are included in fees and commission income (see note 9).

The Group has not identified any factors arising from the current market circumstances that could lead to a need for the Group to extend liquidity and / or credit support to these SPEs over and above the existing arrangements or could otherwise change the substance of the Group's relationship with these SPEs. There have been no changes in the capital structures of these SPEs since the Group's assessment for consolidation.

**36. Group entities****Significant subsidiaries<sup>1</sup>**

IAS 24.12

	Country of incorporation	Ownership interest	
		2009	2008
Blue Banking Plc	United Kingdom	100%	100%
Blue Banking (North America)	United States of America	100%	100%
Blue Banking Pty Ltd	Australia	80%	80%
Bleu Banking S.A.	France	100%	100%
Blue Banking (Africa) Ltd	South Africa	100%	100%

Note *Reference* **Explanatory note**

- 1.** For a more comprehensive illustration of related party disclosures, see the July 2009 edition of our publication *Illustrative financial statements*.
- 2.** In our view, materiality considerations cannot be used to override the explicit requirements of IAS 24 *Related Party Disclosures* for the disclosure of elements of key management personnel compensation. This issue is discussed in our publication *Insights into IFRS* (5.5.110.20).

## Reference Notes to the consolidated financial statements

**37. Related parties<sup>1</sup>****Parent and ultimate controlling party**

IAS 1.138(c), 24.12 During the year ended 31 December 2009 a majority of the Bank's shares were acquired by [name of new parent] from [name of old parent]. As a result the new ultimate controlling party of the Group is [name].

IAS 24.17 **Transactions with key management personnel**

Key management personnel and their immediate relatives have transacted with the Group during the period as follows:

		<b>2009</b>	<b>2009</b>	<b>2008</b>	<b>2008</b>
	<i>In millions of euro</i>	<b>Maximum balance</b>	<b>Closing balance</b>	<b>Maximum balance</b>	<b>Closing balance</b>
	Mortgage lending and other secured loans	7	6	6	6
	Credit card	1	1	1	1
	Other loans	2	2	5	2
		<u>10</u>	<u>9</u>	<u>12</u>	<u>9</u>

IAS 24.17(b) Interest rates charged on balances outstanding from related parties are a quarter of the rates that would be charged in an arm's length transaction. The mortgages and secured loans granted are secured over property of the respective borrowers. Other balances are not secured and no guarantees have been obtained.

IAS 24.17 (c), (d) No impairment losses have been recorded against balances outstanding during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relatives at the period end.

IAS 24.16 Key management personnel compensation for the period comprised:<sup>2</sup>

	<b>2009</b>	<b>2008</b>
<i>In millions of euro</i>		
Short-term employee benefits	12	10
Long-service leave	2	2
Post-employment benefits	3	3
Share-based payment transactions	4	2
	<u>21</u>	<u>17</u>

IAS 19.124(b) In addition to their salaries, the Group also provides non-cash benefits to directors and executive officers, and contributes to a post-employment defined benefit plan on their behalf. In accordance with the terms of the plan, directors and executive officers retire at the age of 60 and are entitled to receive annual payments equivalent to 70 percent of their salary at the date of retirement until the age of 65, at which time their entitlement falls to 50 percent of their salary at the date of retirement.

Executive officers also participate in the Group's share option programme (see note 13).

Note Reference **Explanatory note**

1. For a more comprehensive illustration of disclosures that may be applicable to leases from the lessee's point of view, including finance leases and contingent rentals see the July 2009 edition of our publication *Illustrative financial statements*.
2. *IFRS 3.59(b)*, *B66* For each business combination effected after the reporting date but before the financial statements are authorised for issue, an entity discloses the information pursuant to the requirements of IFRS 3 *Business Combinations* (2008) to enable users of its financial statements to evaluate the nature and financial effect of each business combination. The disclosure requirements are similar to those required for business combinations effected during the period. If disclosure of any information is impracticable, then an entity discloses this fact and the reasons therefore. These disclosures are illustrated in the July 2009 edition of our publication *Illustrative financial statements* in the context of a business combination effected during the year and have not been reproduced in this publication.

Reference Notes to the consolidated financial statements

**38. Lease commitments<sup>1</sup>**

IAS 17.35

Non-cancellable operating lease rentals are payable as follows:

*In millions of euro*

	2009	2008
Less than one year	352	322
Between one and five years	1,408	1,288
More than five years	5,914	5,152
	<u>7,674</u>	<u>6,762</u>

IAS 17.35(d)

The Group leases a number of branch and office premises under operating leases. The leases typically run for a period of up to 20 years, with an option to renew the lease after that period. Lease payments are increased every three to five years to reflect market rentals.

**39. Subsequent event<sup>2</sup>**

**Acquisition of ABC Bank**

IAS 10.21, 22(a)

On 22 February 2010 the Group announced its offer to acquire all of the shares of ABC Bank for €5.0 billion. The transaction has still to be approved by the Group's shareholders and by regulatory authorities. Approvals are not expected until late in 2010. Due to the early stage of negotiations, an estimate of the financial effect of this proposed acquisition cannot be made reliably.

Note *Reference* **Explanatory note**

**1.** The auditors' report illustrated in these financial statements is based on International Standard on Auditing (ISA) 700 *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements*.

If the audit is carried out under local laws and standards, then the form of the report will conform to those laws and standards.

## Independent auditors' report<sup>1</sup>

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[Appropriate Addressee]

[Name of Bank]

We have audited the accompanying consolidated financial statements of [name of entity] and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditors' responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2009, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

[Name of firm signing]

[Date of report]

[Address]

Note Reference **Explanatory note**

- |                                  |   |
|----------------------------------|---|
| <b>1.</b> <i>IAS 1.10, 81(b)</i> | This analysis is based on two statements: a separate income statement displaying profit or loss, and a second statement displaying the components of other comprehensive income.  |
| <i>IAS 1.12</i>                  | An entity may present the components of profit or loss either as part of a single statement of comprehensive income or in a separate income statement. When an entity elects to present two statements, the separate income statement is part of a complete set of financial statements and is presented immediately before the statement of comprehensive income. This page has been left blank intentionally. |

Reference

## Appendix I

Consolidated income statement<sup>1</sup>**For the year ended 31 December***In millions of euro*

		<b>Note</b>	<b>2009</b>	<b>2008</b>
<i>IFRS 7.20(b)</i>	Interest income	8	3,341	3,528
<i>IFRS 7.20(b), IAS 1.82(b)</i>	Interest expense	8	(1,406)	(1,686)
	Net interest income		1,935	1,842
<i>IFRS 7.20(c)</i>	Fee and commission income	9	854	759
<i>IFRS 7.20(c)</i>	Fee and commission expense	9	(179)	(135)
	Net fee and commission income		675	624
<i>IFRS 7.20(a)</i>	Net trading income	10	1,196	912
<i>IFRS 7.20(a)</i>	Net income from other financial instruments at fair value through profit or loss	11	21	81
<i>IFRS 7.20(a)</i>	Other operating income	12	404	371
			1,621	1,364
<i>IAS 1.85</i>	<b>Operating income</b>		4,231	3,830
<i>IFRS 7.20(e)</i>	Net impairment loss on financial assets	20, 21, 22	(330)	(334)
<i>IAS 1.99</i>	Personnel expenses	13	(2,264)	(1,974)
<i>IAS 17.35(c)</i>	Operating lease expenses		(344)	(326)
<i>IAS 1.99, 38.118(d)</i>	Depreciation and amortisation	23, 24	(47)	(39)
<i>IAS 1.99</i>	Other expenses	14	(397)	(485)
<i>IAS 1.85</i>	<b>Profit before income tax</b>		849	672
<i>IAS 1.82(d), 12.77</i>	Income tax expense	15	(187)	(118)
<i>IAS 1.82(f)</i>	<b>Profit for the period</b>		662	554
	<b>Attributable to:</b>			
<i>IAS 1.83(a)(ii)</i>	Equity holders of the Bank		634	528
<i>IAS 1.83(a)(i)</i>	Non-controlling interest		28	26
	<b>Profit for the period</b>		662	554
<i>IAS 33.66</i>	<b>Basic and diluted earnings per share (euro)</b>	16	0.35	0.29

The notes on pages 21 to 209 are an integral part of these consolidated financial statements.

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Reference Consolidated statement of comprehensive income

**For the year ended 31 December**

*In millions of euro*

	<b>2009</b>	<b>2008</b>
<i>IAS 1.81(b)</i> <b>Profit for the period</b>	662	554
<b>Other comprehensive income, net of income tax</b>		
<i>IAS 1.82(g), 21.52(b)</i> Foreign currency translation differences for foreign operations	(40)	23
<i>IAS 1.82(g), 21.52(b)</i> Net gain / (loss) on hedges of net investments in foreign operations	30	(15)
Cash flow hedges:		
<i>IFRS 7.23(c), IAS 1.82(g)</i> Effective portion of changes in fair value	(17)	(14)
<i>IFRS 7.23(d), IAS 1.92</i> Net amount transferred to profit or loss	10	8
Fair value reserve (available-for-sale financial assets):		
<i>IFRS 7.20(a)(ii), IAS 1.82(g)</i> Net change in fair value	(238)	(106)
<i>IAS 1.92</i> Net amount transferred to profit or loss	217	83
<i>IAS 1.85</i> <b>Other comprehensive income for the period, net of income tax</b>	<b>(38)</b>	<b>(21)</b>
<i>IAS 1.82(i)</i> <b>Total comprehensive income for the period</b>	<b>624</b>	<b>533</b>
<b>Attributable to:</b>		
<i>IAS 1.83(b)(ii)</i> Equity holders of the Bank	596	507
<i>IAS 1.83(b)(i)</i> Non-controlling interest	28	26
<b>Total recognised income and expense for the period</b>	<b>624</b>	<b>533</b>

*The notes on pages 21 to 209 are an integral part of these consolidated financial statements.*

## Appendix II

### Currently effective requirements

Below is a list of standards and interpretations in issue at 31 December 2009 that are effective for annual reporting periods beginning on 1 January 2009. Amendments to these standards and interpretations are not reflected below.

IFRS 1	<i>First-time Adoption of International Financial Reporting Standards</i> Issue date: June 2003 Effective date: 1 January 2004
IFRS 2	<i>Share-based Payment</i> Issue date: February 2004 Effective date: 1 January 2005
IFRS 3	<i>Business Combinations</i> Issue date: March 2004 Effective date: 31 March 2004
IFRS 4	<i>Insurance Contracts</i> Issue date: March 2004 Effective date: 1 January 2005 Not covered; see About this publication
IFRS 5	<i>Non-current Assets Held for Sale and Discontinued Operations</i> Issue date: March 2004 Effective date: 1 January 2005
IFRS 6	<i>Exploration for and Evaluation of Mineral Resources</i> Issue date: December 2004 Effective date: 1 January 2006 Not covered; see About this publication
IFRS 7	<i>Financial Instruments: Disclosures</i> Issue date: August 2005 Effective date: 1 January 2007
IFRS 8	<i>Operating Segments</i> Issue date: November 2006 Effective date: 1 January 2009
IAS 1	<i>Presentation of Financial Statements</i> Issue date: revised in September 2007 Effective date: 1 January 2009
IAS 2	<i>Inventories</i> Issue date: revised in December 2003 Effective date: 1 January 2005
IAS 7	<i>Statement of Cash Flows</i> Issue date: December 1992 Effective date: 1 January 1994

IAS 8	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i> Issue date: revised in December 2003 Effective date: 1 January 2005
IAS 10	<i>Events after the Reporting Date</i> Issue date: revised in December 2003 Effective date: 1 January 2005
IAS 11	<i>Construction Contracts</i> Issue date: December 1993 Effective date: 1 January 1995
IAS 12	<i>Income Taxes</i> Issue date: October 1996 Effective date: 1 January 1998
IAS 16	<i>Property, Plant and Equipment</i> Issue date: revised in December 2003 Effective date: 1 January 2005
IAS 17	<i>Leases</i> Issue date: revised in December 2003 Effective date: 1 January 2005
IAS 18	<i>Revenue</i> Issue date: December 1993 Effective date: 1 January 1995
IAS 19	<i>Employee Benefits</i> Issue date: February 1998 Effective date: 1 January 1999
IAS 20	<i>Accounting for Government Grants and Disclosure of Government Assistance</i> Issue date: April 1983 Effective date: 1 January 1984
IAS 21	<i>The Effects of Changes in Foreign Exchange Rates</i> Issue date: revised in December 2003 Effective date: 1 January 2005
IAS 23	<i>Borrowing Costs</i> Issue date: revised in March 2007 Effective date: 1 January 2009
IAS 24	<i>Related Party Disclosures</i> Issue date: revised in December 2003 Effective date: 1 January 2005
IAS 26	<i>Accounting and Reporting by Retirement Benefit Plans</i> Issue date: January 1987 Effective date: 1 January 1988 Not covered; see About this publication

- IAS 27      *Consolidated and Separate Financial Statements*  
Issue date: revised in December 2003  
Effective date: 1 January 2005
- IAS 28      *Investments in Associates*  
Issue date: revised in December 2003  
Effective date: 1 January 2005
- IAS 29      *Financial Reporting in Hyperinflationary Economies*  
Issue date: July 1989  
Effective date: 1 January 1990
- IAS 31      *Interests in Joint Ventures*  
Issue date: revised in December 2003  
Effective date: 1 January 2005
- IAS 32      *Financial Instruments: Presentation*  
Issue date: revised in December 2003  
Effective date: 1 January 2005
- IAS 33      *Earnings per Share*  
Issue date: revised in December 2003  
Effective date: 1 January 2005
- IAS 34      *Interim Financial Reporting*  
Issue date: February 1998  
Effective date: 1 January 1999  
Not covered; see About this publication
- IAS 36      *Impairment of Assets*  
Issue date: revised in March 2004  
Effective date: 31 March 2004
- IAS 37      *Provisions, Contingent Liabilities and Contingent Assets*  
Issue date: September 1998  
Effective date: 1 July 1999
- IAS 38      *Intangible Assets*  
Issue date: revised in March 2004  
Effective date: 31 March 2004
- IAS 39      *Financial Instruments: Recognition and Measurement*  
Issue date: revised in December 2003  
Effective date: 1 January 2005
- IAS 40      *Investment Property*  
Issue date: revised in December 2003  
Effective date: 1 January 2005
- IAS 41      *Agriculture*  
Issue date: February 2001  
Effective date: 1 January 2003

- IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*  
Issue date: May 2004  
Effective date: 1 September 2004
- IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments*  
Issue date: November 2004  
Effective date: 1 January 2005
- IFRIC 4 *Determining whether an Arrangement contains a Lease*  
Issue date: December 2004  
Effective date: 1 January 2006
- IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*  
Issue date: December 2004  
Effective date: 1 January 2006
- IFRIC 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*  
Issue date: September 2005  
Effective date: 1 December 2005
- IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*  
Issue date: November 2005  
Effective date: 1 March 2006
- IFRIC 8 *Scope of IFRS 2*  
Issue date: January 2006  
Effective date: 1 May 2006
- IFRIC 9 *Reassessment of Embedded Derivatives*  
Issue date: March 2006  
Effective date: 1 June 2006
- IFRIC 10 *Interim Financial Reporting and Impairment*  
Issue date: July 2006  
Effective date: 1 November 2006
- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*  
Issue date: November 2006  
Effective date: 1 March 2007
- IFRIC 12 *Service Concession Arrangements*  
Issue date: November 2006  
Effective date: 1 January 2008
- IFRIC 13 *Customer Loyalty Programmes*  
Issue date: June 2007  
Effective date: 1 July 2008
- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*  
Issue date: July 2007  
Effective date: 1 January 2008

IFRIC 15	<i>Agreements for the Construction of Real Estate</i> Issue date: July 2008 Effective date: 1 January 2009
IFRIC 16	<i>Hedges of a Net Investment in a Foreign Operation</i> Issue date: July 2008 Effective date: 1 October 2008
IFRIC 18	<i>Transfers of Assets from Customers</i> Issue date: January 2009 Effective date: (transfers on or after) 1 July 2009
SIC-7	<i>Introduction of the Euro</i> Issue date: May 1998 Effective date: 1 June 1998
SIC-10	<i>Government Assistance – No Specific Relation to Operating Activities</i> Issue date: July 1998 Effective date: 1 August 1998
SIC-12	<i>Consolidation – Special Purpose Entities</i> Issue date: December 1998 Effective date: 1 July 1999
SIC-13	<i>Jointly Controlled Entities – Non-Monetary Contributions by Venturers</i> Issue date: December 1998 Effective date: 1 January 1999
SIC-15	<i>Operating Leases – Incentives</i> Issue date: December 1998 Effective date: 1 January 1999
SIC-21	<i>Income Taxes – Recovery of Revalued Non-Depreciable Assets</i> Issue date: July 2000 Effective date: 15 July 2000
SIC-25	<i>Income Taxes – Changes in the Tax Status of an Entity or its Shareholders</i> Issue date: July 2000 Effective date: 15 July 2000
SIC-27	<i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i> Issue date: December 2001 Effective date: 31 December 2001
SIC-29	<i>Service Concession Arrangements: Disclosures</i> Issue date: December 2001 Effective date: 31 December 2001
SIC-31	<i>Revenue – Barter Transactions Involving Advertising Services</i> Issue date: December 2001 Effective date: 31 December 2001
SIC-32	<i>Intangible Assets – Web Site Costs</i> Issue date: March 2002 Effective date: 25 March 2002

## Appendix III

### Forthcoming requirements

Below is a list of standards and interpretations in issue at 31 December 2009 that are effective for annual reporting periods beginning *after* 1 January 2009. The list highlights the effective date of the requirements. Subsequent amendments to these standards and interpretations are not reflected below.

Revised IFRS 1	<i>First-time Adoption of International Financial Reporting Standards</i> Issue date: November 2008 Effective date: 1 July 2009
Revised IFRS 3	<i>Business Combinations</i> Issue date: January 2008 Effective date: 1 July 2009
Amended IFRS 5	<i>Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations as a result of Improvements to International Financial Reporting Standards 2008</i> Issue date: May 2008 Effective date: 1 July 2009
IFRS 9	<i>Financial Instruments</i> Issue date: November 2009 Effective date: 1 January 2013
Revised IAS 24	<i>Related Party Disclosures</i> Issue date: November 2009 Effective date: 1 January 2011
Amended IAS 27	<i>Consolidated and Separate Financial Statements</i> Issue date: January 2008 Effective date: 1 July 2009
Amended IAS 32	<i>Classification of Rights Issues – Amendment to IAS 32 Financial Instruments: Presentation</i> Issue date: October 2009 Effective date: 1 February 2010
Amended IAS 39	<i>Eligible Hedged Items – Amendment to IAS 39 Financial Instruments: Recognition and Measurement</i> Issue date: July 2008 Effective date: 1 July 2009
Amended IAS 39	<i>Embedded Derivatives – Amendment to IAS 39 Financial Instruments: Recognition and Measurement</i> Issue date: March 2009 Effective date: 1 July 2009
Amended IFRIC 9	<i>Reassessment of Embedded Derivatives</i> Issue date: March 2009 Effective date: 1 July 2009

Amended IFRIC 14	<i>Prepayments of a Minimum Funding Requirement – Amendments to IFRIC 14: IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i> Issue date: November 2009 Effective date: 1 January 2011
IFRIC 17	<i>Distributions of Non-cash Assets to Owners</i> Issue date: November 2008 Effective date: 1 July 2009
IFRIC 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i> Issue date: November 2009 Effective date: 1 July 2010
Various	<i>Improvements to International Financial Reporting Standards 2009</i> Issue date: April 2009 Effective date: Dealt with on a standard by standard basis; generally 1 January 2010

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