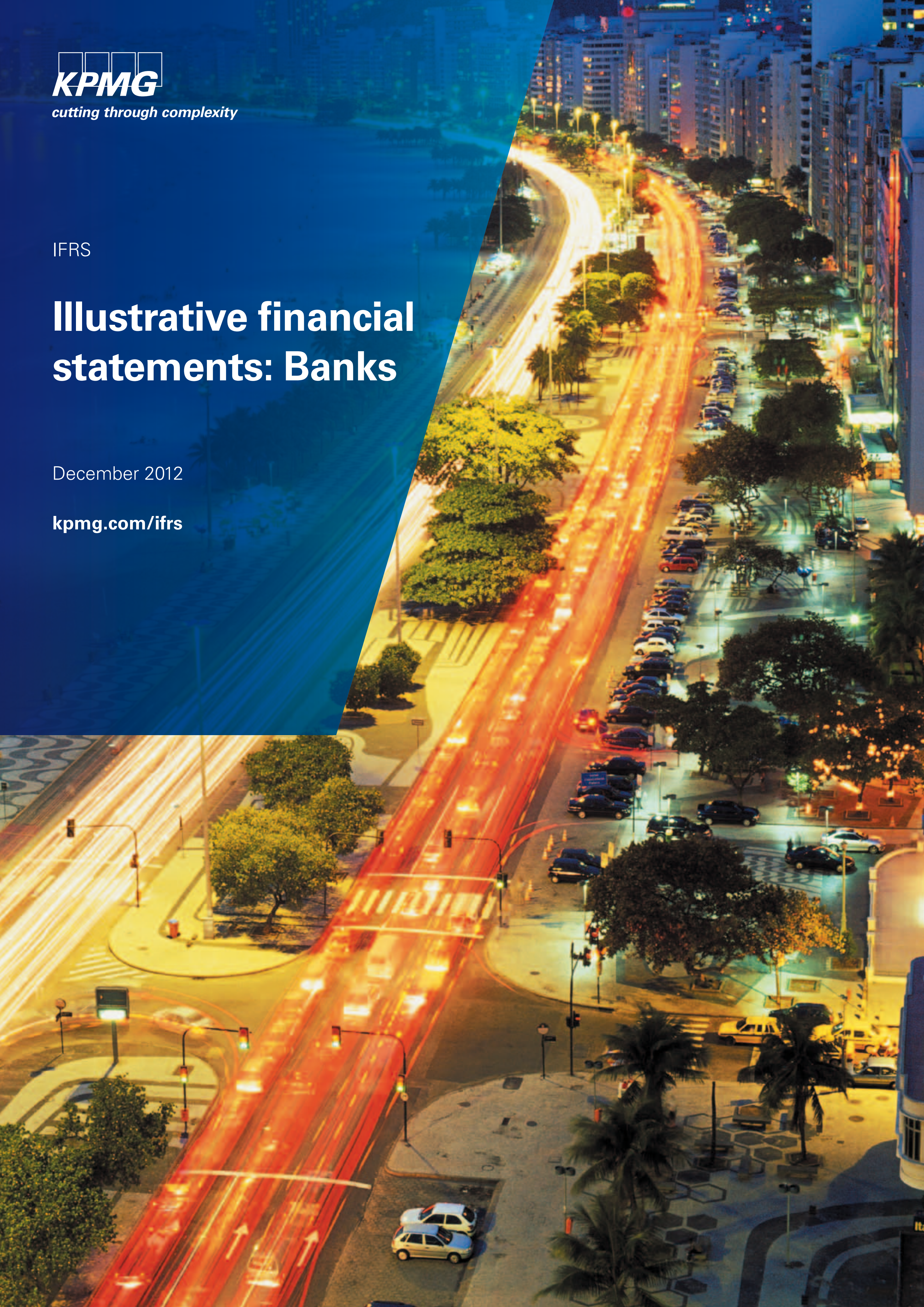

cutting through complexity

IFRS

Illustrative financial statements: Banks

December 2012

kpmg.com/ifrs

Contents

What's new?

Major changes from the January 2010 edition of *Illustrative financial statements: Banks* are highlighted by a double line border running down the left margin of the text within this document. The major changes include the following:

- Adoption of amendments to IFRS 7 *Financial Instruments: Disclosures* as part of *Improvements to IFRSs* issued in May 2010;
- Adoption of *Disclosures – Transfers of Financial Assets* (amendments to IFRS 7);
- Disclosures related to Eurozone exposures; and
- Three new appendices illustrating example disclosures for the early adoption of the following standards:
  - IFRS 10 *Consolidated Financial Statements* and IFRS 12 *Disclosure of Interests in Other Entities* (May 2011), including the related amendments arising from *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (amendments to IFRS 10, 11 and 12) (June 2012);
  - IFRS 13 *Fair Value Measurement* (2011); and
  - *Disclosures – Offsetting Financial Assets and Financial Liabilities* (amendments to IFRS 7) (2011).

The IASB has issued several other amendments to its standards during the past year. We have introduced a new Appendix IV in our publication *Illustrative financial statements* (October 2012), to help identify requirements that are effective for the first time for annual periods beginning on 1 January 2012, and those that are available for early adoption during the period. Cross-references to the related example disclosures are provided when appropriate. Some of the new disclosure requirements that are of a general nature are illustrated in our publication *Illustrative financial statements* issued in October 2012.

In October 2012, the Enhanced Disclosure Task Force (EDTF) established by the Financial Stability Board issued a report, *Enhancing the Risk Disclosures of Banks.* The fundamental principles contained in the report apply to all banks. However, the recommendations for enhanced disclosures have been developed specifically for large international banks that are active participants in equity and debt markets. Adoption of the recommendations in the report is voluntary. The recommendations do not specifically refer to financial statements, but rather to all types of risk disclosures made by banks, including those made for regulatory purposes and other communications with stakeholders.

In preparing these illustrative financial statements, we considered the recommendations made in the EDTF report; however, we have not provided a comprehensive illustration of how the EDTF recommendations can be implemented, as it is likely that many of them will be published outside of financial statements. For example, recommendations relating to capital adequacy and risk weighted assets are likely to be published as part of Pillar 3 disclosures, while many recommendations relating to credit, market and liquidity risks may be published within the annual report but outside of the audited financial statements. In certain cases, where we considered that EDTF recommendations enhanced the ability of users to evaluate the significance of financial instruments for the Group's financial position and the nature of risks arising from those instruments, we have incorporated examples of such disclosures in these illustrative financial statements. However, banks may reach different conclusions as to what disclosures to include in their financial statements, depending on their particular facts and circumstances.

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

This publication helps you prepare financial statements for a bank or similar financial institution in accordance with IFRS. 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 IFRS (see 'Technical guide'). This publication reflects IFRS in issue at 1 December 2012 that are required to be applied by an entity with an annual period beginning *on* 1 January 2012 ('currently effective' requirements). IFRSs that are effective for annual periods beginning *after* 1 January 2012 ('forthcoming' requirements) have not been adopted early in preparing these illustrative financial statements. However, certain forthcoming requirements have been introduced in the explanatory notes in a highlighted box. Appendix IV in our publication *Illustrative financial statements* (October 2012) provides a list of standards or amendments that are effective for the first time for annual periods beginning on 1 January 2012, and forthcoming requirements. In addition, example disclosures for the adoption of certain new standards and amendments are included in the appendices to these illustrative financial statements.

When preparing financial statements in accordance with IFRS, an entity should have regard to applicable legal and regulatory requirements. This publication does not consider any requirements of a particular jurisdiction. For example, IFRS does not require the presentation of separate financial statements for the parent entity, and this publication includes only consolidated financial statements. However, in some jurisdictions parent entity financial information may also be required.

This publication does not illustrate the requirements of IFRS 4 *Insurance Contracts*, IFRS 6 *Exploration for and Evaluation of Mineral Resources*, IAS 26 *Accounting and Reporting by Retirement Benefit Plans* or IAS 34 *Interim Financial Reporting,* nor the disclosure requirements of several standards that are not specific to banking operations. IAS 34 requirements are illustrated in our publication *Illustrative condensed interim financial report.*

This publication illustrates only the financial statements component of a financial report, and the independent auditors' report on the financial statements. However, a financial report will typically include at least some additional commentary from management, either in accordance with local laws and regulations or at the election of the entity (see 'Technical guide').

In 2008, the IASB established an 'Expert Advisory Panel' (the Panel) to help the IASB review best practices in the area of valuation techniques, and formulate 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 in October 2008; to the extent that these disclosures are not specifically required by IFRS 7, 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 IFRS as issued by the IASB. Some of these disclosures have been incorporated into IFRS 13 and are illustrated in Appendix III.

On 29 October 2012, the EDTF issued a report, *Enhancing the Risk Disclosures of Banks*. The purpose of this report is to help banks improve their communication with their stakeholders in the area of risk disclosures, with the ultimate aim of improving investor confidence. The scope of the recommendations is wider than the financial statements because they apply to all financial reports, including public disclosures required by regulators and other communications with stakeholders. The report is the product of a collaboration between users and preparers of financial reports. It contains 32 recommendations, which are based on seven fundamental principles. The report does not specify in which financial report the recommendations to enhance the risk disclosures might be incorporated. In some cases, recommendations in the report may impact the manner of presentation of information that is already required to be disclosed under IFRS. In other cases, it recommends disclosure of new information. In preparing these illustrative financial statements, we had regard to the recommendations made in the EDTF report.

IFRS and its 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 IFRS. The illustrative examples, together with the explanatory notes, are not intended to be seen as a complete and exhaustive summary of all disclosure requirements that are applicable under IFRS. In addition, an entity need not provide a specific disclosure required by an IFRS if the information is not material. For an overview of all disclosure requirements that are applicable under IFRS, see our publication *Disclosure checklist*.

To the left of each item disclosed, a reference to the relevant standard is provided. The illustrative financial statements also include references to the 9th Edition 2012/13 of our publication *Insights into IFRS*.

Explanatory note

1.	The illustrative auditors' report on the consolidated financial statements has been prepared based on International Standard on Auditing 700 *Forming an Opinion and Reporting on Financial Statements*. The format of the report does not reflect any additional requirements of the legal frameworks of particular jurisdictions.

Independent auditors' report on consolidated financial statements[1]

[*Addressee*]

We have audited the accompanying consolidated financial statements of [*name of company*] (the 'Company'), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at 31 December 2012, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG
[*Date of report*]
[*Address*]

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[*Name of Bank*]
Consolidated financial statements

31 December 2012

Explanatory notes

1.	*IAS 1.10*	IAS 1 *Presentation of Financial Statements* uses the title 'Statement of financial position'. This title is not mandatory. An entity may use other titles – e.g. 'Balance sheet' – as long as the meaning is clear and they are not misleading.
2.	*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. In this case, the entity also considers the criteria for selection and application of accounting policies in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
3.	*IAS 1.10, 39*	An additional statement of financial position and related notes are 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. The current IAS 1 provides no further guidance in terms of how this requirement should be interpreted. In our view, the requirement to present a 'third' statement of financial position should be interpreted having regard to materiality based on the particular facts and circumstances. In our view, 'related notes' should be interpreted as requiring disclosure of those notes that are relevant to the reason for which the third statement of financial position is presented – i.e. not all notes are required in every circumstance. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (2.1.35). **Forthcoming requirements** In *Annual Improvements to IFRS – 2009-2011 Cycle*, which is effective for annual periods beginning on or after 1 January 2013, the IASB amends IAS 1 to clarify, among other things, the requirements regarding the presentation of the third statement of financial position. • The third statement of financial position is required only if a retrospective change in accounting policy, a retrospective correction of an error or a reclassification has a material effect on the information in the statement of financial position. • Except for the disclosures required under IAS 8, notes related to the third statement of financial position are no longer required. • The third statement of financial position to be presented is that at the beginning of the *preceding* period, rather than at the beginning of the *earliest* comparative period presented. This is also the case even if an entity provides additional comparative information beyond the minimum comparative information requirements.
4.	*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: • no more than 12 months after the reporting date; and • more than 12 months after the end of the reporting period, an entity discloses in the notes the amount expected to be recovered or settled after more than 12 months.
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.

Consolidated statement of financial position[1, 2, 3, 4, 1 on page 10]

IAS 1.10(a), 10(f), 38, 113

In millions of euro	Note	2012	2011
		As at 31 December	
Assets			
Cash and cash equivalents (IAS 1.54(i))	17	**2,907**	2,992
Pledged trading assets[5] (IAS 1.54(d), 39.37(a))	18	**540**	519
Non-pledged trading assets[5] (IAS 1.54(d))	18	**16,122**	15,249
Derivative assets held for risk management[5] (IAS 1.54(d))	19	**858**	726
Loans and advances to banks[5] (IAS 1.54(d))	20	**5,572**	4,707
Loans and advances to customers[5] (IAS 1.54(d))	21	**63,070**	56,805
Investment securities[5] (IAS 1.54(d))	22	**6,302**	5,269
Current tax assets[3 on page 10] (IAS 1.54(n))		**49**	53
Property and equipment (IAS 1.54(a))	23	**409**	378
Intangible assets (IAS 1.54(c))	24	**275**	259
Deferred tax assets[2 on page 10] (IAS 1.54(o))	25	**316**	296
Other assets	26	**689**	563
Total assets		**97,109**	87,816

The notes on pages 27 to 243 are an integral part of these consolidated financial statements.

Explanatory notes

1.	*IAS 1.55, 58*	Additional line items, headings and subtotals are presented in the statement of financial position when relevant to an understanding of an entity's financial position. The judgement is based on an assessment of: • the nature and liquidity of the assets; • the function of assets within the entity; and • the amounts, nature and timing of liabilities.
	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. 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.
2.	*IAS 12.74*	Deferred tax assets and liabilities are offset if the entity has a legally enforceable right to offset current tax liabilities and assets (see explanatory note 3 below), and the deferred tax liabilities and assets relate to income taxes levied by the same tax authority on either: • the same taxable entity; or • different taxable entities, but these entities intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realised simultaneously for each future period in which these differences reverse.
3.	*IAS 12.71*	An entity offsets current tax assets and current tax liabilities only if it has a legally enforceable right to offset the recognised amounts and intends to realise the asset and settle the liability on a net basis or simultaneously.

Consolidated statement of financial position (continued)

IAS 1.10(a), 10(f), 38, 113

In millions of euro		Note	2012	2011
	Liabilities			
IAS 1.54(m)	Trading liabilities[5 on page 8]	18	**7,026**	6,052
IAS 1.54(m)	Derivative liabilities held for risk management[5 on page 8]	19	**828**	789
IAS 1.54(m)	Deposits from banks[5 on page 8]	27	**11,678**	10,230
IAS 1.54(m)	Deposits from customers[5 on page 8]	28	**53,646**	48,904
IAS 1.54(m)	Debt securities issued[5 on page 8]	29	**11,227**	10,248
IAS 1.54(m)	Subordinated liabilities[5 on page 8]	30	**5,642**	4,985
IAS 1.54(l)	Provisions	31	**90**	84
IAS 1.54(o)	Deferred tax liabilities[2]	25	**132**	123
	Other liabilities	32	**450**	431
	Total liabilities		**90,719**	81,846
	Equity			
IAS 1.54(r)	Share capital and share premium		**2,725**	2,695
IAS 1.54(r)	Retained earnings		**3,350**	2,949
IAS 1.54(r)	Reserves		**160**	198
IAS 1.54(r)	**Total equity attributable to equity holders of the Bank**		**6,235**	5,842
IAS 1.54(q), 27.27	**Non-controlling interest**		**155**	128
	Total equity	33	**6,390**	5,970
	Total liabilities and equity		**97,109**	87,816

The notes on pages 27 to 243 are an integral part of these consolidated financial statements.

Explanatory notes

1.	*IAS 1.7, 81*	Total comprehensive income is the change in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Entities have a choice of presenting all items of income and expense recognised in a period either in: • one statement – i.e. a statement of comprehensive income; or • 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)	In these illustrative financial statements, the one-statement approach is illustrated. Appendix I provides an illustration of the two-statement approach.
2.	*IAS 1.85*	An entity presents additional line items, headings and subtotals when these are 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 our publication *Illustrative financial statements* issued in October 2012.
	IAS 1.87, 97	An entity does not present any items of income or expense as extraordinary items. The nature and amounts of material items are disclosed as a separate line item in the statement of comprehensive income or in the notes. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (4.1.82–86).
3.	*IAS 1.99, 104*	An entity presents an analysis of expenses based on function or nature – whichever provides information that is reliable and more relevant. This analysis may be presented in the statement of comprehensive income or in the notes. 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 the 9th Edition 2012/13 of our publication *Insights into IFRS* (4.1.82.10–20). In these illustrative financial statements, the analysis is based on the nature of the expenses.
4.	*IAS 1.82(a)*	IFRS does not specify whether revenue should be presented only as a single line item in the statement of comprehensive income, or whether an entity may also present the individual components of revenue, with a subtotal 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 at fair value and other revenue. 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 equity-accounted investees. An entity's share of the other comprehensive income of an equity-accounted investee is presented as a separate line item separately from the other components of other comprehensive income. For forthcoming requirements see explanatory note 5 on page 14.
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 tax. In these illustrative financial statements each component of other comprehensive income has been presented net of related tax effects.
7.	*IAS 1.92, 94*	An entity may present reclassification adjustments directly in the statement of comprehensive income or in the notes. In these illustrative financial statements, we have illustrated the former approach.

Consolidated statement of comprehensive income[1,2]

IAS 1.10(b), 81(a)

For the year ended 31 December

	In millions of euro	Note	2012	2011
IFRS 7.20(b)	Interest income[4]	8	**3,341**	3,528
IFRS 7.20(b), IAS 1.82(b)	Interest expense[3]	8	**(1,406)**	(1,686)
	Net interest income[4]		**1,935**	1,842
IFRS 7.20(c)	Fee and commission income[4]	9	**854**	759
IFRS 7.20(c)	Fee and commission expense[3]	9	**(179)**	(135)
	Net fee and commission income[4]		**675**	624
IFRS 7.20(a)	Net trading income[4]	10	**1,434**	1,087
IFRS 7.20(a)	Net income from other financial instruments at fair value through profit or loss[4]	11	**21**	81
IFRS 7.20(a)	Other revenue[4]	12	**123**	186
IAS 1.85	**Revenue[4]**		**4,188**	3,820
	Other income		**18**	10
IFRS 7.20(e)	Net impairment loss on financial assets[3]	20, 21, 22	**(330)**	(234)
IAS 1.99	Personnel expenses[3]	13	**(2,264)**	(1,974)
IAS 17.35(c)	Operating lease expenses[3]		**(344)**	(326)
IAS 1.99, 38.118(d)	Depreciation and amortisation[3]	23, 24	**(47)**	(39)
IAS 1.99	Other expenses[3]	14	**(397)**	(585)
IAS 1.85	**Profit before income tax**		**824**	672
IAS 1.82(d), 12.77	Income tax expense	15	**(187)**	(118)
IAS 1.82(f)	**Profit for the period**		**637**	554
	Other comprehensive income, net of income tax[6]			
IAS 1.82(g), 21.52(b)	Foreign currency translation differences for foreign operations[5]		**(40)**	23
IAS 1.82(g), 21.52(b)	Net gain (loss) on hedges of net investments in foreign operations[5]		**30**	(15)
	Cash flow hedges[5]:			
IFRS 7.23(c), IAS 1.82(g)	Effective portion of changes in fair value		**(17)**	(14)
IFRS 7.23(d), IAS 1.92	Net amount transferred to profit or loss[7]		**10**	8
	Fair value reserve (available-for-sale financial assets)[5]:			
IFRS 7.20(a)(ii), IAS 1.82(g)	Net change in fair value		**(238)**	(106)
IFRS 7.20(a)(ii), IAS 1.92	Net amount transferred to profit or loss[7]		**217**	83
	Other comprehensive income for the period, net of income tax		**(38)**	(21)
IAS 1.82(i)	**Total comprehensive income for the period**		**599**	533

The notes on pages 27 to 243 are an integral part of these consolidated financial statements.

Explanatory notes

1. *IAS 33.2–3, 4A*

Basic and diluted earnings per share are required to be presented by entities:

- whose ordinary shares or potential ordinary shares are traded in a public market; or
- that file, or are in the process of filing, their financial statements with a securities commission or other regulatory organisation to issue any class of ordinary shares in a public market.

When an entity voluntarily presents earnings per share information, that information is calculated and presented in accordance with IAS 33 *Earnings per Share*.

2. *IAS 33.73*

Entities may also present earnings per share based on alternative measures of earnings. However, these amounts are presented only in the notes and not in the statement of comprehensive income. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (5.3.370.55).

3. *IAS 33.67A*

If an entity presents the components of profit or loss in a separate income statement (the 'two-statement approach', see explanatory note 1 on page 12), then it presents the basic and diluted earnings per share in that separate statement.

For an illustration of the two-statement approach, see Appendix I.

4. *IAS 33.67, 69*

Basic and diluted earnings per share are presented even if the amounts are negative (a loss per share). Diluted earnings per share is also 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. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (5.3.370.50).

5.

Forthcoming requirements

Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) is effective for annual periods beginning on or after 1 July 2012. The amendments:

- require an entity to present the items of other comprehensive income that may be reclassified to profit or loss in the future if certain conditions are met, separately from those that would never be reclassified to profit or loss. Consequently, an entity that presents items of other comprehensive income before related tax effects would also have to allocate the aggregated tax amount between these sections; and
- change the title of the statement of comprehensive income to the 'statement of profit or loss and other comprehensive income'. However, an entity is still allowed to use other titles.

For an illustration of the new requirements, see Appendix IV in our publication *Illustrative financial statements* issued in October 2012.

Consolidated statement of comprehensive income (continued)

For the year ended 31 December

	In millions of euro	Note	2012	2011
	Profit attributable to:			
IAS 1.83(a)(ii)	Equity holders of the Bank		**610**	528
IAS 1.83(a)(i)	Non-controlling interest		**27**	26
	Profit for the period		**637**	554
	Total comprehensive income attributable to:			
IAS 1.83(b)(ii)	Equity holders of the Bank		**572**	507
IAS 1.83(b)(i)	Non-controlling interest		**27**	26
	Total comprehensive income for the period		**599**	533
IAS 33.4	**Earnings per share**[1, 2, 3]			
IAS 33.66	Basic earnings per share (euro)[4]	16	**0.34**	0.29
IAS 33.66	Diluted earnings per share (euro)[4]	16	**0.33**	0.29

The notes on pages 27 to 243 are an integral part of these consolidated financial statements.

Explanatory notes

1.	*IAS 1.106A*	Entities may present the disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income in either the statement of changes in equity or in the notes. In these illustrative financial statements, we have illustrated the former approach.
2.	*IAS 1.106(b)*	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 presents the effects of retrospective application recognised in accordance with IAS 8 in the statement of changes in equity. The illustrative examples to IAS 1 demonstrate this in relation to a change in accounting policy, as does the 9th Edition 2012/13 of our publication *Insights into IFRS* (2.8.40.90) in relation to an error.
3.		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 component within equity or within retained earnings. In our view, either approach is acceptable. 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 the 9th Edition 2012/13 of our publication *Insights into IFRS* (4.5.1230.10–30).

Consolidated statement of changes in equity[1, 2]

For the year ended 31 December 2011

Reference	In millions of euro	Share capital	Share premium	Translation reserve	Hedging reserve	Fair value reserve	Retained earnings	Total	Non-controlling interest	Total equity
		Attributable to equity holders of the Bank								
IAS 1.10(c), 38, 108, 110(c), 113	Balance at 1 January 2011	2,256	439	64	(79)	234	2,680	5,594	102	5,696
	Total comprehensive income for the year									
IAS 1.106(d)(i)	Profit for the year	-	-	-	-	-	528	528	26	554
IAS 1.106(d)(ii), 106A	**Other comprehensive income, net of tax**									
IAS 1.82(g), 21.52(b)	Foreign currency translation differences for foreign operations	-	-	23	-	-	-	23	-	23
IAS 1.82(g)	Net loss on hedge of net investment in foreign operations	-	-	(15)	-	-	-	(15)	-	(15)
IAS 1.82(g)	Cash flow hedges:									
IFRS 7.23(c)	Effective portion of changes in fair value	-	-	-	(14)	-		(14)		(14)
IFRS 7.23(d)	Net amount reclassified to profit or loss	-	-	-	8	-	-	8	-	8
IFRS 7.20(a)(ii),	Fair value reserve (available-for-sale financial assets):									
IAS 1.82(g)	Net change in fair value	-	-	-	-	(106)	-	(106)	-	(106)
	Net amount reclassified to profit or loss	-	-	-	-	83	-	83	-	83
	Total other comprehensive income	-	-	8	(6)	(23)	-	(21)	-	(21)
IAS 1.106(a)	Total comprehensive income for the year	-	-	8	(6)	(23)	528	507	26	533
IAS 1.106(d)(iii)	**Transactions with owners, recorded directly in equity**									
	Contributions by and distributions to owners of the Group									
	Share-based payment transactions[3]	-	-	-	-	-	25	25	-	25
	Dividends to equity holders	-	-	-	-	-	(284)	(284)	-	(284)
	Total contributions by and distributions to owners	-	-	-	-	-	(259)	(259)	-	(259)
	Balance at 31 December 2011	2,256	439	72	(85)	211	2,949	5,842	128	5,970

The notes on pages 27 to 243 are an integral part of these consolidated financial statements.

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Consolidated statement of changes in equity (continued)

For the year ended 31 December 2012

Reference	In millions of euro	Attributable to equity holders of the Bank: Share capital	Share premium	Translation reserve	Hedging reserve	Fair value reserve	Retained earnings	Total	Non-controlling interest	Total equity
IAS 1.10(c), 38, 108, 110(c), 113	Balance at 1 January 2012	**2,256**	**439**	**72**	**(85)**	**211**	**2,949**	**5,842**	**128**	**5,970**
	Total comprehensive income for the year									
IAS 1.106(d)(i)	Profit for the year	**-**	**-**	**-**	**-**	**-**	**610**	**610**	**27**	**637**
IAS 1.106(d)(ii), 106A	**Other comprehensive income, net of tax**									
IAS 1.82(g), 21.52(b)	Foreign currency translation differences for foreign operations	**-**	**-**	**(40)**	**-**	**-**	**-**	**(40)**	**-**	**(40)**
IAS 1.82(g)	Net gain on hedge of net investment in foreign operations	**-**	**-**	**30**	**-**	**-**	**-**	**30**	**-**	**30**
IAS 1.82(g)	Cash flow hedges:									
IFRS 7.23(c)	Effective portion of changes in fair value	**-**	**-**	**-**	**(17)**	**-**	**-**	**(17)**	**-**	**(17)**
IFRS 7.23(d)	Net amount reclassified to profit or loss	**-**	**-**	**-**	**10**	**-**	**-**	**10**	**-**	**10**
IFRS 7.20(a)(ii),	Fair value reserve (available-for-sale financial assets):									
IAS 1.82(g)	Net change in fair value	**-**	**-**	**-**	**-**	**(238)**	**-**	**(238)**	**-**	**(238)**
	Net amount reclassified to profit or loss	**-**	**-**	**-**	**-**	**217**	**-**	**217**	**-**	**217**
	Total other comprehensive income	**-**	**-**	**(10)**	**(7)**	**(21)**	**-**	**(38)**	**-**	**(38)**
IAS 1.106(a)	Total comprehensive income for the year	**-**	**-**	**(10)**	**(7)**	**(21)**	**610**	**572**	**27**	**599**
	Transactions with owners, recorded directly in equity									
	Contributions by and distributions to owners of the Group									
IAS 1.106(d)(iii)	Share-based payment transactions	**-**	**-**	**-**	**-**	**-**	**75**	**75**	**-**	**75**
	Share options exercised	**3**	**27**	**-**	**-**	**-**	**-**	**30**	**-**	**30**
	Dividends to equity holders	**-**	**-**	**-**	**-**	**-**	**(284)**	**(284)**	**-**	**(284)**
	Total contributions by and distributions to owners	**3**	**27**	**-**	**-**	**-**	**(209)**	**(179)**	**-**	**(179)**
	Balance at 31 December 2012	**2,259**	**466**	**62**	**(92)**	**190**	**3,350**	**6,235**	**155**	**6,390**

The notes on pages 27 to 243 are an integral part of these consolidated financial statements.

Explanatory notes

1.	*IAS 7.18–19*	In these illustrative financial statements we have illustrated the presentation of cash flows from operating activities using the indirect method, whereby profit for the year 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 may also, and is encouraged to, present operating cash flows using the direct method, disclosing major classes of gross cash receipts and payments related to operating activities. For an illustration presenting the operating cash flows using the direct method, see Appendix III of our publication *Illustrative financial statements* issued in October 2012.
	IAS 7.50	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; • the aggregate amounts of the cash flows from each of operating, investing and financing activities related to interests in joint ventures reported using proportionate consolidation; • the aggregate amount of cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity; and • the amount of the cash flows arising from the operating, investing and financing activities of each reportable segment, if the entity presents segment information.
2.	*IAS 7.22, 24*	Cash flows from operating, investing or financing activities may be reported on a net basis if 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 for items concerned 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 7.33*	Interest paid and interest and dividends received are usually classified as operating cash flows for a financial institution.
4.	*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(g)–(h)	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. If hedge accounting is not applied to a derivative instrument that is entered into as an economic hedge, then 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. These issues are discussed in our publication *Insights into IFRS* (7.8.220.80 and 7.8.225.70).
5.	*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).
6.		In our view, to the extent that borrowing costs are capitalised in respect of qualifying assets, the cost of acquiring those assets, which would include borrowing costs, should be split in the statement of cash flows. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (2.3.50.40).

Consolidated statement of cash flows[1, 2]

IAS 1.10(d), 38,113

In millions of euro	Note	For the year ended 31 December 2012	2011
Cash flows from operating activities[4] (IAS 7.18(b))			
Profit for the period		**637**	554
Adjustments for:			
– Depreciation and amortisation	23, 24	**47**	39
– Net impairment loss on investment securities	22	**125**	14
– 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
– Tax expense	15	**187**	118
		(544)	(720)
Changes in:			
– Trading assets	18	**(894)**	(993)
– Derivative assets held for risk management	19	**(132)**	(104)
– Loans and advances to banks	20	**(872)**	(389)
– Loans and advances to customers	21	**(6,463)**	(6,472)
– Other assets		**(116)**	(183)
– Trading liabilities	18	**974**	885
– Derivative liabilities held for risk management	19	**39**	35
– Deposits from banks	27	**1,448**	1,071
– Deposits from customers	28	**4,742**	4,245
– Other liabilities and provisions		**34**	194
		(1,784)	(2,431)
Interest received[3] (IAS 7.31, 33)		**3,341**	3,528
Dividends received[3] (IAS 7.31, 33)		**13**	8
Interest paid[3, 6] (IAS 7.31, 33)		**(1,415)**	(1,695)
Income taxes paid[1 on page 22] (IAS 7.35)		**(185)**	(223)
Net cash used in operating activities (IAS 7.10)		**(30)**	(813)
Cash flows from investing activities[4, 5] (IAS 7.21)			
Acquisition of investment securities (IAS 7.16(c))		**(1,690)**	(599)
Proceeds from sale of investment securities (IAS 7.16(d))		**577**	444
Acquisition of property and equipment (IAS 7.16(a))	23	**(88)**	(63)
Proceeds from the sale of property and equipment (IAS 7.16(b))	23	**36**	18
Acquisition of intangible assets (IAS 7.16(a))	24	**(42)**	(34)
Net cash used in investing activities[2 on page 22] (IAS 7.10)		**(1,207)**	(234)

The notes on pages 27 to 243 are an integral part of these consolidated financial statements.

Explanatory notes

1.	*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 the 9th Edition 2012/13 of our publication *Insights into IFRS* (2.3.50.20–35).
2.	*IAS 7.43*	An entity discloses outside the cash flow statement non-cash investing and financing transactions in a way that provides all the relevant information about these investing and financing activities.
3.	*IAS 7.34*	Cash flows related to dividends paid may be classified as financing or operating.
4.	*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.

Consolidated statement of cash flows (continued)

IAS 1.10(d) For the year ended 31 December

In millions of euro		Note	2012	2011
IAS 7.21	**Cash flows from financing activities**[4, 5 on page 20]			
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[3]	33	**(284)**	(284)
IAS 7.10	**Net cash from financing activities**[2]		**1,188**	1,030
	Net increase (decrease) in cash and cash equivalents		**(49)**	(17)
	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		**(36)**	(31)
	Cash and cash equivalents at 31 December[4]	17	**2,907**	2,992

The notes on pages 27 to 243 are an integral part of these consolidated financial statements.

Explanatory note

1.	*IAS 1.7*	The notes include narrative descriptions or analyses 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[1]

Explanatory notes

1.	*IAS 1.36*	When an entity changes its reporting period and annual financial statements are presented for a period that is longer or shorter than one year, it discloses the reason for the change and the fact that comparative amounts presented are not entirely comparable.
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 on the entity's ability to continue as a going concern, whether they arise during the period or after the end of the reporting period. See Appendix X in our publication *Illustrative financial statements* issued in October 2012 for example disclosures for entities that have going concern issues.
3.	*IAS 1.19–20, 23*	In the extremely rare circumstances in which management concludes that compliance with a requirement of an IFRS or an interpretation would be so misleading that it would conflict with the objective of financial statements set out in the *Conceptual Framework for Financial Reporting*, 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 IFRS, and are made publicly available by publicly traded companies, then the International Organization of Securities Commissions (IOSCO) has recommended the following 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 comply with IFRS as issued by the IASB, if this is the case; and • a statement explaining in what regard the standards and the reporting framework used differ from IFRS as issued by the IASB, if this is the case. This issue is discussed in *Statement on Providing Investors with Appropriate and Complete Information on Accounting Frameworks Used to Prepare Financial Statements*, published by the IOSCO in February 2008.
5.	*IAS 10.17*	An entity discloses the date on which 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 that is not 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 functional currency of an entity is hyperinflationary, then the 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 end of the reporting period; • whether the consolidated financial statements are based on a historical cost approach or a current cost approach; and • the identity and level of the price index at the end of the reporting period, 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.

IAS 1.10(e)

Notes to the consolidated financial statements

IAS 1.51(a)–(c)

1. Reporting entity

IAS 1.138(a)–(b)

[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 2012[1] comprise the Bank and its subsidiaries (together referred to as the 'Group' and individually as 'Group entities'). The Group is primarily involved in investment, corporate and retail banking, and in providing asset management services.

IAS 1.112(a)

2. Basis of preparation[2]

(a) Statement of compliance

IAS 1.16

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).[3, 4]

IAS 10.17

The consolidated financial statements were authorised for issue by the Board of Directors on [date].[5]

IAS 1.117(a)

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- investment property is measured at fair value
- liabilities for cash-settled share-based payment arrangements are measured at fair value
- 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
- 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 as explained in Note 3(x)(ii).

(c) Functional and presentation currency[6]

IAS 1.51(d)–(e)

These consolidated financial statements are presented in euro, which is the Bank's functional currency. All financial information presented in euro has been rounded to the nearest million, except when otherwise indicated.

Explanatory notes

1.	*IAS 1.122–124*	An entity discloses judgements (other than those involving estimates) 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 IAS 1 indicate that such disclosure is based on qualitative information.
	IAS 1.125, 129	An entity discloses information about the assumptions 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 reporting period. The examples that are provided in IAS 1 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 to the extent that the transitional requirements do not include disclosure requirements. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (2.8.20).
3.	*IAS 1.10(f), 8.28–29*	When a change in accounting policy, either voluntarily or as a result of the adoption of a new, revised or amended IFRS, has an effect on the current period or any prior period, an entity discloses, among other things and to the extent practicable, the amount of the adjustment for each financial statement line item affected.
	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; and • 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.
		If there has been a change in accounting policy, the correction of an error or the reclassification of items in the financial statements, but a third statement of financial position is not presented on the basis that the effect of the change is judged not to be material, then an entity should consider whether this fact should be disclosed. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (2.1.35.35).
4.		The change in 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. It should not be relied on for a complete understanding of amendments to IFRS, completeness of new standards applicable for the period and effects on the financial statements, and should not be used as a substitute for referring to those standards and interpretations themselves.
		For a list of new standards that either are effective for the first time for annual periods beginning on 1 January 2012 or are available for early adoption for the period, see Appendix IV in our publication *Illustrative financial statements* issued in October 2012.

IAS 1.112(a)

2. Basis of preparation (continued)

(d) Use of estimates and judgements[1]

The preparation of the consolidated financial statements in conformity with IFRS 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 estimates are revised and in any future periods affected.

IAS 1.122, 125, 129–130

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 included in Notes 4 and 5.

(e) Change in accounting policy[2, 3, 4]

Deferred tax associated with investment property

IAS 8.28

In 2012, the Group adopted *Deferred Tax: Recovery of Underlying Assets* (amendments to IAS 12) and changed its accounting policy for measuring deferred tax for investment property accounted for under the fair value model (see Note 3(i)).

As a result of the change, the Group measures deferred tax arising from investment property using the assumption that the carrying amount of the property will be recovered entirely through sale. Previously, the Group measured deferred tax for investment property using a 'blended rate' approach that reflected the dual intention of sale and use.

IAS 8.28

The above change in accounting policy had an insignificant effect on the current period or any prior period and is expected to have an insignificant effect on future periods.

(f) Other accounting developments

(i) Disclosures pertaining to transfers of financial assets

The Group has applied *Disclosures – Transfers of Financial Assets* (amendments to IFRS 7), issued in October 2010. The amendment requires enhanced disclosures about transfers of financial assets that enable users of financial statements:

- to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and
- to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets.

Revised disclosures in respect of transfers of financial assets are included in Note 35.

Explanatory notes

1.	*IAS 1.117(b)*	The accounting policies describe each specific accounting policy that is relevant to an understanding of the financial statements.
	IAS 8.5	Accounting policies are the specific principles, bases, conventions, rules and practices that an entity applies in preparing and presenting financial statements.
2.		The 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 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, including the accounting policy choices that an entity makes, and may differ from the disclosures illustrated in these illustrative financial statements. The recognition and measurement requirements of IFRS are discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS*.
3.		An entity may also consider a *de facto* control model for the basis of consolidating subsidiaries, 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, to be applied consistently, that should be disclosed in its accounting policies. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (2.5.30).

Notes to the consolidated financial statements

IAS 1.112(a), 117

3. Significant accounting policies[1, 2]

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 for the change in accounting policy as explained in Note 2(e).

(a) Basis of consolidation

(i) Business combinations

IFRS 3.4

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when 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.[3]

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

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.

IFRS 3.58

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

(ii) Non-controlling interests

IFRS 3.19

For each business combination, the Group elects to measure any non-controlling interests in the acquiree either:

- at fair value; or
- at their proportionate share of the acquiree's identifiable net assets, which are generally at fair value.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognised in profit or loss.

Explanatory note

1.	*IAS 27.41(c)*	If the financial statements of a subsidiary used to prepare the consolidated financial statements are of a date or for a period that is different from that of the parent's financial statements, then the entity discloses: • the end of the reporting period of the subsidiary; and • the reason for using a different date or period.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(iii) Subsidiaries[1]

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.

(iv) 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 included in Note 35.

(v) Loss of control

IAS 27.35

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently that retained interest is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments (see Note 3(o)) depending on the level of influence retained.

(vi) Transactions eliminated on consolidation

IAS 27.21

Intra-group balances and transactions, and any unrealised 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.

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Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(vii) 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.

(b) Foreign currency

(i) Foreign currency transactions

IAS 21.21, 23(a)

Transactions in foreign currencies are translated into the respective functional currency of Group entities at the spot exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to 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 year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are generally recognised in profit or loss. However, foreign currency differences arising from the retranslation of the following items are recognised in other comprehensive income:

- available-for-sale equity instruments (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss);
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- qualifying cash flow hedges to the extent that the hedge is effective.

(ii) Foreign operations

IAS 21.39

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

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the foreign operation is a non-wholly owned subsidiary, then the relevant proportion of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of such that control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

IAS 21.15

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such item are considered to form part of a net investment in the foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

Explanatory note

1.	IFRS allows 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.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(b) Foreign currency (continued)

(iii) Hedge of a net investment in foreign operation

See Note 3(m)(iii).

IFRS 7.21, B5(e), 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 transaction costs and 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:[1]

- 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; and
- the effective portion of fair value changes in qualifying hedging derivatives designated 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, see Note 3(e).

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, see Note 3(f).

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.

Explanatory notes

1.	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 that are held for trading); and • does not include the profit or loss impact of derivatives that are held for risk management purposes.
2.	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; and • 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.
3.	IFRS does 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 the 9th Edition 2012/13 of our publication *Insights into IFRS* (5.1.390.30).

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

IFRS 7.21, B5(e)

(e) Net trading income[1]

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[2]

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. It includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

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 presented in net trading income, net income from other financial instruments at fair value through profit or loss or other revenue based on the underlying classification of the equity investment.

(h) Lease payments

IAS 17.33, SIC-15.3

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.

IAS 17.25

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[3] are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

IAS 12.58

(i) Tax expense

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

(i) Current tax

IAS 12.46

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. Current tax payable also includes any tax liability arising from the declaration of dividends.

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Notes to the consolidated financial statements

3. Significant accounting policies (continued)

IAS 12.58

(i) Tax expense (continued)

(ii) Deferred tax

IAS 12.22(c), 39

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:

- temporary differences on 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;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

IAS 12.51, 51C

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, the presumption that the carrying amount of the investment property will be recovered through sale has not been rebutted.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

IAS 12.71, 74

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to 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.

Additional 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.

IAS 12.56

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 it 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.

(iii) Tax exposures

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Explanatory note

1.	The definition of 'transfer' in IAS 39 for the purpose of determining whether a financial asset should be derecognised is different from the one in IFRS 7 for the purposes of the transfers of financial assets disclosures. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (7.8.412.60, 70).

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), AG53–AG56

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date that 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 recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

IAS 39.43

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

IAS 39.9

Financial assets

The Group classifies its financial assets in one of the following categories:

- loans and receivables;
- held to maturity;
- available-for-sale; or
- at fair value through profit or loss and within the category as:
  - held for trading; or
  - designated at fair value through profit or loss.

See Notes 3(k), (l), (n) and (o).

IAS 39.9

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through profit or loss. See Notes 3(l), (m), (u) and (w).

(iii) Derecognition

IAS 39.17–20, 26

Financial assets[1]

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows 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 such transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability. 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.

IAS 39.20

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.

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Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(j) Financial assets and financial liabilities (continued)

(iii) Derecognition (continued)

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.

IAS 39.20 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.

IAS 39.24 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.

IAS 39.39 The Group securitises various loans and advances to customers and investment securities, which generally result 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.

Financial liabilities

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

IAS 32.42

(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 amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

IAS 1.32–35 Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(v) Amortised cost measurement

IAS 39.9 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.

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Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(j) Financial assets and financial liabilities (continued)

(vi) Fair value measurement

IAS 39.9

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, IAS 39.48A

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.

IAS 39.48A, AG74–76

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.

IAS 39.AG72

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.

IAS 39.AG76, AG76A

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. However, in some cases, the fair value of a financial instrument on initial recognition may be different to its transaction price. If such fair value is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognised in profit or loss on initial recognition of the instrument. In other cases the difference 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.

Explanatory note

1.	*IAS 41.54(a)–(b)*	IFRS does not contain specific quantitative thresholds for 'significant' or 'prolonged'. In our view, an entity should establish criteria that it applies consistently to determine whether a decline in a quoted market price is 'significant' or 'prolonged'. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (7.6.490.40–130). In our view, apart from significant or prolonged thresholds, an entity can establish additional events triggering impairment. These can include, among other things, a combination of significant and prolonged thresholds based on the particular circumstances and nature of that entity's portfolio. For example, a decline in the fair value in excess of 15 percent persisting for six months could be determined by an entity to be an impairment trigger. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (7.6.490.40–50).

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(j) Financial assets and financial liabilities (continued)

(vii) Identification and measurement of impairment

IFRS 7.B5(f), IAS 39.58

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 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.

IFRS 7.B5(d), IAS 39.59, 61

Objective evidence that financial assets 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[1] in its fair value below its cost is objective evidence of impairment. In general, the Group considers a decline of 20 percent to be significant and a period of nine months to be prolonged. However, in specific circumstances a smaller decline or a shorter period may be appropriate.

IAS 39.63–64

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. Those 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.

In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, the 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 trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

IAS 39.17, 65–66, AG84

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

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; or • 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; and • 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.

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)

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower then an assessment is made whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss is measured as follows:

- If the expected restructuring does not result in derecognition of the existing asset, the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring results in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances or held-to-maturity investment securities. Interest on the impaired assets continues to be recognised through the unwinding of the discount. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

IAS 39.67–69

Impairment losses on available-for-sale investment securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity 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 recognised previously in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income.

IAS 39.70

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then 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[1]

IFRS 7.21, B5(a)

The Group has designated financial assets and liabilities at fair value through profit or loss in either of 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.

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.

3. Significant accounting policies (continued)

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 three months or less from the acquisition date that are subject to an 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.

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.

IAS 39.43, 46–47, 50, 50B, 50D

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 on 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[1] 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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Notes to the consolidated financial statements

3. Significant accounting policies (continued)

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

These hedging relationships are discussed below:

(i) Fair value hedges

IAS 39.89, 91–92

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, then 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

IAS 39.95–99, 101

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

IAS 39.102

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 income is reclassified to profit or loss as a reclassification adjustment on disposal of the foreign operation.

(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.

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. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (7.4.200).

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

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

(v) Embedded derivatives[1]

IAS 39.10–11

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 measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

IFRS 7.21

(n) Loans and advances

IAS 39.9

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.

Loans and advances to banks are classified as loans and receivables. Loans and advances to customers include:

- those classified as loans and receivables;
- those designated as at fair value through profit or loss; and
- finance lease receivables.

IAS 39.43, 46

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. When the Group chooses to designate the loans and advances as measured at fair value through profit or loss as described in Note 3(j)(viii), they are measured at fair value with face value changes recognised immediately in profit or loss.

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.

IFRS 7.21

(o) Investment securities

IAS 39.9, 43, 45–46

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.

Explanatory note

1.	*IAS 39.9*	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: • 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 entity has collected substantially all of the asset's original principal; or • sales or reclassifications attributable to non-recurring isolated events beyond the entity's control that could not have been reasonably anticipated.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(o) Investment securities (continued)

(i) Held-to-maturity

IAS 39.9, 46

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, less any impairment losses (see Note 3(j)(vii)). 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.[1] 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; and
- 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

IAS 39.9

The Group designates some investment securities at fair value, with fair value changes recognised immediately in profit or loss as described in Note 3(j)(viii).

(iii) Available-for-sale

IAS 39.9, 46

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. Available-for-sale investments comprise equity securities and debt securities. 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 (see Note 3(g)). Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss (see Note 3(b)(i)). Impairment losses are recognised in profit or loss (see Note 3(j)(vii)).

Other fair value changes, other than impairment losses (see Note 3(j)(vii)), are recognised in other comprehensive income and presented in the fair value reserve in equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

IAS 39.50E

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.

Explanatory note

1. If an entity previously adopted IFRS for the first time, and the determination of the cost of property, plant and equipment at the date of transition to IFRS is relevant to an understanding of the financial statements, then the entity might include the following accounting policy.

Deemed cost

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 [the date of transition], the Group's date of transition to IFRS, was determined with reference to its fair value at that date.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(p) Property and equipment

IAS 16.73(a)

(i) Recognition and measurement[1]

IAS 16.30

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

IAS 16.16

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- the cost of materials and direct labour;
- any other costs directly attributable to bringing the assets to a working condition for their intended use;
- when the Group has an obligation to remove the asset or restore the site, an estimate of 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.

IAS 16.45

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.

IAS 16.41, 71

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other income in profit or loss.

(ii) Subsequent costs

IAS 16.13

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

IAS 16.55, 73(b)

Items of property and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the assets are completed and ready for use. Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is recognised in profit or loss. 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 of significant items of property and equipment 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 reviewed at each reporting date and adjusted if appropriate.

Explanatory notes

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), 79(e)*	If an entity accounts for investment property using the cost model, then it discloses: • the depreciation method; • the useful lives or the depreciation rates used; and • the fair value of such investment property.

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.[1] 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 initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss in other income.[2] Cost includes expenditure that is directly attributable to the acquisition of the investment property.

IAS 16.41, 71

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When an investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

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 and goodwill

(i) Goodwill

IAS 28.23(a)

Goodwill that arises on the acquisition of subsidiaries is presented with intangible assets. For the measurement of goodwill at initial recognition, see Note 3(a)(i). Subsequent to initial recognition goodwill is measured at cost less accumulated impairment losses.

(ii) Software

IAS 38.74

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

IAS 38.57, 66

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.

IAS 38.18

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)

Software is amortised on a straight line basis in profit or loss over its estimated useful life, from the date that it is available for use. The estimated useful life of software for the current and comparative periods is three to five years.

IAS 38.104

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Explanatory notes

1.	*SIC-27.10(b)*	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.		IFRS does 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 impairment loss is allocated to the appropriate function. In our view, in the rare case that an impairment loss cannot be allocated to a function, it should be included in other expenses, with additional information provided in the notes. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (3.10.430.20). In our view, an impairment loss that is recognised in published interim financial statements should be presented in the same line item in the annual financial statements. We believe that this applies even if the asset is subsequently sold and the gain or loss on disposal is included in a line item different from impairment losses in the annual financial statements. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (3.10.430.30).

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(s) Leased assets – lessee[1]

Assets held by the Group under leases which transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. On 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.

Assets held under other leases are classified as operating leases and are not recognised in the Group's statement of financial position.

(t) Impairment of non-financial assets

IAS 36.9

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. Goodwill and indefinite-lived intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

IAS 36.18, 80

The recoverable amount of an asset or CGU 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 or CGU. For impairment testing, assets 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 CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed 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.

IAS 16.102

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

IAS 36.104

Impairment losses are recognised in profit or loss.[2] Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a *pro rata* basis.

IAS 36.124

An impairment loss in respect of goodwill is not reversed. For other assets, 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.

Explanatory notes

1.		The classification of financial instruments as liabilities, equity or a combination of both depends on the contractual terms of the instruments. The issues associated with the classification of financial instruments are discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (7.3.10). The disclosures illustrated here are not intended to be a complete description of accounting policies that may be applicable to preference shares.

2.		IFRS does not provide guidance on the specific types of costs that would be considered unavoidable in respect of onerous contracts. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (3.12.660.30).

3.	*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 initially at fair value, and subsequently at the higher of the amount determined under IAS 37 or the amount initially recognised, adjusted for cumulative amortisation in accordance with IAS 18. In these illustrative financial instruments, the Group has accounted for all financial guarantee contracts under IAS 39 rather than IFRS 4.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

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

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.[1]

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group designates liabilities at fair value through profit or loss (see Note 3(j)(viii).

(v) Provisions

IAS 37.14

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. The unwinding of the discount is recognised as finance cost.

(i) Restructuring

IAS 37.72(a)

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.

(ii) Onerous contracts

IAS 37.66

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[2] 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 (see Note 3(t)).

IFRS 7.21, IAS 39.4(c), 9, BC15

(w) Financial guarantees and loan commitments[3]

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. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

IAS 37.36, 45, 39.47(c)–(d)

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contracts has become probable. Financial guarantees and commitments to provide a loan at a below-market interest rate are included within other liabilities.

Explanatory note

1.	The components of the statement of comprehensive income charge for defined benefit obligations do not have to be charged or credited in the same line item. An entity should choose an accounting policy, to be applied consistently, either to include the interest cost and expected return on plan assets with interest and other financial income respectively, or to show the net total as employee benefit expense. However, regardless of the accounting policy chosen, disclosure is required of the line items in which the components of the post-employment cost are recognised. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (4.4.1130).

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(x) Employee benefits

(i) Defined contribution plans

IAS 19.44

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as personnel expenses in profit or loss in the periods during which related services are rendered. 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.

(ii) Defined benefit plans

IAS 19.50, 56, 78

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 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. That benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on corporate bonds, that have a credit rating of at least AA from rating agency [y], that have maturity dates approximating the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid.

IAS 19.64

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future 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. 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.

IAS 19.120A(a)

The Group recognises all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income and all expenses related to defined benefit plans in employee benefit expense in profit or loss.[1]

IAS 9.109

The Group recognises gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment or settlement comprises any resulting change in the fair value of plan assets, any change in the present value of the defined benefit obligation, any related actuarial gains and losses and any past service cost that had not previously been recognised.

(iii) Other long-term employee benefits

IAS 19.128

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 corporate bonds that have a credit rating of at least AA from rating agency [y], that have maturity dates approximating the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid. 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.

Explanatory notes

1.	*IFRS 2.IG19*	IFRS does 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 finance cost. In our view, both presentations are permitted and an entity should choose an accounting policy, to be applied consistently. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (4.5.1280.10).
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, then how it was determined; • whether and how expected dividends were incorporated into the measurement of fair value; and • 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.
3.	*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.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(x) Employee benefits (continued)

(iv) Termination benefits

IAS 19.133

Termination benefits are recognised as an expense when the Group is demonstrably committed, 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 as an expense 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 date, then they are discounted to their present value.

(v) Short-term employee benefits

IAS 19.10

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

IFRS 2.15, 19, 21A

The grant-date fair value of share-based payment awards – i.e. stock options – granted to employees is recognised as personnel expenses, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

IFRS 2.32

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 that the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of the share appreciation rights. Any changes in the liability are recognised as personnel expenses in profit or loss.[1,2]

IFRS 7.21

(y) Share capital and reserves

(i) Perpetual bonds[3]

IAS 12.52B, 58, 32.11, 15–16, 35

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. Distributions thereon are generally recognised in profit or loss as they generally relate to income arising from transactions that were originally recognised in profit or loss.

(ii) Share issue costs

IAS 32.35

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

Explanatory notes

1.	*IAS 8.30*	If an entity has not applied a new IFRS that has been issued but is not yet effective, then the entity discloses this fact and any known or reasonably estimable information relevant to assessing the potential impact that application of the new IFRS will have on the entity's financial statements in the period of initial application.
	IAS 1.31	When new standards, amendments to standards and interpretations will have no, or no material, effect on the consolidated financial statements of the Group, it is not necessary to list them because such a disclosure would not be material.

2.		**Forthcoming requirements**
		IFRS 9 *Financial Instruments*, published by the IASB in November 2009, replaces existing guidance on classification and measurement of financial assets in IAS 39. IFRS 9 *Financial Instruments*, published by the IASB in October 2010, introduces additions relating to the classification and measurement of financial liabilities. For an illustration of the new requirements, see our publication *Illustrative financial statements: Banks* issued in June 2011.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(z) Earnings per share

IAS 33.10, 31

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

IFRS 8.25

Segment results that are reported to the Group's CEO (being the chief operating decision maker) 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 Company's headquarters), head office expenses, and tax assets and liabilities.

IAS 8.30–31

(ab) New standards and interpretations not yet adopted[1]

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

(i) IFRS 9 *Financial Instruments* (2010) and IFRS 9 *Financial Instruments* (2009) (together IFRS 9)[2]

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

The IFRS 9 (2009) requirements 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.

Explanatory note

1. **Forthcoming requirements**

Disclosures – Offsetting Financial Assets and Financial Liabilities (amendments to IFRS 7), published by the IASB in December 2011, introduces disclosures about the actual or potential effects of netting arrangements on an entity's financial position.

For an illustration of the new requirements, see Appendix IV.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(ab) New standards and interpretations not yet adopted (continued)

(i) IFRS 9 *Financial Instruments* (2010), IFRS 9 *Financial Instruments* (2009) (continued)

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The IASB decided to consider making limited amendments to IFRS 9 to address practice and other issues. The Group has commenced the process of evaluating the potential effect of this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.

(ii) Amendments to IFRS 7 and IAS 32 on offsetting financial assets and financial liabilities (2011)[1]

Disclosures – Offsetting Financial Assets and Financial Liabilities (amendments to IFRS 7) introduces disclosures about the impact of netting arrangements on an entity's financial position. The amendments are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. Based on the new disclosure requirements the Group will have to provide information about what amounts have been offset in the statement of financial position and the nature and extent of rights of set-off under master netting arrangements or similar arrangements.

Offsetting Financial Assets and Financial Liabilities (amendments to IAS 32) clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Earlier application is permitted.

Based on our initial assessment, the Group is not expecting a significant impact from the adoption of the amendments to IAS 32. However, the adoption of the amendments to IFRS 7 requires more extensive disclosures about rights of set-off.

Explanatory notes

1. **Forthcoming requirements**

IFRS 10 *Consolidated Financial Statements*, published by the IASB in May 2011, introduces a single control model to determine whether an investee should be consolidated.

IFRS 12 *Disclosure of Interests in Other Entities*, published by the IASB in May 2011, brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities.

For an illustration of the new requirements, see Appendix II.

2. **Forthcoming requirements**

IFRS 13 *Fair Value Measurement*, published by the IASB in May 2011, replaces existing guidance on fair value measurement in different IFRSs with a single definition of fair value, a framework for measuring fair values and disclosures about fair value measurements.

For an illustration of the new requirements, see Appendix III.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(ab) New standards and interpretations not yet adopted (continued)

(iii) IFRS 10 *Consolidated Financial Statements,* IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* (2011)[1]

IFRS 10 introduces a single control model to determine whether an investee should be consolidated. As a result, the Group may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees (see Notes 3(a)(iii) and (iv)).

IFRS 11 is not expected to have any impact on the Group because the Group does not have interests in joint ventures. IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. It requires the disclosure of information about the nature, risks and financial effects of these interests. The Group is currently assessing the disclosure requirements for interests in subsidiaries and unconsolidated structured entities in comparison with the existing disclosures.

These standards are effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

(iv) IFRS 13 *Fair Value Measurement* (2011)[2]

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. The Group is currently reviewing its methodologies for determining fair values (see Note 5). Although many of the IFRS 13 disclosure requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require the Group to provide additional disclosures. These include fair value hierarchy disclosures for non-financial assets/liabilities and disclosures on fair value measurements that are categorised in Level 3. IFRS 13 is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

(v) IAS 19 *Employee Benefits* (2011)

IAS 19 (2011) changes the definition of short-term and other long-term employee benefits to clarify the distinction between the two. For defined benefit plans, removal of the accounting policy choice for recognition of actuarial gains and losses is not expected to have any impact on the Group. However, the Group may need to assess the impact of the change in measurement principles of the expected return on plan assets. IAS 19 (2011) is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

Explanatory notes

1.	*IFRS 7.31–32*	An entity is required to disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period. 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; and (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 7.4–5, BC58A	IFRS 7 requires credit and market risk disclosures for financial instruments and contracts to buy or sell a non-financial item that are within the scope of IAS 39. Liquidity risk disclosures are only required for financial liabilities that will result in the outflow of cash or another financial asset. Financial risk exposures from other 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.

2.		*The Enhanced Disclosure Task Force (EDTF) report develops fundamental principles for enhanced risk disclosures for banks. The fundamental principles contained in the report apply to all banks. However, enhanced disclosures have been developed specifically for large international banks that are active participants in the equity and debt markets. Adoption of the recommendations in the report is voluntary.* *The EDTF report recommends that a bank describe the key risks that arise from the bank's business models and activities, the bank's risk appetite in the context of its business models and how the bank manages such risks. This is to enable users to understand how business activities are reflected in the bank's risk measures and how those risk measures relate to line items in the balance sheet and income statement. It also notes that investors have suggested that consistent tabular presentation is particularly important to improving their understanding of the disclosed information and facilitating comparability among banks. For the purpose of these illustrative financial statements we have assumed that including a chart that sets out a link between the Group's business units and the principal risks that they are exposed to will facilitate users' understanding of the remaining risk disclosures.*

Notes to the consolidated financial statements

IFRS 7.31

4. Financial risk management

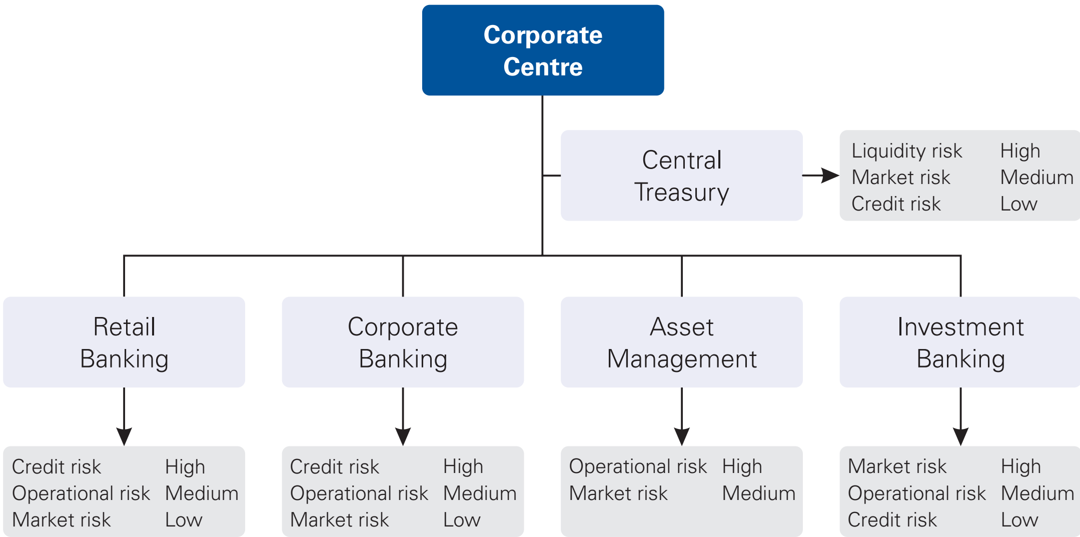
(a) Introduction and overview[1]

IFRS 7.31–32

The Group has exposure to the following risks from financial instruments:

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

The chart below provides a link between the Group's business units and the principal risks that they are exposed to. The significance of risk is assessed within the context of the Group as a whole and is measured based on allocation of the regulatory capital within the Group.[2]



IFRS 7.33

IAS 1.134

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.

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Notes to the consolidated financial statements

IFRS 7.31

4. Financial risk management (continued)

(a) Introduction and overview (continued)

Risk management framework

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has established the Group Asset and Liability Management committee (ALCO), which is responsible for developing and monitoring Group risk management policies.

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 and the Group's activities. 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 oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role 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.

Explanatory note

1.	*IFRS 7.33*	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.

Notes to the consolidated financial statements

IFRS 7.31

4. Financial risk management (continued)

(b) Credit risk (continued)

Management of credit risk[1]

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, financial guarantees and similar exposures), 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.

IFRS 7.36(c)

The tables below set out information about the credit quality of financial assets and the allowance for impairment/loss held by the Group against those assets. Allowance for impairment held against assets classified within credit grades 1 to 5 is in respect of losses incurred but not yet specifically identified. The carrying amount of assets with credit grades 1 to 5 that are collectively impaired represents the estimated proportion of the total assets within these grades (rather than individually identified assets) to which such allowance is estimated to relate.

Explanatory notes

1.	*IFRS 7.34, 36–38*	IFRS 7 requires disclosure of risk information based on the information provided internally to key management personnel of the entity, as defined in IAS 24 – 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.
3.	*IFRS 7.36, B1–B3*	The disclosures in respect of credit risk apply to each 'class' of financial asset, which is not defined in IFRS 7. Classes are distinct from the categories of financial instruments specified in IAS 39. In determining classes of financial instruments, an entity at a minimum distinguishes instruments measured at amortised cost from those measured at fair value, and treats as a separate class or classes those financial instruments outside the scope of IFRS 7.
	IFRS 7.IG21–IG29	The IFRS 7 implementation guidance provides additional guidance on the disclosures without specifying a minimum standard disclosure.

Notes to the consolidated financial statements

IFRS 7.31

4. Financial risk management (continued)

(b) Credit risk (continued)

Exposure to credit risk[1,3]

			Loans and advances to customers		Loans and advances to banks		Investment securities	
IFRS 7.36								
IFRS 7.34(a)	*In millions of euro*	**Note**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
	Carrying amount	20, 21, 22	**63,070**	56,805	**5,572**	4,707	**5,807**	4,843
	Assets at amortised cost							
	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	**-**	-
IFRS 7.34(a)	*Including accounts with renegotiated terms*		***805***	*708*	**-**	-	**-**	-
	Collectively impaired:[2]							
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	**-**	-	**-**	-
IFRS 7.34(a)	*Including accounts with renegotiated terms*		***782***	*612*	**-**	-	**-**	-
	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	**-**	-	**-**	-
	Past due comprises:							
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*	**-**	-	**-**	-
IFRS 7.34(a)	*Including accounts with renegotiated terms*		***211***	*126*	**-**	-	**-**	-
	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 7.34(a)	*Including accounts with renegotiated terms*		***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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Notes to the consolidated financial statements

IFRS 7.31

4. Financial risk management (continued)

(b) Credit risk (continued)

Exposure to credit risk (continued)

IFRS 7.36
IFRS 7.34(a)

				Loans and advances to customers		Loans and advances to banks		Investment securities	
	In millions of euro	Note		2012	2011	2012	2011	2012	2011
	Available-for-sale (AFS) assets								
	Individually impaired:								
IFRS 7.37(b)	Grade 6: Impaired			**-**	-	**-**	-	**48**	51
IFRS 7.37(b)	Grade 7: Impaired			**-**	-	**-**	-	**24**	25
IFRS 7.37(b)	Grade 8: Impaired			**-**	-	**-**	-	**8**	9
IFRS 7.37(b)	Carrying amount			**-**	-	**-**	-	**80**	85
IFRS 7.37(b)	Impairment losses	22		**-**	-	**-**	-	**(160)**	(35)
	Neither past due nor impaired:								
IFRS 7.36(c)	Grade 1-3: Low-fair risk			**-**	-	**-**	-	**1,529**	1,443
IFRS 7.36(c)	Grade 4-5: Watch list			**-**	-	**-**	-	**172**	112
IFRS 7.36(c)	Carrying amount			**-**	-	**-**	-	**1,701**	1,555
	Carrying amount – fair value	22		**-**	-	**-**	-	**1,781**	1,640
	Assets at fair value through profit or loss								
IFRS 7.34(a)	Grade 1-3: Low-fair risk			**3,188**	2,516	**-**	-	**2,509**	2,243
IFRS 7.34(a)	Grade 4-5: Watch list			**399**	331	**-**	-	**858**	687
IFRS 7.34(a)	Grade 6: Distressed			**199**	161	**-**	-	**172**	103
IFRS 7.34(a)	Grade 7: Distressed			**120**	95	**-**	-	**194**	38
IFRS 7.34(a)	Grade 8: Distressed			**80**	42	**-**	-	**192**	31
IFRS 7.34(a)	Carrying amount – fair value	20, 21, 22		**3,986**	3,145	**-**	-	**3,925**	3,102
IFRS 7.36(a)	Total carrying amount	20, 22, 22		**63,070**	56,805	**5,572**	4,707	**5,807**	4,843

IFRS 7.36(a), B10(d)

In addition to the above, the Group had entered into lending commitments of €1,883 million (2011: €1,566 million) with counterparties graded 1 to 3.

IFRS 7.36(a), B10(c)

The Group has issued financial guarantee contracts in respect of debtors graded 1 to 2 and for which the maximum amount payable by the Group, assuming all guarantees are called on, is €58 million (2011: €49 million).

Explanatory note

1. *The EDTF report recommends that banks disclose:*

- *their policies for identifying impaired or non-performing loans including how the bank defines impaired or non-performing loans;*
- *a reconciliation of the opening and closing balances of non-performing or impaired loans in the period.*

For the purpose of these illustrative financial statements we have assumed that including this information in the financial statements will enhance the users' understanding of the Group's exposure to credit risk.

Notes to the consolidated financial statements

IFRS 7.31

4. Financial risk management (continued)

(b) Credit risk (continued)

Impaired loans and investment debt securities[1]

The Group regards a loan and advance or a debt security as impaired where there is objective evidence that a loss event has occurred since initial recognition and such loss event has an impact on future estimated cash flows from the asset. In addition, a retail loan is considered impaired if it is overdue for 90 days or more. Loans that are subject to a collective provision for losses incurred but not yet identified (IBNR) are not considered impaired. Impaired loans and advances are graded 6 to 8 in the Group's internal credit risk grading system (see Note 5(a)).

The table below sets out a reconciliation of changes in the carrying amount of impaired loans and advances to customers.

In millions of euro	**2012**	**2011**
Impaired loans and advances to customers at 1 January	**2,749**	2,361
Change in allowance for impairment	**(139)**	(199)
Classified as impaired during the year	**991**	824
Transferred to not impaired during the year	**(115)**	(512)
Net repayments	**409**	333
Amount written off	**(47)**	-
Recoveries of amounts previously written off	**21**	-
Disposals	**(200)**	(150)
Other movements	**84**	92
Impaired loans and advances to customers at 31 December	**3,763**	2,749

Note 20 provides details of impairment allowance for loans and advances to banks and Note 21 for loans and advances to customers.

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**	
	In millions of euro	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
	31 December 2012						
IFRS 7.37(b)	Grade 6: Individually impaired	**2,920**	**2,348**	**15**	**9**	**144**	**54**
IFRS 7.37(b)	Grade 7: Individually impaired	**1,460**	**947**	**7**	**2**	**72**	**21**
IFRS 7.37(b)	Grade 8: Individually impaired	**487**	**119**	**2**	**1**	**24**	**5**
		4,867	**3,414**	**24**	**12**	**240**	**80**
	31 December 2011						
IFRS 7.37(b)	Grade 6: Individually impaired	2,277	1,786	12	10	72	59
IFRS 7.37(b)	Grade 7: Individually impaired	1,139	611	6	4	36	22
IFRS 7.37(b)	Grade 8: Individually impaired	380	75	2	1	12	4
		3,796	2,472	20	15	120	85

Explanatory note

1.	*The EDTF report recommends that banks disclose their loan forbearance policies. For the purpose of these illustrative financial statements we have assumed that including this information in the financial statements will enhance the users' understanding of the Group's exposure to credit risk.*

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.

IFRS 7.34(a)

Loans with renegotiated terms and the Group's forbearance policy[1]

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position, where the Group has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Group has provided initially. The Group implements forbearance policy in order to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis in situation where the debtor is currently in default on its debt, or where there is a high risk of default, there is evidence that the debtor made all the reasonable effort to pay under the original contractual terms and it is expected to be able to meet the revised terms.

The revised terms usually include extending maturity, changing timing of interest payments and amendments to the terms of loan covenants.

Both retail and corporate loans are subject to the forbearance policy. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

The Group Audit Committee regularly review reports on forbearance activities.

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.

Explanatory note

1.	*IFRS 7.36(b)*	An entity discloses a description of any collateral held as security and other credit enhancements and their financial effect in respect of the amount that best represents the maximum exposure to credit risk. IFRS 7 does not specify how an entity should apply the term 'financial effect' in practice. In some cases, providing quantitative disclosure of the financial effect of collateral may be appropriate. However, in other cases it may be impractical to obtain quantitative information; or, if it is available, the information may not be determined to be relevant, meaningful or reliable. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (7.8.370).

Notes to the consolidated financial statements

IFRS 7.31

4. Financial risk management (continued)

(b) Credit risk (continued)

Collateral held and other credit enhancements, and their financial effect

IFRS 7.36(b)

The Group holds collateral and other credit enhancements[1] against certain of its credit exposures. The table below sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure *In millions of euro*	Principal type of collateral held for secured lending	Note	Percentage of exposure that is subject to an arrangement that requires collateralisation 31 December 2012	 31 December 2011
Derivative trading assets	Cash	18	**100**	100
Derivative assets held for risk management	Cash	19	**100**	100
Loans and advances to banks		20		
Reverse sale and repurchase agreements	Marketable securities		**100**	100
Securities borrowing	Marketable securities		**100**	100
Loans and advances to retail customers		21		
Mortgage lending	Residential property		**100**	100
Personal loans	None		**-**	-
Credit cards	None		**-**	-
Loans and advances to corporate customers		21		
Finance leases	Property and equipment		**100**	100
Other lending to corporate customers	Commercial property, floating charges over corporate assets		**91**	92
Reverse sale and repurchase agreements	Marketable securities		**100**	100
Investment debt securities	None	22	**-**	-

The Group typically does not hold collateral against investment securities, and no such collateral was held at 31 December 2012 or 2011.

IFRS 7.36(b)

Residential mortgage lending

The tables below stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The gross amounts exclude any impairment allowances. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

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Notes to the consolidated financial statements

IFRS 7.31

4. Financial risk management (continued)

(b) Credit risk (continued)

Collateral held and other credit enhancements, and their financial effect (continued)

Residential mortgage lending

In millions of euro	Note	31 December 2012	31 December 2011
Loan to value (LTV) ratio			
Less than 50%		**4,780**	4,385
51% to 70%		**6,065**	5,564
71% to 90%		**2,755**	2,528
91% to 100%		**879**	806
More than 100%		**377**	346
Total	21	**14,856**	13,629

Commitments to advance residential mortgage loans

In millions of euro	31 December 2012	31 December 2011
Loan to value (LTV) ratio		
Less than 50%	**590**	503
51% to 70%	**845**	679
71% to 90%	**400**	338
91% to 100%	**48**	46
More than 100%	**-**	-
Total	**1,883**	1,566

IFRS 7.36(b)

Loans and advances to corporate customers

The Group's loans and advances to corporate customers are subject to individual credit appraisal and impairment testing. The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. See Note 4(b). However, collateral provides additional security and the Group generally requests corporate borrowers to provide it. The Group may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Because of the Group's focus on corporate customers' creditworthiness an updated valuation of collateral is generally not carried out unless the credit risk of a loan deteriorates significantly and the loan is monitored more closely. Accordingly, the Group does not routinely update the valuation of collateral held against all loans to corporate customers. For impaired loans, the Group usually obtains appraisals of collateral as the current value of the collateral may be an input to the impairment measurement. At 31 December 2012, the net carrying amount of impaired loans and advances to corporate customers amounts to €2,078 million (2011: €1,506 million) and the value of identifiable collateral held against those loans and advances amounts to €1,943 million (2011: €1,312 million).

IFRS 7.36(b)

Derivatives, reverse sale and repurchase agreements and securities borrowing

The Group holds collateral in the form of cash and marketable securities in respect of derivatives, reverse sale and repurchase transactions and securities borrowing.

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Notes to the consolidated financial statements

IFRS 7.31

4. Financial risk management (continued)

(b) Credit risk (continued)

Collateral held and other credit enhancements, and their financial effect (continued)

IFRS 7.36(b)

Derivatives, reverse sale and repurchase agreements and securities borrowing (continued)

For derivatives it is the Group's policy to enter into master netting and margining agreements with all counterparties. Under such agreements, when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated and only a single amount is due or payable in settlement of all transactions. For derivatives, collateral is held against the resulting net positions outstanding with each counterparty and such net positions are generally fully collateralised. At the reporting date, the Group would be entitled to offset derivative and other liabilities of €434 million (2011: €348 million) against recorded derivative assets in the event of counterparty defaults. The table below sets out the cash collateral obtained from derivative counterparties at 31 December 2012 and 2011.

Item *In millions of euro*	Note	31 December 2012 Net asset	 Collateral value	31 December 2011 Net asset	 Collateral value
Derivative trading assets	18	**691**	**688**	718	715
Derivative assets held for risk management	19	**711**	**708**	617	614

Receivables relating to reverse sale and repurchase agreements and securities borrowing transactions are usually collateralised on a gross exposure basis.

Item *In millions of euro*	Note	31 December 2012 Carrying amount	 Collateral value	31 December 2011 Carrying amount	 Collateral value
Loans and advances to banks	20				
Reverse sale and repurchase agreements		**988**	**988**	807	807
Securities borrowing		**512**	**482**	471	369
Loans and advances to corporate customers					
Reverse sale and repurchase agreements	21	**6,318**	**6,318**	6,134	6,134

The collateral values in the tables above are adjusted for any overcollateralisation.

Other types of collateral and credit enhancements

In addition to the collateral included in the tables above, the Group also holds other types of collateral and credit enhancements such as second charges and floating charges for which specific values are not generally available.

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	2012	2011
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.

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.

IFRS 7.31

4. Financial risk management (continued)

(b) Credit risk (continued)

Concentration of credit risk

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, lending commitments, financial guarantees and investment securities is shown below:[1]

IFRS 7.34(c)
IFRS 7.34(c)

		Loans and advances to customers		Loans and advances to banks		Investment debt securities		Lending commitments and financial guarantees	
In millions of euro	**Note**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Carrying amount	20, 21, 22	**63,070**	56,805	**5,572**	4,707	**5,807**	4,843	**(32)**	(28)
Concentration by sector									
Corporate:		**42,414**	37,987	**-**	-	**4,885**	4,047	**1,288**	1,071
Real estate		***16,966***	*15,574*	**-**	-	***2,399***	*2,042*	***1,234***	*1,039*
Transport		***12,724***	*10,636*	**-**	-	***2,421***	*1,843*	***54***	*32*
Funds		***9,331***	*8,737*	**-**	-	**-**	-		
Other		***3,393***	*3,040*	**-**	-	***65***	*162*		
Government		**-**	-	**-**	-	**824**	709		
Banks		**-**	-	**5,572**	4,707	**-**	-		
Retail:		**20,656**	18,818	**-**	-	**98**	87	**653**	544
Mortgages		***14,547***	*13,361*	**-**	-	***98***	*87*	***630***	*524*
Unsecured lending		***6,109***	*5,457*	**-**	-	**-**	-	***23***	*20*
		63,070	56,805	**5,572**	4,707	**5,807**	4,843	**1,941***	1,615*
Concentration by location									
North America		**12,649**	11,393	**1,118**	944	**2,374**	2,246	**80**	67
Europe		**36,238**	32,656	**3,139**	2,652	**2,443**	1,761	**1,803**	1,499
Asia Pacific		**8,188**	7,356	**722**	664	**528**	446	**40**	33
Middle East and Africa		**5,995**	5,400	**593**	447	**462**	390	**18**	16
		63,070	56,805	**5,572**	4,707	**5,807**	4,843	**1,941***	1,615*

* Based on maximum amounts payable by the Group

Concentration by location for loans and advances, and for lending commitments and financial guarantees, is based on the customer's country of domicile. Concentration by location for investment securities is based on the country of domicile of the issuer of the security. This note includes more detailed disclosures about the Group's exposures to higher risk Eurozone countries.

Explanatory note

1.	*The EDTF report recommends that banks disclose a quantitative and qualitative analysis of the counterparty credit risk that arises from their derivatives transactions. Recommended disclosures include quantification of gross notional amounts of derivatives analysis between exchange traded and over the counter (OTC) transactions and, for the latter, a description of collateral agreements and how much is settled through central counterparties (CCP). For the purpose of these illustrative financial statements we have assumed that disclosure of this information enhances the user's understanding of the Group's credit risk exposures and so such disclosures have been included.*

Notes to the consolidated financial statements

IFRS 7.31

4. Financial risk management (continued)

(b) Credit risk (continued)

Trading assets

IFRS 7.34(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 2012 (2011: €16,058 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	2012	2011
Government bonds and treasury bills:			
Rated AAA	18	**213**	1,567
Rated AA- to AA+	18	**4,320**	3,256
Rated A- to A+	18	**5,316**	4,821
Rated BBB+ and below	18	**372**	198
Corporate bonds:			
Rated AA- to AA+	18	**2,500**	3,130
Rated A- to A+	18	**1,437**	814
Rated BBB+ and below	18	**554**	126
Asset-backed securities:			
Rated AA- to AA+	18	**340**	372
Rated A- to A+	18	**119**	46
Rated BBB+ and below	18	**57**	45
Derivative assets:			
Government counterparties		**459**	354
Bank and financial institution counterparties		**1,157**	1,193
Corporate counterparties		**220**	136
Fair value and carrying amount		**17,064**	16,058

The table below sets out the counterparty credit exposures arising from derivative transactions. Derivative transactions of the Group are generally fully collateralised by cash.[1]

					Over the counter			
	Total		Exchange traded		Central counterparties		Other-bilateral collateralised	
In millions of euro	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
2012								
Derivative assets	**13,318**	**1,836**	**979**	**261**	**2,885**	**402**	**9,454**	**1,173**
Derivative liabilities	**11,740**	**(1,236)**	**774**	**(136)**	**2,619**	**(248)**	**8,347**	**(852)**
2011								
Derivative assets	12,064	1,683	982	248	2,543	387	8,539	1,048
Derivative liabilities	10,452	(1,161)	636	(111)	2,153	(230)	7,663	(820)

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 2012 (2011: €2,992 million). The cash and cash equivalents are held with central banks and bank and financial institution counterparties which are rated AA- to AA+, based on rating agency [X] ratings.

Explanatory note

1.	*IFRS 7.1*	IFRS 7 requires that entities provide disclosures in their financial statements to enable users to evaluate the nature and extent of risks arising from their financial instruments. Determining what disclosures are appropriate requires consideration of what is important in the context of the entity and its operations. Disclosures may not be the same year-on-year as they may need to reflect specific risks and uncertainties created by the conditions during or at the end of the reporting period.
	IFRS 7.B3	For 2012 financial reporting, a focus area for many banks will be the risk resulting from direct and indirect exposures to higher risk Eurozone exposures, and the wider political and economic consequences of fiscal austerity programs and other government actions. Each bank will have to determine, in light of its specific circumstances, what disclosures are appropriate. Factors to consider when updating disclosures of exposures related to higher-risk sovereign debt include the following. • The countries or exposures for which disclosures are relevant for the periods presented. This may change over time and it would be helpful for an entity to disclose how such selection has been made. • Whether it is helpful to provide explanation of the basis used for selecting and identifying exposures for disclosure. In particular, identification of indirect exposures may involve a high degree of judgement or they may not be capable of meaningful quantification; management might consider explaining how they identify such exposures and their approach to managing indirect risk. A bank should decide how much detail to provide to satisfy disclosure requirements and how to aggregate information to display the overall picture without combining information with different characteristics. It is necessary to strike a balance between excessive detail that may not assist users and too much aggregation that may obscure important information. This evaluation might also consider the extent to which the risk exposures are appropriately captured and portrayed within other aggregated or summary information disclosed pursuant to IFRS 7. The example disclosures presented in these illustrative financial statements relate to a hypothetical scenario and may not be appropriate or sufficient in other circumstances. Transparency may be improved if all disclosures related to sovereign debt are made in one location, or cross-referenced if made in different locations.

Notes to the consolidated financial statements

IFRS 7.31

4. Financial risk management (continued)

(b) Credit risk (continued)

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.

Exposures to higher risk Eurozone countries[1]

Significant concerns about the creditworthiness of certain Eurozone countries persisted during 2012 leading to speculation as to the long-term sustainability of the Eurozone. The deepening recession in a number of countries, the wider political and economic consequences of fiscal austerity programs and other government actions, and concerns about the viability of some countries' financial institutions have led to increased volatility of spreads on sovereign bonds that have peaked at times during the past year at worrying levels. Most recently, certain actions undertaken by the European Central Bank and European Commission have led to positive results in terms of improving market confidence. However, the situation remains fragile.

The Group regards a Eurozone country as higher risk when such a country exhibits higher volatility and economic and political uncertainties than other Eurozone members. The specific factors that are taken into account in making this assessment include the ratio of sovereign debt to GDP, seeking international financial assistance, credit ratings, levels of market yields and concentrations of maturities.

The Group regards the following Eurozone countries as higher risk: Country A and Country B. Both countries are subject to existing financial assistance plans from the European Union and the International Monetary Fund. During 2012, there have been renewed concerns about the fiscal deficit of country A and the impact of its austerity plan. Country B suffered additional credit downgrades in the first quarter of 2012 and made a formal request to the European Union for additional assistance for the recapitalisation of its banks. The table below provides the yields and the credit ratings of bonds issued by countries A and B.

	Country A	Country B
Yield range on 31 December 2012	**4.5-5.6%**	**6.1-7.6%**
Yield range on 31 December 2011	3.8-5.1%	10.8-13.4%
Credit rating based on rating agency [X] 31 December 2012	**BB-**	**BBB-**
Credit rating based on rating agency [X] 31 December 2011	BB-	BBB+

Eurozone member states have asserted that they will continue to provide support to countries under existing financial assistance programme until they have regained market access, provided they comply with such programmes. They have also affirmed that the European Financial Stability Fund (EFSF) will provide additional financial assistance to country B for recapitalisation of its banks. Accordingly, the Group believes that the economic data available continue to indicate that its exposure to sovereign bonds issued by country A and B is not impaired at 31 December 2012, see also Note 5(a).

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Notes to the consolidated financial statements

IFRS 7.31

4. Financial risk management (continued)

(b) Credit risk (continued)

Exposures to higher risk Eurozone countries (continued)

IFRS 7.B9–B10

The tables below set out the Group's direct exposure to each higher risk Eurozone country based on the counterparty's country of domicile. The maximum exposure to credit risk for loans, investment securities and derivatives is the carrying amount, for financial guarantees the maximum amount the Group could have to pay if the guarantee was called on, and for loan commitments the full amount of the commitment. The government bonds comprise bonds issued by governments and quasi government agencies.

The amounts in the tables below are gross exposures before taking into account the effect of credit mitigation. The Group's collateral arrangements in respect of these amounts are as follows:

- No collateral or other credit enhancements are held against government bonds, and loans and advances to banks.
- Corporate loans and advances are usually collateralised. Collateral is principally in the form of a charge over real estate or over the borrower's floating assets and is generally located in the country of domicile of the borrower. Where the Group has received guarantees in respect of corporate loans, they are provided by guarantors located outside of countries A and B.
- Derivative exposures are subject to master netting agreements which means that if a credit event occurs, such as a default, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions. At 31 December 2012 and 2011, in accordance with the collateral agreements, the net derivative asset positions for each counterparty located in countries A or B are fully covered by cash collateral received.

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Notes to the consolidated financial statements

IFRS 7.31

4. Financial risk management (continued)

(b) Credit risk (continued)

Exposures to higher risk Eurozone countries (continued)

31 December 2012

In millions of euro	Country A	Country B	Total
Held-to-maturity			
Government bonds			
Principal amount	5	2	**7**
Carrying amount (amortised cost)	5	2	**7**
Accumulated impairment loss	-	-	**-**
Fair value	4	1	**5**
Available-for-sale			
Government bonds			
Principal amount	16	9	**25**
Carrying amount (fair value)	12	6	**18**
Accumulated impairment loss	-	-	**-**
Accumulated amount in fair value reserve	(4)	(3)	**(7)**
Loans and receivables			
Loans and advances to banks			
Carrying amount (amortised cost)	15	18	**33**
Accumulated impairment loss	-	-	**-**
Fair value	9	13	**22**
Loans and advances to corporate customers			
Carrying amount (amortised cost)	106	57	**163**
Accumulated impairment loss	(48)	(32)	**(80)**
Fair value	98	54	**152**
Trading assets			
Derivative assets			
Carrying amount (fair value)	13	21	**34**
Total net on balance sheet exposure	151	104	**255**
Off-balance sheet exposures			
Loan commitments to corporate customers			
Amount committed	12	10	**22**
Financial guarantees given in respect of corporate customers			
Amount guaranteed	1	2	**3**

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Notes to the consolidated financial statements

IFRS 7.31

4. Financial risk management (continued)

(b) Credit risk (continued)

Exposures to higher risk Eurozone countries (continued)

31 December 2011

In millions of euro	Country A	Country B	Total
Held-to-maturity			
Government bonds			
Principal amount	5	2	**7**
Carrying amount (amortised cost)	5	2	**7**
Accumulated impairment loss	-	-	**-**
Fair value	4	1	**5**
Available-for-sale			
Government bonds			
Principal amount	16	9	**25**
Carrying amount (fair value)	13	7	**20**
Accumulated impairment loss	-	-	**-**
Accumulated amount in fair value reserve	(3)	(2)	**(5)**
Loans and receivables			
Loans and advances to banks			
Carrying amount (amortised cost)	18	22	**40**
Accumulated impairment loss	-	-	**-**
Fair value	14	18	**32**
Loans and advances to corporate customers			
Carrying amount (amortised cost)	99	68	**167**
Accumulated impairment loss	(39)	(34)	**(73)**
Fair value	89	59	**148**
Trading assets			
Derivative assets			
Carrying amount (fair value)	15	19	**34**
Total net on balance sheet exposure	150	118	**268**
Off-balance sheet exposures			
Loan commitments to corporate customers			
Amount committed	15	8	**23**
Financial guarantees given in respect of corporate customers			
Amount guaranteed	2	1	**3**

The fair values of the derivative assets are categorised in Level 2 of the fair value hierarchy. The fair values of government bonds classified as available-for-sale are categorised into the following levels of the fair value hierarchy.

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Notes to the consolidated financial statements

IFRS 7.31

4. Financial risk management (continued)

(b) Credit risk (continued)

Exposures to higher risk Eurozone countries (continued)

In millions of euro	Country A	Country B	Total
31 December 2012			
Available-for-sale			
Government bonds			
Level 1	7	6	**13**
Level 2	5	-	**5**
Level 3	-	-	**-**
Total fair value	12	6	**18**
31 December 2011			
Available-for-sale			
Government bonds			
Level 1	7	7	**14**
Level 2	6	-	**6**
Level 3	-	-	**-**
Total fair value	13	7	**20**

In 2011, due to a significant decrease in trading volumes, bonds issued by Country A that mature after 2018 have been transferred from Level 1 to Level 2. However, their fair value is based on the unadjusted quoted market prices at 31 December 2012 and 2011 because the trades that took place represented orderly transactions.

The table below sets out the residual maturities of the carrying amount of government bonds of Country A and Country B.

31 December 2012

		Maturity of exposures to government bonds of higher risk Eurozone countries based on carrying amount			
In millions of euro	**Classification**	**Less than 1 year**	**1-3 years**	**More than 3 years**	**Total**
Government bonds Country A	held-to-maturity	1.4	1.5	2.1	**5**
Government bonds Country A	available-for-sale	3.4	3.6	5	**12**
Government bonds Country B	held-to-maturity	0.6	0.5	0.9	**2**
Government bonds Country B	available-for-sale	1.8	1.9	2.3	**6**

31 December 2011

		Maturity of exposures to government bonds of higher risk Eurozone countries based on carrying amount			
In millions of euro	**Classification**	**Less than 1 year**	**1-3 years**	**More than 3 years**	**Total**
Government bonds Country A	held-to-maturity	1.2	1.3	2.5	**5**
Government bonds Country A	available-for-sale	3.3	3.4	6.3	**13**
Government bonds Country B	held-to-maturity	0.4	0.4	1.2	**2**
Government bonds Country B	available-for-sale	1.5	1.7	3.8	**7**

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Notes to the consolidated financial statements

IFRS 7.31

4. Financial risk management (continued)

(b) Credit risk (continued)

Exposures to higher risk Eurozone countries (continued)

In addition to the direct exposures to Country A and B set out above, the Group is exposed to risk of those countries through its portfolio of credit default swaps written on those countries. The Group both sells and purchases such contracts as part of its trading activities. The contracts are subject to standard terms issued by the International Swaps and Derivatives Association. The transactions are covered by master netting agreements with net positions being fully collateralised by cash deposits. The counterparties to these derivatives are located in Eurozone countries other than country A and B and have credit ratings of A and above (based on rating agency [X]).

The table below sets out the nominal amounts and fair values of credit default swaps that are directly referenced to countries A and B's sovereign debt and that are written and purchased by the Group.

In millions of euro	Note	31 December 2012	31 December 2011
Credit protection sold (long position)	18		
Nominal amount		**12**	14
Carrying amount (fair value)		**(2)**	(3)
Credit protection bought (short position)	18		
Nominal amount		**11**	9
Carrying amount (fair value)		**2**	1

At 31 December 2012 and 2011, the fair values of the above credit default swaps are categorised in Level 2 of the fair value hierarchy.

The Group also has indirect exposures to countries A and B. Such exposures arise principally through the Group's transactions with counterparties domiciled outside countries A and B, that themselves are exposed to countries A and B. The Group's process for management of credit risk is outlined in Note 4(b). It includes consideration of indirect exposure to higher risk countries when new transactions are entered into or existing ones are monitored. However, due to the inter-connectedness and the multinational nature of credit markets and the wide varieties of exposures held by the Group's counterparties, the Group does not measure its indirect higher risk Eurozone exposure in a comprehensive way. But, based on its investment policy and the ongoing monitoring of its investments in unconsolidated investment entities and special purpose entities, the Group has identified the following significant indirect exposures to country A.

- €2 million (2011: €2 million) investment in an unconsolidated investment fund X. Approximately 50 percent of the investment fund's assets consist of corporate debt issued by companies domiciled in country A.
- €3 million (2011: €3 million) investment in a special purpose entity Y. The special purpose entity's underlying assets consist of credit card loans that were made to customers in country A.

These investments are classified as available-for-sale and have not been impaired as at 31 December 2012.

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.

Notes to the consolidated financial statements

IFRS 7.31

4. Financial risk management (continued)

IFRS 7.39

(c) Liquidity risk[1]

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.

Management of liquidity risk

The Group's Board of Directors sets the Group's strategy for managing liquidity risk and delegates the responsibility for the oversight of the implementation of this policy to ALCO. ALCO approves the Group's liquidity policies and procedures. Central Treasury manages the Group's liquidity position on a day-to day basis and reviews daily reports covering 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.

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. The key elements of the Group's liquidity strategy are as follows:

- Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and wholesale market deposits and maintaining contingency facilities;
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity;
- Monitoring liquidity ratios, maturity mismatches, behavioural characteristics of the Group's financial assets and liabilities, and the extent to which the Group's assets are encumbered and so not available as potential collateral for obtaining funding; and
- Carrying out stress testing of the Group's liquidity position.

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 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.

Regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. The scenarios are developed taking into account both Group-specific events (e.g. a rating downgrade) and market- related events (e.g. prolonged market illiquidity, reduced fungibility of currencies, natural disasters or other catastrophes).

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Notes to the consolidated financial statements

IFRS 7.31

4. Financial risk management (continued)

(c) Liquidity risk (continued)

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:

IFRS 7.34(a), 39(c)

	2012	2011
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%

Explanatory notes

1.	*IFRS 7.39(a)–(b), B11B*	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 7.B11C(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.
2.	*IFRS 7.39(c), B11E*	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.

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 assets and liabilities

The tables below set out the remaining contractual maturities of the Group's financial assets and financial liabilities.[1,2]

	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
IFRS 7.B11									
	31 December 2012								
	Liability by type								
IFRS 7.39(a)	*Non-derivative liabilities*								
	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	*Derivative liabilities*								
	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)**
	Asset by type								
	Non-derivative assets								
	Cash and cash equivalents	17	**2,907**	**2,920**	**2,550**	**370**	**-**	**-**	**-**
	Pledged trading assets	18	**540**	**550**	**390**	**125**	**35**	**-**	**-**
	Non-pledged trading assets	18	**15,144**	**15,300**	**13,540**	**1,460**	**270**	**30**	**-**
	Loans and advances to banks	20	**5,572**	**5,620**	**4,480**	**450**	**690**	**-**	**-**
	Loans and advances to customers	21	**63,070**	**77,929**	**10,180**	**5,256**	**14,780**	**25,600**	**22,113**
	Investment securities	22	**6,302**	**6,790**	**2,713**	**234**	**932**	**2,643**	**268**
			93,535	**109,109**	**33,853**	**7,895**	**16,707**	**28,273**	**22,381**
	Derivative assets								
	Trading:	18	**978**						
	Inflow		**-**	**6,345**	**654**	**3,890**	**1,723**	**78**	**-**
	Outflow		**-**	**(5,279)**	**(250)**	**(3,321)**	**(1,643)**	**(65)**	**-**
	Risk management:	19	**858**						
	Inflow		**-**	**9,302**	**514**	**1,717**	**1,375**	**5,432**	**264**
	Outflow		**-**	**(8,388)**	**(493)**	**(1,678)**	**(1,301)**	**(4,765)**	**(151)**
			1,836	**1,980**	**425**	**608**	**154**	**680**	**113**

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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 assets and liabilities (continued)

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
31 December 2011								
Liability by type								
Non-derivative liabilities (IFRS 7.39(a))								
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)
Issued financial guarantee contracts (IFRS 7.B11C(c))	32	28	(49)	-	-	(49)	-	-
Unrecognised loan commitments (IFRS 7.B11D(e))		-	(1,566)	(1,566)	-	-	-	-
		80,075	(87,541)	(53,408)	(2,825)	(4,247)	(25,945)	(1,116)
Derivative liabilities (IFRS 7.39(b), B11B)								
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)
Asset by type								
Non-derivative assets								
Cash and cash equivalent	17	2,992	3,007	2,649	358	-	-	-
Pledged trading assets	18	519	528	375	121	32	-	-
Non-pledged trading assets	18	14,292	14,450	13,410	750	265	25	-
Loans and advances to banks	20	4,707	4,753	3,721	443	589	-	-
Loans and advances to customers	21	56,805	70,119	9,701	4,976	12,890	22,450	20,102
Investment securities	22	5,269	5,823	2,045	212	679	2,633	254
		84,584	98,680	31,901	6,860	14,455	25,108	20,356
Derivative assets								
Trading:	18	957						
Inflow		-	6,334	678	3,811	1,756	89	-
Outflow		-	(5,258)	(270)	(3,254)	(1,670)	(64)	-
Risk management:	19	726						
Inflow		-	7,378	299	987	1,498	4,532	62
Outflow		-	(6,615)	(278)	(907)	(1,403)	(3,987)	(40)
		1,683	1,839	429	637	181	570	22

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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 assets and liabilities (continued)

IFRS 7.39(a), (c)

The above tables show the undiscounted cash flows on the Group's non-derivative financial assets and 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 some financial assets and liabilities vary significantly from the contractual cash flows. 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. Also, retail mortgage loans have an original contractual maturity of between 20 and 25 years but an average expected maturity of six years as customers take advantage of early repayment options.

IFRS 7.39(b)–(c), B11B, B11D

The gross nominal inflows / (outflows) disclosed in the previous table represent the contractual undiscounted cash flows relating to derivative financial liabilities and assets 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 and assets 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 instruments the maturity analysis in the previous tables 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 and assets comprise also derivatives that are entered into by the Group with its customers. In respect of these instruments, which are usually not closed out prior to contractual maturity, the maturity analysis in the tables above 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.

As part of the management of its liquidity risk arising from financial liabilities, the Group holds liquid assets comprising cash and cash equivalents, and debt securities for which there is an active and liquid market so that they can be readily sold to meet liquidity requirements. In addition, the Group maintains agreed lines of credit with banks and holds unencumbered assets eligible for use as collateral with central banks.

Explanatory notes

1. *The EDTF report recommends that banks provide a quantitative analysis of the components of the liquidity reserve they hold, ideally by providing averages as well as period-end balances. The description should be complemented by an explanation of possible limitations on the use of the liquidity reserve maintained in any material subsidiary or currency. For the purpose of these illustrative financial statements we have assumed that including such information will enhance the users' understanding of how the Group manages its liquidity risk.*

2. *The EDTF report recommends disclosure of encumbered and unencumbered assets in a tabular format by balance sheet categories, including collateral received that can be rehypothecated or otherwise redeployed. For the purpose of these illustrative financial statements we have assumed that including this information in the financial statements will enhance the users' understanding of the Group's exposure to liquidity risk.*

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 (continued)

The table below sets out the components of the Group's liquidity reserve:[1]

IFRS 7.34(a), 39(c)

Liquidity reserve

In millions of euro	**2012 Carrying amount**	**2012 Fair value**	**2011 Carrying amount**	**2011 Fair value**
Balances with central banks	**118**	**118**	128	128
Cash and balances with other banks	**256**	**256**	184	184
Other cash and cash equivalents	**2,133**	**2,133**	2,291	2,291
Unencumbered debt securities issued by sovereigns, central banks or multilateral development banks	**10,657**	**10,657**	10,178	10,178
Other debt securities	**8,058**	**8,058**	6,909	6,909
Undrawn credit lines granted by central banks*	**250**	**250**	231	231
Other assets eligible for use as collateral with central banks	**15,548**	**16,550**	13,686	14,278
Total liquidity reserve	**37,020**	**38,022**	33,607	34,199

* The amount is the actual credit line available.

IFRS 7.34(a)

The table below set out the availability of the Group's financial assets to support future funding.[2]

2012

		Encumbered		**Unencumbered**		
In millions of euro	**Note**	**Pledged as collateral**	**Other***	**Available as collateral**	**Other****	**Total**
Cash and cash equivalents		**-**	**-**	**2,507**	**400**	**2,907**
Trading assets	18	**540**	**60**	**14,553**	**1,509**	**16,662**
Loans and advances		**2,015**	**-**	**15,548**	**51,079**	**68,642**
Investment securities		**-**	**30**	**5,915**	**357**	**6,302**
Other financial assets		**-**	**-**	**-**	**858**	**858**
Non-financial assets		**-**	**-**	**-**	**1,763**	**1,763**
Total assets		**2,555**	**90**	**38,523**	**55,966**	**97,134**

2011

		Encumbered		**Unencumbered**		
In millions of euro	**Note**	**Pledged as collateral**	**Other***	**Available as collateral**	**Other****	**Total**
Cash and cash equivalents		-	-	2,603	389	2,992
Trading assets	18	519	54	13,838	1,357	15,768
Loans and advances		1,730	-	13,686	46,096	61,512
Investment securities		-	26	4,922	321	5,269
Other financial assets		-	-	-	726	726
Non-financial assets		-	-	-	1,549	1,549
Total assets		2,249	80	35,049	50,438	87,816

* Represents assets which are not pledged but which the Group believes it is restricted from using to secure funding, for legal of other reasons.

** Represents assets that are not restricted for use as collateral, but the Group would not consider them as ready available to secure funding in the normal course of business.

Explanatory note

1.	*IFRS 7.34, 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.

Notes to the consolidated financial statements

IFRS 7.31

4. Financial risk management (continued)

IFRS 7.31–32

(d) Market risks[1]

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 the Group's market risk management is to manage and control market risk exposures within acceptable parameters in order to ensure the Group's solvency while optimising the return on risk.

Management of market risks

The Group separates its exposure to market risks 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 investments in its foreign operations, all foreign exchange positions within the Group are transferred by Central Treasury to the Investment Banking unit. Accordingly, the foreign exchange positions are treated as part of the Group's trading portfolios for risk management purposes.

Overall authority for market risk is vested in ALCO. ALCO sets up limits for each type of risk in aggregate and for portfolios, with market liquidity being a primary factor in determining the level of limits set for trading portfolios. The Group Market Risk Committee 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.

The Group employs a range of tools to monitor and limit market risk exposures. These are discussed below, separately for trading and non-trading portfolios.

Explanatory note

1.	*The EDTF report recommends that banks provide information that facilitates users' understanding of the linkages between line items in the balance sheet and income statement with positions included in the trading market risk disclosures. For the purpose of these illustrative financial statements we have assumed that such disclosure would facilitate users' understanding of how the group manages the market risk.*

Notes to the consolidated financial statements

IFRS 7.31

4. Financial risk management (continued)

IFRS 7.31–32

(d) Market risks (continued)

Management of market risks (continued)

IFRS 7.34(a)

The table below sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios.[1]

31 December 2012

			Market risk measure	
In millions of euro	Note	Carrying amount	Trading portfolios	Non-trading portfolios
Assets subject to market risk				
Cash and cash equivalents	17	**2,907**	**-**	**2,907**
Trading assets	18	**16,662**	**16,662**	**-**
Derivatives held for risk management	19	**858**	**-**	**858**
Loans and advances to banks	20	**5,572**	**-**	**5,572**
Loans and advances to customers	21	**63,070**	**3,986**	**59,084**
Investment securities	22	**6,302**	**4,420**	**1,882**
Liabilities subject to market risk				
Trading liabilities	18	**7,026**	**7,026**	**-**
Derivatives held for risk management	19	**828**	**-**	**828**
Deposits	27, 28	**65,324**	**-**	**65,324**
Debt securities	29	**11,227**	**2,409**	**8,818**
Subordinated liabilities	30	**5,642**	**-**	**5,642**
31 December 2011				
Assets subject to market risk				
Cash and cash equivalents	17	2,992	-	2,992
Trading assets	18	15,768	15,768	-
Derivatives held for risk management	19	726	-	726
Loans and advances to banks	20	4,707	-	4,707
Loans and advances to customers	21	56,805	3,145	53,660
Investment securities	22	5,269	3,528	1,741
Liabilities subject to market risk				
Trading liabilities	18	6,052	6,052	-
Derivatives held for risk management	19	789	-	789
Deposits	27, 28	59,134	-	59,134
Debt securities	29	10,248	2,208	8,040
Subordinated liabilities	30	4,985	-	4,985

Exposure to market risks – trading portfolios

IFRS 7.41(a)

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.

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Notes to the consolidated financial statements

IFRS 7.31

4. Financial risk management (continued)

(d) Market risks (continued)

Exposure to market risks – trading portfolios (continued)

IFRS 7.41(b)

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based 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 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

In millions of euro	**At 31 December**	**Average**	**Maximum**	**Minimum**
2012				
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**
2011				
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

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Notes to the consolidated financial statements

IFRS 7.31

4. Financial risk management (continued)

(d) Market risks (continued)

Exposure to market risks – trading portfolios (continued)

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 on individual trading portfolios and the Group's overall position. The Group determines the scenarios as follows:

- sensitivity scenarios consider the impact of any single risk factor or set of factors that are unlikely to be captured within the VAR models;
- technical scenarios consider the largest move in each risk factor without consideration of any underlying market correlation; and
- hypothetical scenarios consider potential macro economic events, for example, periods of prolonged market illiquidity, reduced fungibility of currencies, natural disasters or other catastrophes, health pandemics, etc.

The analysis of scenarios and stress tests are reviewed by ALCO.

The Group VaR models are subject to regular validation by Group Market Risk to ensure that they continue to perform as expected, and that assumptions used in model development are still appropriate. As part of the validation process, the potential weaknesses of the models are analysed using statistical techniques, such as back-testing.

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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:

In millions of euro	**Note**	**Carrying amount**	**Less than 3 months**	**3-6 months**	**6-12 months**	**1-5 years**	**More than 5 years**
31 December 2012 (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**
		69,445	**30,149**	**8,871**	**3,979**	**22,698**	**3,748**
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)**
		(79,784)	**(56,060)**	**(6,842)**	**(1,820)**	**(14,202)**	**(860)**
Effect of derivatives held for risk management	19	**-**	**3,620**	**1,576**	**-**	**(5,196)**	**-**
		(10,339)	**(22,291)**	**3,605**	**2,159**	**3,300**	**2,888**
31 December 2011 (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	1,741	162	406	666	406	101
		63,100	27,677	8,198	3,579	20,273	3,373
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)
		(72,159)	(52,986)	(6,103)	(1,243)	(11,000)	(827)
Effect of derivatives held for risk management	19	-	3,225	1,240	-	(4,465)	-
		(9,059)	(22,084)	3,335	2,436	4,808	2,546

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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:

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				
2012				
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**
2011				
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				
2012				
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**
2011				
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; and
- 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.

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.

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 effect 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 other comprehensive income. 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			
In millions	**2012 Euro**	**2011 US$**	**2012 Euro**	**2011 US$**
Net foreign currency exposure:				
Pounds Sterling	**(715)**	-	**-**	-
US$	**684**	-	**650**	-
Euro	**-**	703	**-**	-

Foreign operations

	Net investments	
In millions	**2012**	**2011**
Functional currency of foreign operation:		
Pounds Sterling	**984**	782
US$	**680**	-

(e) Operational risks[1]

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 innovation. In all cases, the Group policy requires compliance with all applicable legal and regulatory requirements.

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.

Notes to the consolidated financial statements

IFRS 7.31

4. Financial risk management (continued)

(e) Operational risks (continued)

The Board of Directors has delegated responsibility for operational risk to its Group Operational Committee which is responsible for the development and implementation of controls to address operational risk. 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; and
- 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 Group Operational committee, with summaries submitted to the Audit Committee and senior management of the Group.

IAS 1.134

(f) Capital management[1]

Regulatory capital

IAS 1.135(a)(ii)

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

IAS 1.135(c)

The capital requirements of the lead regulator are based on the Basel II framework. 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 for which the standardised approach is being applied at present pending approval for use of the advanced approach from the lead regulator. The Group calculates requirements for market risk in its trading portfolios based upon the Group's VaR models.

Explanatory note

1.	*IAS 1.135(c), (e)*	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.
	IAS 1.136	When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or would distort 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.

Notes to the consolidated financial statements

IFRS 7.31

4. Financial risk management (continued)

(f) Capital management (continued)

Regulatory capital (continued)

IAS 1.135(a)(i)

The Group's regulatory capital comprises two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, 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; and
- Tier 2 capital, which includes perpetual bonds, qualifying subordinated liabilities, collective impairment allowances (limited to those credit portfolios where the standardised approach is used) and the element of the fair value reserve relating to unrealised gains and losses on equity instruments classified as available for sale.

Various limits are applied to elements of the capital base. For example, the qualifying Tier 2 capital cannot exceed Tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of Tier 1 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 non-trading 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. Basel II maintains 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(c)

Due to the risks arising from sovereign debt and related uncertainties (see Note 4(b) the regulatory agency of [Name of jurisdiction] [Name of regulatory agency] recommended that banks comply with a minimum Tier 1 capital ratio of 9% by 30 June 2012. The minimum ratio includes an exceptional and temporary capital buffer against sovereign debt exposures.

IAS 1.135(d)

The Group and its individually regulated operations have complied with all externally imposed capital requirements.[1]

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Notes to the consolidated financial statements

IFRS 7.31

4. Financial risk management (continued)

(f) Capital management (continued)

Regulatory capital (continued)

IAS 1.135(b)–(c)

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

In millions of euro	Note	2012	2011
Tier 1 capital			
Ordinary share capital	33	**1,759**	1,756
Share premium	33	**466**	439
Retained earnings	33	**3,350**	2,949
Translation reserve	33	**62**	72
Non-controlling interests	33	**155**	128
Less intangible assets	24	**(275)**	(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
		5,112	4,735
Tier 2 capital			
Perpetual bonds	33	**500**	500
Fair value reserve for available-for-sale equity securities		**70**	73
Collective allowances for impairment	21	**22**	24
Less 50 percent of excess of expected losses over accounting impairment provisions on credit portfolios		**(408)**	(352)
Less 50 percent of securitisation positions not included in risk-weighted assets		**(15)**	(12)
Qualifying subordinated liabilities	30	**2,556**	2,079
		2,725	2,312
Total regulatory capital		**7,837**	7,047

The lead regulator's approach to measurement of capital adequacy is primarily based on monitoring the relationship of the Capital Resources Requirement to available capital resources. The lead regulator sets individual capital guidance (ICG) for each bank and banking group in excess of the minimum Capital Resources Requirement of 8%. A key input to the ICG setting process is the Group's Internal Capital Assessment Process (ICAP).

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Notes to the consolidated financial statements

IFRS 7.31

4. Financial risk management (continued)

(f) Capital management (continued)

IAS 1.135(a)

Capital allocation

Management uses regulatory capital ratios to monitor its capital base (see [name of document] for details). 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 is also 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.

Explanatory note

1.	*IAS 1.122–124*	An entity discloses the judgements (other than those involving estimates) 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 IAS 1 indicate that such disclosure is based on qualitative information.
	IAS 1.125, 129	An entity discloses information about the assumptions regarding 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 reporting period. The examples that are provided in IAS 1 indicate that such disclosure is based on quantitative data – e.g. appropriate discount rates.

Notes to the consolidated financial statements

5. Use of estimates and judgements[1]

The preparation of the consolidated financial statements in conformity with IFRS 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 estimates are revised and in any future periods affected.

IAS 1.122, 125

Management discusses with the Group Audit Committee the development, selection and disclosure of the Group's critical accounting policies and their application, and assumptions made relating to major estimation uncertainties. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year and about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is disclosed below.

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

IAS 1.122, 125

(a) Impairment

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

The specific 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 debtor'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.

A collective component of the total allowance is established for:

- groups of homogeneous loans that are not considered individually significant; and
- groups of assets that are individually significant but that were not found to be individually impaired (IBNR).

Collective allowance for groups of homogeneous loans is established using statistical methods such as roll rate methodology or, for small portfolios with insufficient information, a formula approach based on historic loss rate experience. The roll rate methodology uses statistical analysis of historical data on delinquency to estimates the amount of loss. The estimate of loss arrived at on the basis of historical information is then reviewed to ensure that it appropriately reflects the economic conditions and product mix at the reporting date. Roll rates and loss rates are regularly benchmarked against actual loss experience.

Collective allowance for groups of assets that are individually significant but that were not found to be individually impaired (IBNR) 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.

Explanatory notes

1.	*IAS 1.122*	**Higher risk Eurozone exposures** The countries and exposures for which disclosure is appropriate, and the nature and extent of information with respect to different countries, will depend on the entity's specific facts and circumstances.

2.	*IFRS 7.27, 27A*	IFRS 7 requires 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; and • Level 3 – fair value measurements using inputs for the asset or liability that are not based on observable market data – i.e. unobservable inputs.

Notes to the consolidated financial statements

5. Use of estimates and judgements (continued)

IAS 1.122, 125

(a) Impairment (continued)

IAS 39.61

Investments in equity securities were evaluated for impairment on the basis described in Note 3(j)(vii). For an investment in an equity security, a *significant* or *prolonged* decline in its fair value below its cost was objective evidence of impairment. In this respect, the Group regarded a decline in fair value in excess of 20 percent to be significant and a decline in a quoted market price that persisted for nine months or longer to be prolonged.

IAS 1.122

An assessment as to whether an investment in sovereign debt (see Note 4(b)) is impaired may be complex. In making such an assessment, the Group considers the following factors.[1]

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of the creditworthiness.
- The ability of the country to access the capital markets for new debt issuance.
- The probability of debt being restructured resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country as well as the intention, reflected in public statements, about governments' and agencies' willingness to use those mechanisms. This includes an assessment as to the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

See Note 4(b) for the Group's assessment of whether there is objective evidence of impairment of its investments in sovereign higher risk Eurozone debt, based on the above factors.

IAS 1.122, 125

(b) Fair value

The determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 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.

The Group's accounting policy on fair value measurements is discussed in Note 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.[2]

- 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.

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 IFRS. It does not establish new requirements for entities applying IFRS.* *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.*

Notes to the consolidated financial statements

5. Use of estimates and judgements (continued)

(b) Fair value (continued)

IAS 1.122, 125

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.

For more complex instruments, the Group uses proprietary valuation models, which are usually 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. Examples 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[1] 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.

Explanatory notes

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, then 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. In instances where multiple unobservable inputs are used, in our view the unobservable inputs should be considered individually and in total for the purpose of determining their significance. In instances where factors such as volatility inputs are used, an entity could apply some form of comparability methodology – e.g. a stress test on an option's volatility input or a 'with and without' comparison to assist in determining significance. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (7.8.300.60).

2.	*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.

Notes to the consolidated financial statements

5. Use of estimates and judgements (continued)

IAS 1.122, 125

(b) Fair value (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:[1]

In millions of euro	Note	Level 1	Level 2	Level 3	Total
31 December 2012					
Trading assets	18	**10,805**	**5,177**	**680**	**16,662**
Derivative assets held for risk management	19	**26**	**832**	**-**	**858**
Loans and advances to customers	21	**-**	**3,827**	**159**	**3,986**
Investment securities	22	**2,606**	**2,886**	**709**	**6,201**
		13,437	**12,722**	**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**
31 December 2011					
Trading assets	18	10,805	4,220	743	15,768
Derivative assets held for risk management	19	36	690	-	726
Loans and advances to customers	21	-	3,026	119	3,145
Investment securities	22	2,286	2,009	873	5,168
		13,127	9,945	1,735	24,807
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.[2]

Explanatory notes

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 year 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); and • 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 year 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).

Notes to the consolidated financial statements

5. Use of estimates and judgements (continued)

IAS 1.122

(b) Fair value (continued)

IFRS 7.27B(c), IG13B

The 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:[1]

2012

	In millions of euro	Trading assets	Loans and advances to customers	Investment securities	Trading liabilities	Total
IFRS 7.27B(c)	Balance at 1 January	**743**	**119**	**873**	**(69)**	**1,666**
	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	**-**	**-**	**-**	**-**	**-**
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 year in the above table are presented in the statement of comprehensive income as follows:

2012

	In millions of euro	Trading assets	Loans and advances to customers	Investment securities	Trading liabilities	Total
IFRS 7.27B(c)(i)	Total gains or losses included in profit or loss for the year:					
	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 year included in profit or loss for assets and liabilities held at the end of the reporting year:[2]					
	Net trading income	**9**	**-**	**-**	**3**	**12**
	Net income from other financial instruments carried at fair value	**-**	**(2)**	**(65)**	**-**	**(67)**

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Notes to the consolidated financial statements

5. Use of estimates and judgements (continued)

IAS 1.122

(b) Fair value (continued)

2011

	In millions of euro	Trading assets	Loans and advances to customers	Investment securities	Trading liabilities	Total
IFRS 7.27B(c)	Balance at 1 January	693	119	903	(60)	1,655
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	-	-	-	-	-
IFRS 7.27B(c)(iv)	Transfers out of Level 3	(56)	-	(19)	-	(75)
IFRS 7.27B(c)	Balance at 31 December	743	119	873	(69)	1,666

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

2011

	In millions of euro	Trading assets	Loans and advances to customers	Investment securities	Trading liabilities	Total
IFRS 7.27B(c)(i)	Total gains or losses included in profit or loss for the year:					
	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 year 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 2011 and 2012, 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-dated option volatilities, which were previously unobservable became observable.

Explanatory notes

1. *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 are 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.*

2. *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, then 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.*

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 the 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.

Notes to the consolidated financial statements

5. Use of estimates and judgements (continued)

IAS 1.122

(b) Fair value (continued)

Apart from the above, during the current financial year, low trading volumes continued and there has not been sufficient trading volume to establish an active market and so the Group continued to determine the fair value for certain asset-backed securities using valuation techniques. These securities are backed primarily by static pools of residential mortgages and enjoy a senior claim on cash flows. The fair value of asset-backed securities measured using significant unobservable inputs at 31 December 2012 was €422 million (2011: €269 million) for trading securities and €685 million for investment securities (2011: €502 million).[1, 2]

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 expected prepayment 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.[3] *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.

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,[1] *principally expected long-term volatilities and expected correlations between different underlyings.*[3] *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.*

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 the fair value significantly, then 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. In our view, 'reasonably possible alternative assumptions' are assumptions that could reasonably have been included in the valuation model at the end of the reporting period based on the circumstances at the end of the reporting period. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (7.8.300.190).

Notes to the consolidated financial statements

5. Use of estimates and judgements (continued)

IAS 1.122

(b) Fair value (continued)

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:[1]

	Effect on profit or loss		Effect on other comprehensive income	
In millions of euro	Favourable	(Unfavourable)	Favourable	(Unfavourable)
31 December 2012				
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)**	**-**	**-**
Total	**114**	**(112)**	**44**	**(53)**
31 December 2011				
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)	-	-
Total	78	(67)	25	(33)

IFRS 7.27B(e)

The favourable and unfavourable effects of using reasonably possible alternative assumptions for valuation of residential asset-backed securities have been calculated by recalibrating the model values using unobservable inputs based on averages of the upper and lower quartiles respectively of the Group's ranges of possible estimates.[1] Key inputs and assumptions used in the models at 31 December 2012 include weighted average probability of default of 10 percent (with reasonably possible alternative assumptions of 6 percent and 14 percent) (2011: 9 percent, 5 percent and 13 percent respectively), a loss severity of 50 percent (with reasonably possible alternative assumptions of 35 percent and 70 percent) (2011: 35 percent and 70 percent respectively) and an expected prepayment rate of 4.8 percent (with reasonably possible alternative assumptions of 2 percent and 8 percent) (2011: 4.5 percent, 2 percent and 8 percent).

IFRS 7.27B(e)

The favourable and unfavourable effects of using reasonably possible alternative assumptions for valuation of OTC structured derivatives 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).[1] The most significant unobservable inputs relate to correlations of changes in prices between different underlyings and the volatilities of the underlyings. The weighted average of correlations used in the models at 31 December 2012 is 0.47 (with reasonably possible alternative assumptions of 0.30 and 0.58 (2011: 0.40, 0.28 and 0.49 respectively). The weighted average of the credit spread volatilities used in the models at 31 December 2012 and 2011 is 20 percent (with reasonably possible alternative assumptions of 5 percent and 70 percent); interest rate volatilities: 15, 5 and 40 percent respectively; FX volatilities: 20, 5 and 50 percent respectively; and equity indices volatilities: 40, 10 and 100 percent respectively.

Explanatory note

1.	*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 movements 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.*

Notes to the consolidated financial statements

5. Use of estimates and judgements (continued)

IAS 1.122

(b) Fair value (continued)

The favourable and unfavourable effects of using reasonably possible alternative assumptions for the valuation of loans and advances and retained interests in securitisations have been calculated by recalibrating the model values using unobservable inputs based on averages of the upper and lower quartiles respectively of the Group's ranges of possible estimates.[1 on page 162] The most significant unobservable inputs relate to risk adjusted discount rates. The weighted average of the risk adjusted discount rates used in the model at 31 December 2012 is 6 percent above risk free interest rate (with reasonably possible alternative assumptions of 4 percent and 8 percent) (2011: 5 percent, 3 percent and 7 percent 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, judgement is exercised in selecting the most appropriate point in the range, including 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.[1 on page 160]

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 2012 are principally dependent on the unobservable inputs described above.[1]

(c) 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 Note 3(l).
- In designating financial assets or liabilities as 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 Note 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 Note 3(o)(i).

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

(d) 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.

Explanatory notes

1.	*IFRS 8.2*	IFRS 8 *Operating Segments* applies to entities: • whose debt or equity instruments are traded in a public market; or • that file, or are in the process of filing, their financial statements with a securities commission or other regulatory organisation to issue any class of instruments in a public market.
2.	*IFRS 8.IN13, 27–28*	Underlying IFRS 8 is a 'management approach' to reporting the financial performance of operating segments, in which an entity presents segment information that is consistent with that reviewed by an entity's chief operating decision maker (CODM). This means that segment information disclosed in the financial statements will not be in accordance with IFRS if this is how the information reported to the CODM is prepared. To help users understand the segment information presented, IFRS 8 requires an entity to disclose: • information about the measurement basis adopted, such as the nature of any differences between the measurements used in reporting segment information and those used in the entity's financial statements, and the nature and effect of any asymmetrical allocations to reportable segments; and • reconciliations of segment information to the corresponding amounts in the entity's IFRS financial statements. In these illustrative financial statements, because the Group's segment information on the basis of internal measures is consistent with the amounts according to IFRS, the reconciling items are generally limited to items that are not allocated to reportable segments, as opposed to a difference in the basis of preparation of the information.
3.	*IFRS 8.23*	An entity discloses: • a measure of profit or loss for each reportable segment; • a measure of assets and/or liabilities for each reportable segment if such amounts are provided regularly to the entity's CODM; and • the following about each reportable segment if the specified amounts are included in the measure of profit or loss reviewed by the 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 IAS 1; – equity-accounted earnings; – tax expense or income; and – material non-cash items other than depreciation and amortisation.

5. Use of estimates and judgements (continued)

(e) Securitisations

In applying its derecognition policies to securitised financial assets, the Group has considered both the degree of control exercised by the Group over the other entity and the extent to which the Group retains the risks and rewards of financial assets that are transferred.

- 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 financial 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 the transferred financial assets and it retains control of these assets, the Group continues to recognise these assets to the extent of its continuing involvement in the transferred financial assets.

Details of financial assets that the Group transferred as part of its securitisation activities are included in Note 35.

6. Operating segments[1, 2, 3]

IFRS 8.20–22, A

The Group has five reportable segments, as described below, which are the Group's strategic divisions. The strategic divisions offer different products and services, and are managed separately based on the Group's management and internal reporting structure. For each of the strategic divisions, 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.

Explanatory notes

1.	*IFRS 8.16*	IFRS 8 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 the 9th Edition 2012/13 of our publication *Insights into IFRS* (5.2.160.40).
2.	*IFRS 8.IG5, 32*	As part of the required 'entity-wide disclosures', an entity discloses revenue from external customers for each product and service, or each group of similar products and services, regardless of whether the information is used by the CODM in assessing segment performance. Such disclosure is based on the financial information used to produce the entity's financial statements. In these illustrative financial statements, no additional disclosures of revenue information about products and services are provided in this regard, because they are already provided in the overall table of information about reportable segments. The Group's reportable segments are already based on different products and services, and the segment information has been prepared in accordance with IFRS.
3.	*IFRS 8.23*	An entity presents 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.
4.	*IFRS 8.23*	IFRS 8 requires a measure of segment assets to be disclosed only if the amounts are regularly provided to the CODM. There is an equivalent requirement for measures of segment liabilities.

Notes to the consolidated financial statements

6. Operating segments (continued)

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.

Information about reportable segments[1]

2012

	In millions of euro	Investment Banking	Corporate Banking	Retail Banking	Asset Manage-ment	Central Treasury	Total
IFRS 8.23(a)	External revenue:[2]						
IFRS 8.23(c)–(d)	Net interest income[3]	**-**	**1,819**	**612**	**-**	**(496)**	**1,935**
IFRS 8.23(f)	Net fee and commission income	**169**	**234**	**202**	**70**	**-**	**675**
IFRS 8.23(f)	Net trading income	**1,491**	**-**	**-**	**-**	**(57)**	**1,434**
IFRS 8.23(f)	Net income from other financial instruments at fair value through profit or loss	**399**	**-**	**-**	**-**	**(378)**	**21**
IFRS 8.23(f)	Other revenue	**30**	**25**	**55**	**-**	**(1)**	**109**
IFRS 8.23(b)	Inter-segment revenue[3]	**-**	**-**	**699**	**-**	**1,184**	**1,883**
IFRS 8.32	Total segment revenue	**2,089**	**2,078**	**1,568**	**70**	**252**	**6,057**
IFRS 8.23(i)	Other material non-cash items:						
	Impairment losses on financial assets	**-**	**206**	**117**	**-**	**7**	**330**
IFRS 8.21(b)	Reportable segment profit before income tax	**47**	**223**	**448**	**20**	**81**	**819**
IFRS 8.21(b)	Reportable segment assets[4]	**24,968**	**39,248**	**20,908**	**362**	**10,342**	**95,828**
IFRS 8.21(b)	Reportable segment liabilities	**7,026**	**11,453**	**38,199**	**206**	**32,980**	**89,864**

2011

	In millions of euro	Investment Banking	Corporate Banking	Retail Banking	Asset Manage-ment	Central Treasury	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	1,094	-	-	-	(7)	1,087
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 revenue	28	21	45	-	84	178
IFRS 8.23(b)	Inter-segment revenue	-	-	608	-	906	1,514
IFRS 8.32	Total segment revenue	1,518	1,927	1,416	65	400	5,326
IFRS 8.23(i)	Other material non-cash items:						
	Impairment losses on financial assets	105	139	86	-	4	334
IFRS 8.21(b)	Reportable segment profit before income tax	(241)	332	282	22	277	672
IFRS 8.21(b)	Reportable segment assets	22,641	35,558	19,049	332	9,165	86,745
IFRS 8.21(b)	Reportable segment liabilities	6,052	10,703	34,086	204	29,993	81,038

Explanatory note

1.	*IFRS 8.31–33*	An entity presents entity-wide disclosures related to the following items regardless of whether the information is used by the CODM in assessing segment performance: • revenue from external customers for products and services; • revenue from external customers by geographical areas, both by the entity's country of domicile and by an individual foreign country, if it is material; and • non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising from insurance contracts. The above information is based on the financial information used to produce the entity's financial statements, rather than on the basis as provided regularly to the entity's CODM.

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	2012	2011
IFRS 8.28(a)	**Revenues**		
	Total revenue for reportable segments	**6,057**	5,326
	Unallocated amounts	**14**	8
	Elimination of inter-segment revenue	**(1,833)**	(1,514)
	Consolidated revenue	**4,188**	3,820
IFRS 8.28(b)	**Profit or loss**		
	Total profit or loss for reportable segments	**819**	672
	Unallocated amounts	**5**	-
	Consolidated profit before income tax	**824**	672
IFRS 8.28(c)	**Assets**		
	Total assets for reportable segments	**95,828**	86,745
	Other unallocated amounts	**1,281**	1,071
	Consolidated total assets	**97,109**	87,816
IFRS 8.28(d)	**Liabilities**		
	Total liabilities for reportable segments	**89,864**	81,038
	Other unallocated amounts	**855**	808
	Consolidated total liabilities	**90,719**	81,846

Geographical areas[1]

In presenting information on the basis of geographical areas, revenue is based on the customers' country of domicile 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
	2012							
IFRS 8.33(a)	External revenues	**569**	**1,046**	**1,370**	**715**	**473**	**15**	**4,188**
IFRS 8.33(b)	Non-current assets*	**258**	**141**	**136**	**113**	**32**	**63**	**743**
	2011							
IFRS 8.33(a)	External revenues	488	1,038	1,213	619	456	6	3,820
IFRS 8.33(b)	Non-current assets*	236	128	127	121	29	67	708

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

Explanatory notes

1.	*IFRS 7.6, 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 financial 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 purposes 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 7.25–26*	The fair values of each class of financial assets and financial 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.

7. Financial assets and liabilities

IFRS 7.6, 8, 25

Accounting classifications and fair values[1, 2, 3]

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
31 December 2012									
Cash and cash equivalents	17	-	-	-	2,907	-	-	2,907	2,907
Pledged trading assets	18	540	-	-	-	-	-	540	540
Non-pledged trading assets	18	16,122	-	-	-	-	-	16,122	16,122
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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IFRS 7.6, 8, 25

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
31 December 2011									
Cash and cash equivalents	17	-	-	-	2,992	-	-	2,992	2,992
Pledged trading assets	18	519	-	-	-	-	-	519	519
Non-pledged trading assets	18	15,249	-	-	-	-	-	15,249	15,249
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

Explanatory notes

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.
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 October 2012 Edition of our publication *Illustrative Financial Statements*.

Notes to the consolidated financial statements

7. Financial assets and liabilities (continued)

Investment securities – unquoted equity securities at cost

IFRS 7.29(b), 30, IAS 39.46(c)

The above table includes €24 million (2011: €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 (2012: €3,882 million and €1,564 million; 2011: €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[1,2]

	In millions of euro	2012	2011
	Interest income		
	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
IFRS 7.20(a)(v)	Deposits from banks	**54**	48
IFRS 7.20(a)(v)	Deposits from customers	**469**	897
IFRS 7.20(a)(v)	Debt securities issued	**343**	316
IFRS 7.20(a)(v)	Subordinated liabilities	**410**	353
	Other	**10**	12
	Total interest expense	**1,406**	1,686
	Net interest income	**1,935**	1,842

IFRS 7.20(d)

Included within various line items under interest income for the year ended 31 December 2012 is a total of €14 million (2011: €8 million) relating to 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 (2011: €27 million) on derivatives held in qualifying fair value hedging relationships, and €30 million (2011: €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 (2011: €3,463 million) and €1,788 million (2011: €1,626 million) respectively.

Explanatory notes

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; and • 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). 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; and • does not include the profit or loss impact of derivatives that are held for risk management purposes. However, other presentations are possible.

Notes to the consolidated financial statements

8. Net interest income (continued)

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

During 2012, gains of €10 million (2011: gains of €10 million) and losses of €20 million (2011: 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 2012 was a gain of €4 million (2011: a loss of €4 million).

9. Net fee and commission income[1]

IFRS 7.20(c)

In millions of euro	2012	2011
Fee and commission income		
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 financial liabilities that are not at fair value through profit or loss but includes income of €651 million (2011: €523 million) and expense of €71 million (2011: €52 million) relating to such financial assets and liabilities.

10. Net trading income[2]

In millions of euro	2012	2011
Fixed income	**1,261**	1,081
Equities	**70**	17
Foreign exchange	**90**	16
Other	**13**	(27)
Net trading income	**1,434**	1,087

IFRS 7.20(a)(i) (Net trading income)

Explanatory notes

1.	*IFRS 7.20(a)(i)*	An entity separately 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). 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 at fair value through profit or loss upon initial recognition: and • 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 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 gains 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 revenue. However, other presentations are possible.

Notes to the consolidated financial statements

11. Net income from other financial instruments at fair value through profit or loss[1]

	In millions of euro	2012	2011
	Other derivatives held for risk management purposes:		
	Interest rate	**(76)**	(48)
	Credit	**44**	(21)
	Equity	**(54)**	42
	Foreign exchange	**(10)**	5
IFRS 7.20(a)(i)	Investment securities:		
IFRS 7.20(a)(i)	Corporate bonds	**221**	210
IFRS 7.20(a)(i)	Equities	**68**	(13)
IFRS 7.20(a)(i)	Asset-backed securities	**(131)**	(151)
IFRS 7.20(a)(i)	Loans and advances at fair value through profit or loss	**153**	194
IFRS 7.20(a)(i)	Debt securities issued at fair value through profit or loss	**(194)**	(137)
		21	81

IFRS 7.10(a) At 31 December 2012 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 (2011: a gain of €4 million). During 2012 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 (2011: 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.[2]

See Note 21 for the amount of change, during the period and cumulatively, in the fair value of the loans and advances at fair value through profit or loss that is attributable to changes in credit risk and the method of calculation.

12. Other revenue[3]

	In millions of euro	2012	2011
IFRS 7.20(a)(ii), IAS 1.98(d)	Net loss on sale of available-for-sale securities:		
	Government bonds	**(12)**	(9)
	Corporate bonds	**(60)**	(43)
	Equities	**(20)**	(17)
IFRS 7.20(a)(ii)	Dividends on available-for-sale equity securities	**13**	8
IFRS 7.20(a)(iv)	Gain on securitisation of loans and receivables	**26**	19
IAS 21.52(a)	Foreign exchange gain	**170**	188
	Other	**6**	40
		123	186

IFRS 7.24(c) Net ineffectiveness recognised for net investment hedges during 2012 was a gain of €12 million (2011: a gain of €9 million).

Explanatory note

1.	*IFRS 2.52*	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.

Notes to the consolidated financial statements

13. Personnel expenses

		In millions of euro	Note	2012	2011
		Wages and salaries		**1,605**	1,419
		Compulsory social security contributions		**215**	194
IAS 19.46		Contributions to defined contribution plans		**265**	243
IFRS 2.51(a)		Equity-settled share-based payments		**75**	25
IFRS 2.51(a)		Cash-settled share-based payments		**44**	35
		Increase in liability for defined benefit plans	32	**52**	50
		Increase in liability for long service-leave		**8**	8
				2,264	1,974

Share-based payment transactions[1]

IFRS 2.44, 45(a) On 1 January 2010 the Group established a share option programme that entitles key management personnel and senior employees to purchase shares in the Bank. On 1 January 2012 a further grant on similar terms (except for exercise price) was offered to these employee groups. In accordance with these programmes, holders of vested options are entitled to purchase shares at the market price of the shares at the date of grant.

On 1 January 2009 and 1 January 2012 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 the time of exercise.

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:

In millions of instruments Grant date/employees entitled	Number of instruments	Vesting conditions	Contractual life of options
Option grant to senior employees at 1 January 2010	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 2010	10	3 years' service	10 years
Option grant to senior employees at 1 January 2012	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 2012	10	3 years' service	10 years
Total share options	55		
SARs granted to other employees at 1 January 2009	10	3 years' service	
SARs granted to other employees at 1 January 2012	30	3 years' service	
Total SARs	40		

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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.

	In millions of options	Weighted average exercise price 2012	Number of options 2012	Weighted average exercise price 2011	Number of options 2011
IFRS 2.45(b)(i)	Outstanding at 1 January	**€9.9**	**13.0**	€9.5	18.0
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	-
IFRS 2.45(b)(vi)	Outstanding at 31 December	**€10.8**	**42.5**	€9.9	13.0
IFRS 2.45(b)(vii)	Exercisable at 31 December	**€10.1**	**7.5**	€9.8	-

IFRS 2.45(d) The options outstanding at 31 December 2012 have an exercise price in the range of €9.0 to €12.0 (2011: €9.5 to €11.0) and a weighted average contractual life of 8.3 years (2011: 8.0 years).

IFRS 2.45(c) The weighted average share price at the date of exercise for share options exercised in 2012 was €11.50 (2011: 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, measured using a binomial lattice model, with the following inputs:

	Fair value of share options and assumptions	Key management personnel 2012	Key management personnel 2011	Senior employees 2012	Senior employees 2011
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)	Expected life (weighted average)	**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)*	**1.7%**	1.7%	**2.1%**	2.1%

* *Annual rates*

Employee expenses for share-based payment transactions

	In millions of euro	Note	2012	2011
IFRS 2.51(a)	Share options granted in 2009		**25**	25
IFRS 2.51(a)	Share options granted in 2012		**50**	-
IFRS 2.51(a)	Expense arising from SARs granted in 2009		**-**	28
IFRS 2.51(a)	Expense arising from SARs granted in 2012		**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 2011 was settled in 2012.

Explanatory notes

1.	*IFRS 2.52*	Disclosures of the inputs for fair value measurement for cash-settled share based payments – e.g. share appreciation rights – are not required specifically in IFRS 2. However, they should be provided in accordance with the general disclosure requirements in paragraphs 44 and 50 of IFRS 2 if the cash-settled share-based payments are material to the entity either at grant date or at the end of the reporting period. We believe that the following disclosures should be provided: • for awards granted during the period, disclosures on measurement of fair value at grant date and at the end of the reporting period; and • for awards granted in previous periods but unexercised at the end of the reporting period, disclosures on measurement of fair value at the end of the reporting period. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (4.5.1330.10).
2.	*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.
3.	*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 applied by the 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 these numerical reconciliations and discloses the basis on which the applicable tax rate is computed.

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 2.7 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.[1]

IAS 1.97

14. Other expenses

	In millions of euro	Note	2012	2011
	Software licensing and other information technology costs		**47**	58
IAS 40.75(f)(ii)	Direct operating expenses for investment property that generated rental income[2]		**1**	1
IAS 1.98(b)	Branch closure cost provisions	31	**5**	67
IAS 1.98(b)	Redundancy provisions	31	**2**	33
IAS 1.98(g)	Onerous lease provisions	31	**(1)**	2
IAS 1.97	Bank levy	31	**12**	10
	Other		**331**	414
			397	585

The amount of levy payable for each year is based on [X] percent of elements of the Group's consolidated liabilities and equity held at the end of the reporting period. The levy amounts to €12 million (2011: €10 million) and is presented in other expenses in the statement of comprehensive income. At 31 December 2012 a payable of €2 million is included in provisions (2011: €2 million).

15. Income tax expense

	In millions of euro	Note	2012	2011
	Current tax expense			
IAS 12.80(a)	Current year		**193**	132
IAS 12.80(b)	Adjustments for prior years		**(5)**	(6)
			188	126
	Deferred tax expense			
IAS 12.80(c)	Origination and reversal of temporary differences		**7**	(1)
IAS 12.80(d)	Reduction in tax rate		**(2)**	-
IAS 12.80(f)	Recognition of previously unrecognised tax losses		**(6)**	(7)
		25	**(1)**	(8)
	Total income tax expense		**187**	118

IAS 12.81(c)

Reconciliation of effective tax rate[3]

In millions of euro	2012	2012	2011	2011
Profit before tax		**824**		672
Tax using the domestic corporation tax rate	**33.0%**	**272**	33.0%	222
Effect of tax rates in foreign jurisdictions*	**-13.7%**	**(113)**	-13.1%	(88)
Non-deductible expenses	**5.3%**	**50**	3.9%	26
Tax exempt income	**-0.7%**	**(6)**	-3.1%	(21)
Tax incentives	**-0.6%**	**(5)**	-1.2%	(8)
Recognition of previously unrecognised tax losses	**-0.7%**	**(6)**	-1.0%	(7)
Over-provided in prior years	**-0.6%**	**(5)**	-0.9%	(6)
Total income tax expense	**22.0%**	**187**	17.6%	118

IAS 12.81(d)

* Tax rates in several foreign jurisdictions decreased in 2012.

Explanatory notes

1.	*IAS 1.90*	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, tax related to each component of other comprehensive income is presented in the notes.
2.	*IAS 33.2*	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.
3.	*IAS 33.64*	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.
4.	*IAS 33.73*	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.
	IAS 33.73	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.
5.	*IAS 33.70(c)*	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.
6.		In our view, the method used to determine the average market value of the entity's shares for the 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 the 9th Edition 2012/13 of our publication *Insights into IFRS* (5.3.170.70).

Notes to the consolidated financial statements

15. Income tax expense (continued)

IAS 12.81(ab)

Tax recognised in other comprehensive income[1]

In millions of euro	2012 Before tax	2012 Tax (expense) benefit	2012 Net of tax	2011 Before tax	2011 Tax (expense) benefit	2011 Net of tax
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[2]

Basic earnings per share

The calculation of basic earnings per share at 31 December 2012 was based on the profit attributable to ordinary shareholders of €590 million (2011: €508 million) and a weighted average number of ordinary shares[3] outstanding of 1,757.5 million (2011: 1,756.0 million), calculated as follows.

IAS 33.70(a)

Profit attributable to ordinary shareholders (basic)

In millions of euro	Note	2012	2011
Profit for the year attributable to equity holders of the Bank		**610**	528
Dividends on perpetual bonds classified as equity	33	**(20)**	(20)
Net profit attributable to ordinary shareholders		**590**	508

Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2012 was based on profit attributable to ordinary shareholders of €590 million (2011: €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 (2011: 1,764.0 million), calculated as follows.

IAS 33.70(a)

Profit attributable to ordinary shareholders (diluted)[4]

In millions of euro	2012	2011
Profit for the period attributable to ordinary shareholders	**590**	508

IAS 33.70(b)

Weighted average number of ordinary shares (diluted)[5]

In millions of shares	Note	2012	2011
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.[6]

Explanatory notes

1.	*IAS 7.48*	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.

Notes to the consolidated financial statements

IAS 7.45

17. Cash and cash equivalents[1]

In millions of euro	2012	2011
Unrestricted balances with central banks	**118**	128
Cash and balances with other banks	**256**	184
Money market placements	**2,533**	2,680
	2,907	2,992

18. Trading assets and liabilities[2]

IFRS 7.8(a)(ii)

Trading assets

In millions of euro	Pledged trading assets 2012	Non-pledged trading assets 2012	Total trading assets 2012	Pledged trading assets 2011	Non-pledged trading assets 2011	Total trading assets 2011
Government bonds	**332**	**6,010**	**6,342**	317	5,781	6,098
Corporate bonds	**143**	**4,348**	**4,491**	145	3,925	4,070
Treasury bills	**-**	**3,879**	**3,879**	-	3,744	3,744
Equities	**65**	**391**	**456**	57	379	436
Asset-backed securities	**-**	**516**	**516**	-	463	463
	540	**15,144**	**15,684**	519	14,292	14,811
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**	-	277	277
	-	**978**	**978**	-	957	957
	540	**16,122**	**16,662**	519	15,249	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 2012 was €2,555 million (2011: €2,249 million) (see Note 35).

IFRS 7.14(b)

Financial assets are pledged as collateral as part of sales and repurchases, securities borrowing and securitisation transactions under terms that are usual and customary for such activities.

At 31 December 2012, for derivative liabilities that are classified as trading liabilities or derivatives liabilities held for risk management, the Group has posted cash collateral with its counterparties for which it recognised receivables to reclaim cash collateral of €793 million (2011: €807 million). These receivables are classified as loans and advances to banks or as loans and advances to customers.

Collateral accepted as security for assets

IFRS 7.15(a)

At 31 December 2012 the fair value of financial assets accepted as collateral that the Group is permitted to sell or repledge in the absence of default is €7,788 million (2011: €7,308 million).

IFRS 7.15(b)

At 31 December 2012 the fair value of financial assets accepted as collateral that have been sold or repledged is €5,661 million (2011: €5,205 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.

Explanatory note

1.	*IAS 39.50(a)–(c)*	An entity may not reclassify any financial asset into the fair value through profit or loss category after initial recognition. An entity may not reclassify out of the fair value through profit or loss category any derivative financial asset or any financial asset designated as at fair value through profit or loss on initial recognition. When a financial asset is held for trading, it is included in this category based on the objective for which it was acquired initially, which was for trading purposes. Reclassifying such an asset out of this category would generally be inconsistent with this initial objective.
	IAS 39.50(c), 50B, 50D, BC104D	However, an entity may be permitted to reclassify a non-derivative financial asset out of the held-for-trading category if it is no longer held for the purpose of being sold or repurchased in the near term. There are different criteria for reclassifications of loans and receivables, and of other qualifying assets. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (7.4.220).
	IFRS 7.12A	If an entity has reclassified financial assets, then additional disclosures are required.

Notes to the consolidated financial statements

18. Trading assets and liabilities (continued)

Reclassifications out of trading assets[1]

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 the 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:

		2012		2011	
In millions of euro	**Amounts reclassified**	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Assets reclassified in 2009:					
Trading assets reclassified to loans and advances to customers	**296**	**58**	**39**	116	101
	296	**58**	**39**	116	101
Assets reclassified in 2008:					
Trading assets reclassified to loans and advances to customers	**1,140**	**102**	**88**	267	219
Trading assets reclassified to available-for-sale investment securities	**240**	**10**	**10**	57	57
	1,380	**112**	**98**	324	276

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Notes to the consolidated financial statements

18. Trading assets and liabilities (continued)

Reclassifications out of trading assets (continued)

IFRS 7.12A(e)

The table below sets out the amounts actually recognised in profit or loss and other comprehensive in 2012 and 2011 in respect of financial assets reclassified out of the trading category:

In millions of euro	**Reclassifications in 2009** Profit or loss 2012	Other comprehensive income 2012	Profit or loss 2011	Other comprehensive income 2011	**Reclassifications in 2008** Profit or loss 2012	Other comprehensive income 2012	Profit or loss 2011	Other comprehensive income 2011
Trading assets reclassified to loans and advances to customers:								
Interest income	**3**	**-**	6	-	**5**	**-**	10	-
Net impairment loss on financial assets	**-**	**-**	(2)	-	**-**	**-**	(2)	-
Trading assets reclassified to available-for-sale investment securities:								
Interest income	**-**	**-**	-	-	**1**	**-**	2	-
Net impairment loss on financial assets	**-**	**-**	-	-	**-**	**-**	-	-
Net change in fair value	**-**	**-**	-	-	**-**	**(2)**	-	(3)
	3	**-**	4	-	**6**	**(2)**	10	(3)

IFRS 7.12A(e)

The table below sets out the amounts that would have been recognised in profit or loss if the financial assets had not been reclassified.

In millions of euro	**Reclassifications in 2009** Profit or loss 2012	Profit or loss 2011	**Reclassifications in 2008** Profit or loss 2012	Profit or loss 2011
Trading assets reclassified to loans and advances to customers:				
Net trading income	**2**	3	**4**	7
Trading assets reclassified to available-for-sale investment securities:				
Net trading income	**-**	-	**(1)**	(1)
	2	3	**3**	6

Explanatory note

1.	*IFRS 7.28*	For each class of financial instrument an entity discloses the following in respect of any difference between the fair value at initial recognition (i.e. the fair value of the consideration given or received unless conditions described in IAS 39.AG76 are met) and the amount that would be determined at that date using its valuation technique: • 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; and • 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 this difference during the period.

Notes to the consolidated financial statements

18. Trading assets and liabilities (continued)

Reclassifications out of trading assets (continued)

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.

IFRS 7.8(e)(ii)

Trading liabilities

In millions of euro	**2012**	**2011**
Short sold positions – debt	**6,355**	5,453
Short sold positions – equity	**263**	227
	6,618	5,680
Derivative liabilities:		
Interest rate	**23**	25
Credit	**145**	133
Equity	**42**	32
Foreign exchange	**122**	108
OTC structured derivatives	**76**	74
	408	372
	7,026	6,052

Unobservable valuation differences on initial recognition[1]

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	**2012**	**2011**
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	**26**	22

Explanatory notes

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.

Notes to the consolidated financial statements

19. Derivatives held for risk management[1]

IFRS 7.22(b)

In millions of euro	Assets 2012	Liabilities 2012	Assets 2011	Liabilities 2011
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 2012	Liabilities 2012	Assets 2011	Liabilities 2011
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[2]

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 2012	Liabilities 2012	Assets 2011	Liabilities 2011
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
31 December 2012			
Cash inflows	**798**	**2,145**	**115**
Cash outflows	**674**	**1,980**	**187**
31 December 2011			
Cash inflows	455	1,790	10
Cash outflows	525	2,085	12

IFRS 7.23(c)

During 2012 net losses of €17 million (2011: net losses of €14 million) relating to the effective portion of cash flow hedges were recognised in other comprehensive income.

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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 is as follows:

	Assets	Liabilities	Assets	Liabilities
In millions of euro	**2012**		**2011**	
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 (2011: €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	**2012**	2011
Loans and advances to banks	**5,584**	4,712
Less specific allowances for impairment	**(12)**	(5)
	5,572	4,707

IFRS 7.16

IFRS 7.20(e)

Specific allowances for impairment		
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

Explanatory notes

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. 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 on initial recognition as 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 on initial recognition as 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; and • are hybrid contracts where an entity is permitted to designate the entire contract as 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.

Notes to the consolidated financial statements

21. Loans and advances to customers[1]

In millions of euro	2012	2011
IFRS 7.8(a)(i) Loans and advances to customers at fair value through profit or loss[2]	**3,986**	3,145
IFRS 7.8(c) Loans and advances to customers at amortised cost	**59,084**	53,660
	63,070	56,805

IAS 1.61 At 31 December 2012 €27,137 million (2011: €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

In millions of euro	Gross amount 2012	Impairment allowance 2012	Carrying amount 2012	Gross amount 2011	Impairment allowance 2011	Carrying amount 2011
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
	60,757	**(1,673)**	**59,084**	55,182	(1,522)	53,660

Allowances for impairment

In millions of euro	2012	2011
IFRS 7.16 **Specific allowances for impairment**		
Balance at 1 January	**1,324**	1,133
IFRS 7.20(e) 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	**1,453**	1,324
IFRS 7.16 **Collective allowances for impairment**		
Balance at 1 January	**198**	174
Impairment loss for the year:		
IFRS 7.20(e) Charge for the year	**22**	24
Balance at 31 December	**220**	198
Total allowances for impairment	**1,673**	1,522

Explanatory notes

1.	*IAS 17.47(c)–(e)*	An entity discloses, when applicable, the unguaranteed residual values accruing to its benefit, accumulated allowance for uncollectible minimum lease payments receivable, and any contingent rents recognised as income in the period.
2.		For a more comprehensive illustration of disclosures that may be applicable when an entity is a lessor in a finance lease, see our publication *Illustrative financial statements* issued in October 2012.

Notes to the consolidated financial statements

21. Loans and advances to customers (continued)

IAS 17.47

Finance lease receivables[1, 2]

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	2012	2011
IAS 17.47(a)	Gross investment in finance leases, receivable:		
IAS 17.47(a)(i)	Less than one year	**251**	203
IAS 17.47(a)(ii)	Between one and five years	**805**	741
IAS 17.47(a)(iii)	More than five years	**104**	106
		1,160	1,050
IAS 17.47(b)	Unearned finance income	**(221)**	(189)
	Net investment in finance leases	**939**	861
IAS 17.47(a)	Net investment in finance leases, receivable:		
IAS 17.47(a)(i)	Less than one year	**205**	181
IAS 17.47(a)(ii)	Between one and five years	**650**	597
IAS 17.47(a)(iii)	More than five years	**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 as 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 2012 the maximum exposure to credit risk on loans and advances as at fair value through profit or loss was €3,986 million (2011: €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 2012 these derivative contracts provided a notional principal protection of €3,108 million (2011: €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.

In millions of euro	For the year 2012	Cumulative 2012	For the year 2011	Cumulative 2011
Loans and advances as 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.

Explanatory notes

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 investment securities caption in the statement of financial position includes available-for-sale securities, held-to-maturity securities and securities that have been designated on initial recognition as 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 on initial recognition as 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; and • 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.

Notes to the consolidated financial statements

22. Investment securities[1]

In millions of euro	2012	2011
IFRS 7.8(a)(i) Investment securities designated as at fair value through profit or loss	**4,091**	3,239
IFRS 7.8(b) Held-to-maturity investment securities	**101**	101
IFRS 7.8(d) Available-for-sale investment securities	**2,110**	1,929
	6,302	5,269

IAS 1.61

At 31 December 2012 €2,668 million (2011: €2,613 million) of investment securities are expected to be recovered more than 12 months after the reporting date.

Investment securities designated as at fair value through profit or loss[2]

In millions of euro	2012	2011
Corporate bonds	**3,278**	2,602
Asset-backed securities	**647**	500
Debt securities	**3,925**	3,102
Equities	**166**	137
	4,091	3,239

IFRS 7.21, B5(a)

Investment securities have been designated as 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 as at fair value through profit or loss are the Group's equity investments in certain entities held by its venture capital subsidiary. These investments (2012: €101 million; 2011: €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	Note	2012	2011
Government bonds		**56**	56
Corporate bonds		**45**	45
Less specific allowances for impairment		**-**	-
Debt securities		**101**	101
Available-for-sale investment securities			
Government bonds		**768**	653
Asset-backed securities		**333**	358
Corporate bonds		**582**	542
Retained interests in securitisations	35	**98**	87
Debt securities		**1,781**	1,640
Equity securities with readily determinable fair values		**305**	265
Unquoted equity securities at cost		**24**	24
		2,110	1,929
Impairment losses in respect of available-for-sale investment securities			
Balance at 1 January		**35**	21
IFRS 7.20(e) Impairment loss for the year:			
Charge for the year		**128**	16
Effect of discounting		**(3)**	(2)
Balance at 31 December		**160**	35

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. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (7.4.250).
	IFRS 7.12A	If an entity has reclassified financial assets, then additional disclosures are required.

Notes to the consolidated financial statements

22. Investment securities (continued)

Reclassifications out of available-for-sale investment securities[1]

IFRS 7.12A

On 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 2009-2012.

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:

In millions of euro	Amounts reclassified	2012 Carrying value	2012 Fair value	2011 Carrying value	2011 Fair Value
Available-for-sale investment securities reclassified to loans and advances to customers	**425**	**180**	**141**	210	191

IFRS 7.12A(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:

In millions of euro	Profit or loss 2012	Other comprehensive income 2012	Profit or loss 2011	Other comprehensive income 2011
Available-for-sale investment securities reclassified to loans and advances to customers:				
Interest income	**5**	**-**	13	-
Net impairment loss on financial assets	**(2)**	**-**	(24)	-
Net change in fair value	**-**	**-**	-	-
Amount transferred from fair value reserve to profit or loss	**-**	**2**	-	3
	3	**2**	(11)	3

IFRS 7.12A(e)

The table below sets out the amounts that would have been recognised if the reclassifications had not been made:

In millions of euro	2012 Profit or loss	2012 Other comprehensive income	2011 Profit or loss	2011 Other comprehensive income
Available-for-sale investment securities reclassified to loans and advances:				
Interest income	**5**	**-**	13	-
Net impairment loss on financial assets	**(25)**	**-**	(6)	-
Net change in fair value	**-**	**(1)**	-	(1)
	(20)	**(1)**	7	(1)

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.

Explanatory notes

1.		For a more comprehensive illustration of disclosures that may be applicable to property, plant and equipment, see the October 2012 Edition of our publication *Illustrative financial statements.*
2.	*IAS 16.73(d)–(e)*	An entity discloses a reconciliation of the carrying amount of property and equipment from the beginning to the end of the reporting period. The separate reconciliations of the gross carrying amount and accumulated depreciation illustrated in these illustrative financial statements are not required and a different format may be used. However, an entity is required to disclose the gross carrying amount and accumulated depreciation at the beginning and at the end of the reporting period.
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.

Notes to the consolidated financial statements

23. Property and equipment[1, 2]

IAS 16.73(d), (e)	*In millions of euro*	Land and buildings	IT equipment	Fixtures and fittings	Total
	Cost				
IAS 16.73(d)	Balance at 1 January 2011	234	154	78	466
IAS 16.73(e)(i)	Additions	24	21	18	63
IAS 16.73(e)(ii)	Disposals	(14)	(5)	(5)	(24)
IAS 16.73(d)	Balance at 31 December 2011	244	170	91	505
IAS 16.73(d)	Balance at 1 January 2012	**244**	**170**	**91**	**505**
IAS 16.73(e)(i)	Additions	**34**	**32**	**22**	**88**
IAS 16.73(e)(ii)	Disposals	**(26)**	**(15)**	**(6)**	**(47)**
IAS 16.73(d)	Balance at 31 December 2012	**252**	**187**	**107**	**546**
	Accumulated depreciation and impairment losses				
IAS 16.73(d)	Balance at 1 January 2011	37	53	24	114
IAS 16.73(e)(vii)	Depreciation for the year	6	9	4	19
IAS 16.73(e)(vi)	Impairment loss	-	-	-	-
IAS 16.73(e)(ii)	Disposals	(4)	(1)	(1)	(6)
IAS 16.73(d)	Balance at 31 December 2011	39	61	27	127
IAS 16.73(d)	Balance at 1 January 2012	**39**	**61**	**27**	**127**
IAS 16.73(e)(vii)	Depreciation for the year	**7**	**10**	**4**	**21**
IAS 16.73(e)(vi)	Impairment loss	**-**	**-**	**-**	**-**
IAS 16.73(e)(ii)	Disposals	**(7)**	**(3)**	**(1)**	**(11)**
IAS 16.73(d)	Balance at 31 December 2012	**39**	**68**	**30**	**137**
IAS 16.73(e), 1.78(a)	**Carrying amounts**				
	Balance at 1 January 2011	197	101	54	352
	Balance at 31 December 2011	205	109	64	378
	Balance at 31 December 2012	**213**	**119**	**77**	**409**

IAS 23.26

There were no capitalised borrowing costs related to the acquisition of plant and equipment during the year (2011: nil).[3]

Explanatory notes

1. *IAS 38.122*

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; and
  - 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; and
- 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;
- increases and increases in the carrying amount of intangible assets during the period resulting from revaluations and from impairment losses recognised or reversed in other comprehensive income; and
- 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; and
- the methods and significant assumptions applied in estimating the assets' fair values.

2. *IAS 16.73(d)–(e)*

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 October 2012 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.

Notes to the consolidated financial statements

24. Intangible assets and goodwill[1,2]

IFRS 3.61, IAS 38.118(c), (e)

In millions of euro	Goodwill	Purchased software	Developed software	Total
Cost				
Balance at 1 January 2011 (*IFRS 3.B67(d)(i), IAS 38.118*)	78	94	116	288
Acquisitions (*IAS 38.118(e)(i)*)	-	20	-	20
Internal development (*IAS 38.118(e)(i)*)	-	-	14	14
Balance at 31 December 2011 (*IFRS 3.B67(d)(viii), IAS 38.118*)	78	114	130	322
Balance at 1 January 2012 (*IFRS 3.B67(d)(i), IAS 38.118*)	**78**	**114**	**130**	**322**
Acquisitions (*IAS 38.118(e)(i)*)	**-**	**26**	**-**	**26**
Internal development (*IAS 38.118(e)(i)*)	**-**	**-**	**16**	**16**
Balance at 31 December 2012 (*IFRS 3.B67(d)(viii), IAS 38.118*)	**78**	**140**	**146**	**364**
Accumulated amortisation and impairment losses				
Balance at 1 January 2011 (*IFRS 3.B67(d)(i), IAS 38.118*)	5	20	18	43
Amortisation for the year (*IAS 38.118(e)(vi)*)	-	10	10	20
Impairment loss (*IAS 38.118(e)(iv)*)	-	-	-	-
Balance at 31 December 2011 (*IFRS 3.B67(d)(viii), IAS 38.118(c)*)	5	30	28	63
Balance at 1 January 2012 (*IFRS 3.B67(d)(i), IAS 38.118*)	**5**	**30**	**28**	**63**
Amortisation for the year (*IAS 38.118(e)(iv)*)	**-**	**16**	**10**	**26**
Impairment loss (*IFRS 3.B67(d)(v)*)	**-**	**-**	**-**	**-**
Balance at 31 December 2012 (*IFRS 3.B67(d)(viii), IAS 38.118*)	**5**	**46**	**38**	**89**
Carrying amounts (*IAS 38.118(c)*)				
Balance at 1 January 2011	73	74	98	245
Balance at 31 December 2011	73	84	102	259
Balance at 31 December 2012	**73**	**94**	**108**	**275**

IAS 23.26

There were no capitalised borrowing costs related to the internal development of software during the year (2011: nil).[3]

Explanatory notes

1.	*IAS 36.84–85, 96, 133*	When goodwill allocated to a cash-generating unit arose in a business combination in the reporting period, that goodwill is tested for impairment before the end of that reporting period. However, when the acquisition accounting can be determined only provisionally, it also may not be possible to complete the allocation of goodwill to cash-generating units before the end of the annual period in which the business combination occurred. In such cases, an entity discloses the amount of unallocated goodwill, together with the reason for not allocating the goodwill to cash-generating units. However, the allocation of goodwill to cash-generating units should be completed before the end of the first annual reporting period beginning after the acquisition date. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (3.10.480.20).
2.	*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; and • 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.
3.	*IAS 36.84–85, 96, 133*	When goodwill allocated to a cash-generating unit arose in a business combination in the reporting period, that goodwill is tested for impairment before the end of that reporting period. However, when the acquisition accounting can be determined only provisionally, it also may not be possible to complete the allocation of goodwill to cash-generating units before the end of the annual period in which the business combination occurred. In such cases, an entity discloses the amount of unallocated goodwill, together with the reason for not allocating the goodwill to cash-generating units. However, the allocation of goodwill to cash-generating units should be completed before the end of the first annual reporting period beginning after the acquisition date. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (3.10.480.20).
4.	*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; and • 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.

Notes to the consolidated financial statements

24. Intangible assets and goodwill (continued)

Impairment testing for cash-generating units containing goodwill[1, 2, 3, 4]

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions. The aggregate carrying amount of goodwill allocated to each CGU is as follows:

IAS 36.134(a)

In millions of euro	**2012**	**2011**
European investment banking	**53**	53
European retail banking	**25**	25
	78	78

IAS 36.126(a)–(b)

No impairment losses on goodwill were recognised during 2012 (2011: nil).

IAS 36.134(c)–(d), IAS 1.125

The recoverable amounts for the European investment banking and retail banking CGUs have been calculated based on their value in use, determined by discounting the future cash flows to be generated from the continuing use of the CGU. Value in use in 2012 was determined in a similar manner as in 2011.

IAS 36.134(d)(i)–(v)

- Key assumptions used in the calculation of value in use were the following: Cash flows were projected based on past experience, actual operating results and the 5-year business plan in both 2011 and 2012. Cash flows for a further 20-year period were extrapolated using a constant growth rate of 2 percent (2011: 3.8 percent). The constant growth rate has been determined as the lower of the nominal GDP growth rates for the countries in which the CGU operates and the long-term compound annual growth rate in EBITDA estimated by management. The forecast period is based on the Group's long-term perspective with respect to the operation of these CGUs.
- Pre-tax discount rates of 10 percent and 6 percent (2011: 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 based on the risk-free rate obtained from the yield on 10-year bonds issued by the government in the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systemic risk of the specific CGU.

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 CGU to decline below the carrying amount.[4]

Explanatory notes

1.	*IAS 12.81(g)*	An entity is required to disclose, in respect of each type of temporary difference, the amount of deferred tax assets and liabilities recognised in the statement of financial position. IFRS is unclear on 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 IFRS, it is temporary differences for which deferred tax is recognised that are required to be disclosed. These issues are discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (3.13.1000.40–50).
2.	*IAS 12.82*	An entity discloses the nature of the evidence supporting the recognition of a deferred tax asset 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; and • the entity has suffered a loss in either the current or the 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.
4.	*IAS 12.87, 81(f)*	An entity discloses the aggregate amount of *temporary differences* associated with investments in subsidiaries, branches and associates and joint ventures for which deferred tax liabilities have not been recognised. Although it is not required, entities are also encouraged to disclose the amounts of unrecognised deferred tax liabilities, where practicable. In these illustrative financial statements, both the amounts of unrecognised deferred tax liability and temporary differences have been disclosed.

Notes to the consolidated financial statements

25. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities[1,2]

IAS 12.81(g)(i)

Deferred tax assets and liabilities are attributable to the following:

In millions of euro	Assets 2012	Liabilities 2012	Net 2012	Assets 2011	Liabilities 2011	Net 2011
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**	**(39)**	**(1)**	44	(32)	12
Net tax assets (liabilities)	**316**	**(132)**	**184**	296	(123)	173

Unrecognised deferred tax liabilities[3,4]

IAS 12.81(f), 87

At 31 December 2012 a deferred tax liability of €7.7 million (2011: €6.6 million) for temporary differences of €25.3 million (2011: €22.0 million) related to an investment in a subsidiary was not recognised because the Bank controls whether the liability will be incurred and it is satisfied that it 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 2012, the total tax exempt reserves amounted to €0.6 million, which would result in a tax liability of €0.2 million (2011: €0.2 million) should the subsidiary 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	2012	2011
Tax losses	**10**	16
	10	16

The tax losses relate to an overseas investment banking subsidiary and will expire in 2013. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from.

Explanatory notes

1.	*IAS 12.81(g)(ii)*	When the amount of deferred tax recognised in profit or loss in respect of each type of temporary difference is apparent from the changes in the amounts recognised in the statement of financial position, the disclosure of this amount is not required.
2.	*IAS 1.54*	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 are not included. For a more comprehensive illustration of the presentation and disclosures that may apply when such items are material, see our publication *Illustrative financial statements* issued in October 2012.

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[1]

In millions of euro	Balance at 1 January	Recognised in profit or loss	Recognised in other compre-hensive income	Balance at 31 December
2012				
Property and equipment, and software	**(21)**	**(12)**	**-**	**(33)**
Available-for-sale securities	**(70)**	**-**	**9**	**(61)**
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	**12**	**(12)**	**-**	**-**
	173	**(1)**	**12**	**184**
2011				
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	(1)	-	12
	167	(8)	14	173

IAS 1.77

26. Other assets[2]

In millions of euro	2012	2011
Assets held for sale (IAS 1.54)	**200**	165
Investment property (IAS 1.54(b))	**59**	71
Accounts receivable and prepayments (IAS 1.54(h))	**160**	115
Accrued income (IAS 1.54(h))	**177**	114
Restricted deposits with central banks (IAS 7.48)	**56**	56
Other	**37**	42
	689	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)

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property portfolio every six months. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably.

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26. Other assets (continued)

In the absence of current prices in an active market, the valuations are prepared by considering the estimated rental value of the property. A market yield is applied to the estimated rental value to arrive at the gross property valuation. When actual rents differ significantly from the estimated rental value, adjustments are made to reflect actual rents.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Group and the lessee, and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

Investment property comprises a number of commercial properties that are leased to third parties. Each lease contains an initial non-cancellable period of 10 years, with annual increases in rents indexed to consumer prices. Subsequent renewals are negotiated with the lessee and on average renewal periods are 4 years. No contingent rents are charged.

IAS 40.76(d)

The change in fair value of investment property recorded in other income in profit or loss is a loss of €10 million (2011: a gain of €8 million).

IAS 40.75(f)(i)

Rental income from investment property of €3 million (2011: €2 million) is recognised in other income.

27. Deposits from banks

In millions of euro	**2012**	**2011**
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	**2012**	**2011**
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 2012 €10,808 million (2011: €8,789 million) of deposits from customers are expected to be settled more than 12 months after the reporting date.

Explanatory notes

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. The carrying amounts of each of the categories of financial assets and financial liabilities specified in IAS 39 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 financial 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; and • 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.
4.	*IFRS 7.7*	An entity discloses information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance.

Notes to the consolidated financial statements

29. Debt securities issued[1, 2, 3]

In millions of euro	2012	2011
Debt securities issued designated as at fair value through profit or loss	**2,409**	2,208
Debt securities issued at amortised cost	**8,818**	8,040
	11,227	10,248

IFRS 7.8(e)(i)
IFRS 7.8(f)

IAS 1.61

At 31 December 2012 €8,991 million (2011: €7,723 million) of debt securities issued are expected to be settled after more than 12 months.

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 2012 was €59 million lower than the contractual amount due at maturity (2011: €43 million).

In millions of euro	2012	2011
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 the years ended 31 December 2012 and 2011.

30. Subordinated liabilities

In millions of euro	2012	2011
Redeemable preference shares	**860**	827
Subordinated notes issued	**4,782**	4,158
	5,642	4,985

IAS 1.61

At 31 December 2012 the redeemable preference shares and subordinated notes issued are all expected to be settled more than 12 months after the reporting date (2011: €4,985 million).

IFRS 7.7

The terms and conditions of the subordinated notes issued are as follows:[4]

In millions of euro	Year of maturity	2012	2011
€1,500 million undated floating rate primary capital notes	N/A	**1,315**	1,494
€750 million callable subordinated floating rate notes	2024	**725**	743
€500 million callable subordinated notes	2012-2013	**-**	178
€300 million callable subordinated floating rate notes	2019	**300**	300
US$1,200 million undated floating rate primary capital notes	N/A	**744**	888
US$750 million callable subordinated floating rate notes	2013	**567**	555
£1,000 million callable subordinated variable coupon notes	2016	**1,131**	-
		4,782	4,158

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 the years ended 31 December 2012 and 2011.

Explanatory notes

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 concerning future events; and
	IAS 37.85(c)	• the amount of any expected reimbursement, stating the amount of any asset that has been recognised in that regard.

2.	*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 is disclosed: • the general nature of the dispute; • the fact that the required information has not been disclosed; and • the reason why.

3.	*IAS 37.84*	There is no requirement to disclose comparative information in the reconciliation of provisions.

4.	*IAS 1.98(f)–(g)*	An entity discloses separately, the items of income and expense related to reversals of litigation settlements and other provisions. 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 the 9th Edition 2012/13 of our publication *Insights into IFRS* (3.12.850).

Notes to the consolidated financial statements

31. Provisions[1, 2, 3]

	In millions of euro	Note	Redundancy	Branch closures	Onerous contracts	Other	Total
IAS 37.84(a)	Balance at 1 January 2012		**30**	**28**	**23**	**3**	**84**
IAS 37.84(b)	Provisions made during the year	14	**2**	**5**	**-**	**15**	**22**
IAS 37.84(c)	Provisions used during the year		**-**	**(2)**	**-**	**(15)**	**(17)**
IAS 37.84(d)	Provisions reversed during the year[4]	14	**-**	**-**	**(1)**	**-**	**(1)**
IAS 37.84(e)	Unwind of discount		**1**	**1**	**-**	**-**	**2**
IAS 37.84(a)	Balance at 31 December 2012		**33**	**32**	**22**	**3**	**90**

IAS 37.85(a)–(b), 1.87(b)

Redundancy

In accordance with the *Delivery Channel Optimisation Plan* announced by the Group in November 2010, 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 American regions and is expected to be used during 2013.

IAS 37.85(a)–(b), 1.87(b)

Branch closures

In accordance with the plans announced by the Group in November 2010, 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. 23 of the branches outlined in the Group's *Delivery Channel Optimisation Plan* were closed during 2011 and 2012. The remaining provision relates to the balance of the branches set out in that plan, which will be completed during 2013.

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 obligation for the discounted future lease payments, net of expected rental income, has been provided for.

32. Other liabilities

	In millions of euro	Note	2012	2011
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

Explanatory notes

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 requires extensive disclosures in respect of defined benefit plans, not all of which are relevant to the example in these illustrative financial statements. For a more comprehensive illustration of the disclosures in respect of defined benefit plans, see our publication *Illustrative financial statements* issued in October 2012.
2.	*IAS 19.120A (c)(iii), 120A (c)(v), 120A(c) (vii)–(x)*	If applicable, an entity discloses the following in the reconciliation of the opening and closing balances of the defined benefit obligations: • past service cost; • contributions by plan participants; • business combinations; • curtailments; and • settlements.
3.	*IAS 19.120A (e)(iii), 120A(e) (v), 120A(e)(vii)–(viii)*	If applicable, an entity discloses the following in the reconciliation of the opening and closing balances of plan assets: • contributions by plan participants; • business combinations; and • settlements.

Notes to the consolidated financial statements

32. Other liabilities (continued)

Defined benefit obligations[1]

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:

	In millions of euro	**2012**	**2011**
IAS 19.120A(d), (f)	Present value of unfunded obligations	**98**	97
IAS 19.120A(d), (f)	Present value of funded obligations	**121**	110
	Total present value of obligations	**219**	207
IAS 19.120A(d),	Fair value of plan assets	**(45)**	(49)
IAS 19.120A(d), (f)	Present value of net obligations	**174**	158
IAS 19.120A(f)	Recognised liability for defined benefit obligations	**174**	158

Plan assets

IAS 19.120A(j)

Plan assets comprise:

	In millions of euro	**2012**	**2011**
	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(m)	Actual return on plan assets	**4**	6

Movement in the present value of defined benefit obligations[2]

IAS 19.120A(c)

	In millions of euro	**2012**	**2011**
	Defined benefit obligations at 1 January	**207**	189
IAS 19.120A(c)(iv)	Actuarial losses	**5**	4
IAS 19.120A(c)(vi)	Benefits paid by the plan	**(50)**	(41)
IAS 19.120A(c)(i)–(ii)	Current service costs and interest (see next page)	**57**	55
	Defined benefit obligations at 31 December	**219**	207

Movement in the fair value of plan assets[3]

IAS 19.120A(e)

	In millions of euro	**2012**	**2011**
	Fair value of plan assets at 1 January	**49**	47
IAS 19.120A(e)(iv)	Contributions paid into the plan	**42**	37
IAS 19.120A(e)(vi)	Benefits paid by the plan	**(50)**	(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

Explanatory notes

1.	*IAS 19.120A (g)(iv)–(viii), 120A(m)*	If applicable, an entity discloses the total expense recognised in profit or loss for each of the following items:
	(g)(iv)	• expected return on any reimbursement right recognised as an asset;
	(g)(v)	• actuarial gains and losses;
	(g)(vi)	• past service cost;
	(g)(vii)	• the effect of any curtailment or settlement; and
	(g)(viii)	• the effect of the limit in paragraph 58(b) of IAS 19.
	(m)	In addition, if applicable, an entity discloses the actual return on any reimbursement right recognised as an asset.

2.	*IAS 19.120A (n)*	An entity discloses the principal actuarial assumptions used at the end of the reporting period. This includes, if applicable, the expected rate of return on periods presented on any reimbursement right recognised as an asset. Principal actuarial assumptions are disclosed in absolute terms and not, for example, as a margin between different percentages or other variables.

3.	*IAS 19.120A (n)(vi)*	If mortality rates are considered a principal actuarial assumption in measuring a defined benefit plan, then an entity discloses the mortality assumptions used at the end of the reporting period. 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.

Notes to the consolidated financial statements

32. Other liabilities (continued)

IAS 19.120A(g)

Expense recognised in profit or loss[1]

In millions of euro		Note	2012	2011
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(g) The above expense is recognised as personnel expenses, see Note 13.

Actuarial assumptions

IAS 19.120A(n) The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages).[2]

		2012	2011
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.[3]

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 and not on the sum of the returns on individual asset categories. The expected return is based on market expectations, at the beginning of the period, for returns over the entire life of the related obligation.

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:

	In millions of euro	One percentage point increase	One percentage point decrease
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)

IAS 19.120A(p)

Historical information

	In millions of euro	2012	2011	2010	2009	2008
IAS 19.120A(p)(i)	Present value of the defined benefit obligation	**219**	207	189	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	**174**	158	142	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 €60 million in contributions to be paid to its defined benefit plans in 2013.

Explanatory notes

1.	*IAS 1.79(a)(iii)*	If shares have no par value, then an entity discloses that fact.
2.	*IAS 1.79(a)(ii)*	An entity discloses the number of shares issued but not fully paid.
	IAS 1.79(a)(vi)	An entity discloses details of shares reserved for issue under options and sales contracts, including the terms and amounts.

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	
In millions of shares	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
In issue at 1 January	**1,756**	1,756	**500**	500	**880**	880
Exercise of share options	**3**	-	**-**	-	**-**	-
In issue at 31 December (IAS 1.79(a)(ii))	**1,759**	1,756	**500**	500	**880**	880

The Group has also issued employee share options (see Note 13).

IAS 1.79(a)(i), (iii)

At 31 December 2012 the authorised share capital comprised 2 billion ordinary shares (2011: 2 billion), 500 million perpetual bonds (2011: 500 million) and 880 million redeemable preference shares (2011: 880 million). All of these instruments have a par value of €1.[1] All issued shares are fully paid.[2] 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.

Nature and purpose of reserves

Translation reserve

IAS 1.79(b)

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as the effective portion of any foreign currency differences arising from hedges of a net investment in a foreign operation.

Hedging reserve

IAS 1.79(b)

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flows.

Fair value reserve

IAS 1.79(b)

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets, until the assets are derecognised or impaired.

Explanatory notes

1.	*IAS 1.137(b)*	An entity discloses the amount of any cumulative preference dividends not recognised.
2.	*IAS 12.81(i), 87A*	An entity discloses the amount of 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. An entity also discloses the important features of the tax system(s) and the factors that will affect the amount of the potential tax consequences of dividends.
3.	*IAS 37.86(c)*	An entity also discloses the possibility of any reimbursement with respect to contingent liabilities.
	IAS 37.89	In respect of a contingent asset, an entity discloses a brief description of its nature and, when practicable, an estimate of its financial effect.
	IAS 37.91	When it is impracticable 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, only the following is disclosed: • the general nature of the dispute; • the fact that the required information has not been disclosed; and • the reason why.
4.	*IFRS 7.42A*	An entity discloses information on: • transferred financial assets that are not derecognised in their entirety; and • transferred financial assets that are derecognised in their entirety, in which the entity retains continuing involvement.
	IFRS 7.42A, 42C, IAS 39.17–20	To assess what information on which financial assets needs to be disclosed, an entity determines: • which financial assets have been transferred; • whether it has derecognised a transferred financial asset in its entirety; and • whether it has continuing involvement in a transferred financial asset that it derecognised in its entirety. The definition of 'transfer' and the concept of 'continuing involvement' for the purposes of these disclosures are different from those in IAS 39 for the purpose of determining whether a financial asset should be derecognised. These issues are discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (7.8.412).
5.	*IFRS 7.42A, 42D–42E*	When applying the disclosure requirements, the term 'transferred financial asset' refers to all or a part of a financial asset. Therefore, when an entity transfers a part of a financial asset, its evaluation as to whether and which disclosures are required depends on: • whether or not that part is derecognised in its entirety; and • whether the entity retains continuing involvement in that part.
6.	*IFRS 7.44M*	An entity is not required to provide disclosures for any period presented that begins before the date of initial application of *Disclosures – Transfers of Financial Assets* (amendments to IFRS 7).

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	2012	2011
€0.15 per ordinary share (2011: €0.15)	**264**	264
€0.04 per perpetual bond (2011: €0.04)	**20**	20
	284	284

IAS 1.137a), 10.13, 12.81(i)

After the end of the reporting period, the following dividends were proposed by the directors. The dividends have not been provided for and there are no income tax consequences.[1, 2]

In millions of euro	
€0.15 per ordinary share	**264**
€0.04 per perpetual bond	**20**
	284

34. Contingencies[3]

IAS 1.125, 37.86(a)–(c)

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 2003 to 2006. Although liability is not admitted, if defence against the action is unsuccessful, then fines and legal costs could amount to €3 million of which €250 thousand would be reimbursable under an insurance policy. 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 or performance.

35. Transfers of financial assets[4, 5, 6]

IFRS 7.42A, 7.42D(a), IAS 39.17–20

In the ordinary course of business, the Group enters into transactions that result in the transfer of financial assets that consist primarily of debt and equity securities, and loans and advances to customers. In accordance with Note 3(j)(iii), the transferred financial assets continue either to be recognised in their entirety or to the extent of the Group's continuing involvement, or are derecognised in their entirety.

The Group transfers financial assets primarily through the following transactions:

- sale and repurchase of securities;
- securities lending;
- sale of securities with a concurrent total return swap; and
- securitisation activities in which loans and advances to customers or investment securities are transferred to unconsolidated special purpose entities or to investors in the notes issued by consolidated special purpose entities.

(a) Transferred financial assets that are not derecognised in their entirety

Sale and repurchase agreements

IAS 39.29, AG51(a)–(c), IFRS 7.42D(a)–(c)

Sale and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. The Group continues to recognise the securities in their entirety in the statement of financial position because it retains substantially all the risks and rewards of ownership. The cash consideration received is recognised as a financial asset and a financial liability is recognised for the obligation to pay the repurchase price. Because the Group sells the contractual rights to the cash flows of the securities it does not have the ability to use the transferred assets during the term of the arrangement.

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Notes to the consolidated financial statements

35. Transfers of financial assets (continued)

(a) Transferred financial assets that are not derecognised in their entirety (continued)

Securities lending

IAS 39.29, AG51(a)–(c), IFRS 7.42D(a)–(c)

Securities lending agreements are transactions in which the Group lends equity securities for a fee and receives cash as collateral. The Group continues to recognise the securities in their entirety in the statement of financial position because it retains substantially all the risks and rewards of ownership. The cash received is recognised as a financial asset and a financial liability is recognised for the obligation to repay this collateral. Because the Group sells the contractual rights to the cash flows of the securities it does not have the ability to use the transferred assets during the term of the arrangement.

Sale of a security with a total return swap

IAS 39.16, 29, AG49, AG51(o), IFRS 7.42(a)–(c)

The Group sells debt securities that are subject to a concurrent total return swap. In all cases the Group retains substantially all the risks and rewards of ownership. Therefore, the Group continues to recognise the transferred securities in its statement of financial position. The cash received is recognised as a financial asset and a corresponding liability is recognised. The Group does not separately recognise the total return swap that prevents derecognition of the security as a derivative because doing so would result in recognising the same rights and obligations twice. Because the Group sells the contractual rights to the cash flows of the securities it does not have the ability to use the transferred assets during the term of the arrangement.

Securitisations

IAS 39.15, 17–20, SIC-12.8

The Group sells loans and advances to customers and investment securities to special purpose entities (SPEs) that in turn issue notes to investors that are collateralised by the purchased assets. For the purpose of disclosure in this note, a transfer of such financial assets may arise in one of two ways.

- If the Group sells assets to a consolidated SPE, then the transfer is from the Group (that includes the consolidated SPE) to investors in the notes. The transfer is in the form of the Group assuming an obligation to pass cash flows from the underlying assets to investors in the notes.
- If the Group sells assets to an unconsolidated SPE, then transfer is from the Group (that excludes the SPE) to the SPE. The transfer is in the form of a sale of the underlying assets to the SPE.

IAS 27.41(a), 39.19(c), 29

In the first case, although the Group does not own more than half of the voting power, it controls these SPEs because it is exposed to the majority of ownership risks and rewards of the SPEs and hence, these SPEs are consolidated. The SPEs that are part of the Group transfer substantially all the economic risks and rewards of ownership of the transferred assets to investors in the notes, derecognition of the transferred assets is prohibited because the cash flows that it collects from the transferred assets on behalf of the investors are not passed through to them without material delay. In these cases, the consideration received from the investors in the notes in the form of cash is recognised as a financial asset and a corresponding financial liability is recognised. The investors in the notes, have recourse only to the cash flows from the transferred financial assets.

Explanatory note

1.	*IFRS 7.42E (d)–(e), IG40C*	IFRS 7 requires specific disclosures if an entity transfers financial assets that are derecognised in their entirety in which it has continuing involvement if it may be required: • to repurchase the derecognised financial assets; or • to pay other amounts to the transferee in respect of the transferred assets. These illustrative financial statements do not illustrate these specific disclosures. Paragraph IG40C of IFRS 7 contains an example of how an entity might meet these specific disclosure requirements.

35. Transfers of financial assets (continued)

(a) Transferred financial assets that are not derecognised in their entirety (continued)

Securitisations (continued)

IAS 39.19(c), 29, 31, IFRS 7.42D(a)–(c), (f)

In certain securitisations where the Group transfers loans and advances to an unconsolidated SPE, it retains some credit risk (principally through the purchase of some junior notes issued by the SPE) while transferring some credit risk, prepayment and interest rate risk to the SPE. The terms of the transfer agreement prevent the unconsolidated SPE from selling the loans and advances to a third party. The total carrying amount of such loans and advances before the transfers was €74 million. On 31 December 2012 the carrying amount of the assets that the entity continues to recognise in respect of its continuing involvement is €31 million and the carrying amount of the associated liabilities is €30 million.

IFRS 7.42D(c)

When the Group transfers assets as part of securitisation transactions it does not have the ability to use the transferred assets during the term of the arrangement.

IFRS 7.42D(d)–(e)

The table below sets out an overview of carrying amounts and fair values related to transferred financial assets that are not derecognised in their entirety and associated liabilities.

31 December 2012

	Financial assets at fair value through profit or loss receivables		Loans and receivables
In millions of euro	Loans and advances to customers	Trading assets	Loans and advances to customers
Carrying amount of assets	781	540	1,234
Carrying amount of associated liabilities	799	542	1,236
For those liabilities that have recourse only to the transferred financial assets			
Fair value of assets	781	-	1,240
Fair value of associated liabilities	781	-	1,240
Net position	-	-	-

(b) Transferred financial assets that are derecognised in their entirety[1]

Securitisations

IFRS 7.42C, 42E (a)–(f), IAS 39.15, 17–20, SIC-12.8

Certain securitisation transactions undertaken by the Group result in the Group derecognising transferred assets in their entirety. This is the case when the Group transfers substantially all the risks and rewards of ownership of financial assets to an unconsolidated SPE and retains a relatively small interest in the SPE or a servicing arrangement in respect of the transferred financial assets. If the financial assets are derecognised in their entirety, then the interest in unconsolidated SPEs that the Group receives as part of the transfer, and the servicing arrangement represent continuing involvement with those assets.

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Notes to the consolidated financial statements

35. Transfers of financial assets (continued)

(b) Transferred financial assets that are derecognised in their entirety (continued)

Securitisations (continued)

IFRS 7.42C, 42E(f), 42G

In June 2012, the Group sold certain investment securities to an unconsolidated SPE and, as part of the consideration, received senior notes issued by the SPE. The senior notes represent less than 5 percent of the total issue. The Group classifies the senior notes as available-for-sale financial assets. The Group realised a gain of €8 million on the sale of the investment securities. During 2012, it recognised interest income of €4 million in profit or loss and a fair value gain of €250 thousand in other comprehensive income on the senior notes. The Group does not have continuing involvement in any assets that were transferred and derecognised in their entirety in earlier transactions. The transfers relating to servicing contracts are discussed below.

31 December 2012

Continuing involvement	**Carrying amount**	**Fair value**		**Maximum exposure to loss**
In millions of euro	**Investment securities**	**Assets**	**Liabilities**	
Type of continuing involvement				
Notes issued by unconsolidated SPEs	**98**	**98**	**-**	**98**

IFRS 7.42E(c)

The amount that best represents the Group's maximum exposure to loss from its continuing involvement in the form of notes issued by unconsolidated SPEs is its carrying amount.

IAS 39.24, IFRS 7.42C, 42E, 42H

As part of certain securitisation transactions that result in the Group derecognising the transferred financial assets in their entirety, the Group retains servicing rights in respect of the transferred financial assets. Under the servicing arrangements the Group collects the cash flows on the transferred mortgages on behalf of the unconsolidated SPE. In return the Group receives a fee that is expected to compensate the Group adequately for performing the servicing of the related assets. Consequently, the Group accounts for the servicing arrangements as executory contracts and has not recognised a servicing asset/liability. The servicing fees are based on a fixed percentage of the cash flows that the Group collects as an agent on the transferred residential mortgages. Potentially, a loss from servicing activities may occur if the costs the Group incurs in performing the servicing activity exceed the fees receivable or if the Group does not perform in accordance with the servicing agreements.

In 2012 the Group transferred prime residential mortgage loans (while retaining the servicing rights) to unconsolidated SPEs. The loans were classified as loans and advances to customers and measured at amortised cost with a total carrying amount of €281 million (€148 million in May and €133 million in November).

IFRS 7.42G

In 2012 the Group realised a gain of €26 million (€14 million in May and €12 million in November) on such transfers of residential mortgage loans. The gain is presented within other revenue. The Group recognised income of €2 million in 2012 in respect of residential mortgage loans. On 31 December 2012 the fair value of the loans and advances to customers transferred in 2012 that the Group still services amounts to €262 million.

Explanatory notes

1.	*IAS 24.13*	IAS 24 requires a disclosure of the relationships between parents and subsidiaries irrespective of whether there have been transactions between those related parties. In our experience, many entities include a list of significant subsidiaries in their consolidated financial statements, either to follow the requirements of a local law or regulator, or as a legacy of a previous GAAP. These illustrative financial statements include a list of significant subsidiaries to reflect this practice.
2.		When applicable, an entity discloses the following:
	IAS 27.41(d)	• 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;
	IAS 27.41(b)	• 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; and
	IAS 27.41(a)	• 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.
3.	*IAS 1.138(c), 24.13*	For a more comprehensive illustration of related party disclosures, see our publication *Illustrative financial statements* issued in October 2012.
4.		An entity discloses the name of its parent and ultimate controlling party if that is different. It also discloses the name of its ultimate parent if this is not disclosed elsewhere in the information published with the financial statements. In our view, the 'ultimate parent' and the 'ultimate controlling party' are not necessarily synonymous. This is because the definition of parent refers to an entity. Accordingly, an entity may have an ultimate parent and an ultimate controlling party. Therefore, if the ultimate controlling party of the entity is an individual or a group of individuals, then the identity of that individual or group of individuals and that relationship should be disclosed. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (5.5.90.10).

Notes to the consolidated financial statements

36. Group entities

IAS 24.13

Significant subsidiaries[1, 2]

	Country of incorporation	Ownership interest 2012	Ownership interest 2011
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%

37. Related parties[3, 4]

Parent and ultimate controlling party

IAS 1.138(c), 24.13

During the year ended 31 December 2012 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 24.18

Transactions with key management personnel

Key management personnel and their immediate relatives have transacted with the Group during the period as follows:

IAS 24.17(a)–(b)

In millions of euro	2012 Maximum balance	2012 Closing balance	2011 Maximum balance	2011 Closing balance
Mortgage lending and other secured loans	**7**	**6**	6	6
Credit card	**1**	**1**	1	1
Other loans	**2**	**2**	5	2
	10	**9**	12	9

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 interest charged on balances outstanding from related parties amounted to €1 million (2011: €1 million). 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.

Explanatory notes

1.		In our view, materiality considerations cannot be used to override the explicit requirements of IAS 24 for the disclosure of elements of key management personnel compensation. This issue is discussed in the 9th Edition 2012/13 of our publication *Insights into IFRS* (5.5.110.20).
2.		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 our publication *Illustrative financial statements* issued in October 2012.
3.	*IFRS 3.59(b), B66*	When a business combination happens after the end of the reporting period but before the financial statements are authorised for issue, an entity discloses the information as prescribed by IFRS 3 to enable users of its financial statements to evaluate the nature and financial effect of each business combination. The disclosure requirements are the same as 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 for it. These disclosures are illustrated in our publication *Illustrative financial statements* issued in October 2012 in the context of a business combination effected during the year, and have not been reproduced in this publication.

Notes to the consolidated financial statements

37. Related parties (continued)

Transactions with key management personnel (continued)

IAS 24.17

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 24.17 Key management personnel compensation for the period comprised:[1]

In millions of euro	2012	2011
Short-term employee benefits	**12**	10
Long-service leave	**2**	2
Post-employment benefits	**3**	3
Share-based payments	**4**	2
	21	17

AS 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).

38. Lease commitments[2]

IAS 17.35(a) At the end of the reporting period, the future minimum lease payments under non-cancellable operating leases are payable as follows.

In millions of euro	2012	2011
Less than one year	**352**	322
Between one and five years	**1,408**	1,288
More than five years	**5,914**	5,152
	7,674	6,762

IAS 17.35(d)(i)–(ii) The Group leases a number of branch and office premises under operating leases. The leases typically run for a period of 20 years, with an option to renew the lease after that date. Lease payments are increased every three to five years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in a local price index.

39. Subsequent event[3]

Acquisition of ABC Bank

IAS 10.21, 22(a) On 22 February 2013 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 2013. Due to the early stage of the transaction, an estimate of the financial effect of this proposed acquisition cannot be made reliably.

Explanatory note

1.	*IAS 1.10, 81(b)*	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.
	IAS 1.12	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.

Appendix I

Consolidated income statement and consolidated statement of comprehensive income – two-statement approach[1]

For the year ended 31 December

	In millions of euro	Note	2012	2011
IFRS 7.20(b)	Interest income	8	**3,341**	3,528
IFRS 7.20(b), IAS 1.82(b)	Interest expense	8	**(1,406)**	(1,686)
	Net interest income		**1,935**	1,842
IFRS 7.20(c)	Fee and commission income	9	**854**	759
IFRS 7.20(c)	Fee and commission expense	9	**(179)**	(135)
	Net fee and commission income		**675**	624
IFRS 7.20(a)	Net trading income	10	**1,434**	1,087
IFRS 7.20(a)	Net income from other financial instruments at fair value through profit or loss	11	**21**	81
IFRS 7.20(a)	Other revenue	12	**123**	186
IAS 1.85	**Revenue**		**4,188**	3,820
	Other income		**18**	10
IFRS 7.20(e)	Net impairment loss on financial assets	20, 21, 22	**(330)**	(234)
IAS 1.99	Personnel expenses	13	**(2,264)**	(1,974)
IAS 17.35(c)	Operating lease expenses		**(344)**	(326)
IAS 1.99, 38.118(d)	Depreciation and amortisation	23, 24	**(47)**	(39)
IAS 1.99	Other expenses	14	**(397)**	(585)
IAS 1.85	**Profit before income tax**		**824**	672
IAS 1.82(d), 12.77	Income tax expense	15	**(187)**	(118)
IAS 1.82(f)	**Profit for the period**		**637**	554
	Attributable to:			
IAS 1.83(a)(ii)	Equity holders of the Bank		**610**	528
IAS 1.83(a)(i)	Non-controlling interest		**27**	26
	Profit for the period		**637**	554
IAS 33.66	Basic earnings per share (euro)	16	**0.34**	0.29
IAS 33.66	Diluted earnings per share (euro)	16	**0.33**	0.29

The notes on pages 27 to 243 are an integral part of these consolidated financial statements.

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Consolidated statement of comprehensive income

For the year ended 31 December

Reference	*In millions of euro*	2012	2011
IAS 1.81(b)	**Profit for the period**	**637**	554
	Other comprehensive income, net of income tax		
IAS 1.82(g), 21.52(b)	Foreign currency translation differences for foreign operations	**(40)**	23
IAS 1.82(g), 21.52(b)	Net gain (loss) on hedges of net investments in foreign operations	**30**	(15)
	Cash flow hedges:		
IFRS 7.23(c), IAS 1.82(g)	Effective portion of changes in fair value	**(17)**	(14)
IFRS 7.23(d), IAS 1.92	Net amount transferred to profit or loss	**10**	8
	Fair value reserve (available-for-sale financial assets):		
IFRS 7.20(a)(ii), IAS 1.82(g)	Net change in fair value	**(238)**	(106)
IFRS 7.20(a)(ii), IAS 1.92	Net amount transferred to profit or loss	**217**	83
IAS 1.85	**Other comprehensive income for the period, net of income tax**	**(38)**	(21)
IAS 1.82(i)	**Total comprehensive income for the period**	**599**	533
	Attributable to:		
IAS 1.83(b)(ii)	Equity holders of the Bank	**572**	507
IAS 1.83(b)(i)	Non-controlling interest	**27**	26
	Total recognised income and expense for the period	**599**	533

The notes on pages 27 to 243 are an integral part of these consolidated financial statements.

Explanatory notes

1.		This Appendix illustrates the disclosures in annual financial statements on adoption of IFRS 10 *Consolidated Financial Statements* and IFRS 12 *Disclosure of Interests in Other Entities*, as amended by *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (amendments to IFRS 10, IFRS 11 and IFRS 12). IFRS 10 and IFRS 12 are effective for annual periods beginning on or after 1 January 2013. This Appendix does not refer to the requirements of IFRS 11 since it is not relevant to these illustrative financial statements. This Appendix focuses on how the disclosures in a Bank's annual financial statements could change as a result of applying IFRS 10 and IFRS 12. It does not repeat other disclosures related to interests in other entities that are not expected to be affected by the early adoption of these standards. For example, this Appendix does not include example disclosures for the effects on the equity attributable to owners of the parent of any changes in its ownership in a subsidiary that do not result in a loss of control. Also, the Appendix does not include other potential consequential changes resulting from a different consolidation conclusion, for example disclosures relating to transferred assets.
	IFRS 12.C2	If an entity applies any of IFRS 10, IFRS 11 or IFRS 12 earlier than its effective date, then it should apply IFRS 10, IFRS 11, IFRS 12, IAS 27 *Separate Financial Statements* (2011) and IAS 28 *Investments in Associates and Joint Ventures* (2011) at the same time. However, if an entity decides to provide some of the disclosures required by IFRS 12 ahead of the effective date, then it is not compelled to comply with all the requirements of IFRS 12 or to apply these other standards at the same time. This Appendix illustrates one possible format for the disclosures required; other formats are possible. For a more detailed illustration of the adoption of these standards, please see the October 2012 Edition of our publication *IFRS Illustrative financial statements*. Further guidance on these new standards is included in the 9th Edition 2012/13 of our publication *Insights into IFRS* (2.5A and 3.6A).

2.	*IFRS 12.1–4, B2–B6*	The objective of IFRS 12 is to require an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. If the disclosures required by IFRS 12, together with the disclosures required by other IFRSs, do not meet this objective, then an entity discloses whatever additional information is necessary to meet the objective. An entity considers the level of detail necessary to satisfy the above disclosure objective and how much emphasis to place on each of the requirements in IFRS 12. An entity decides, in light of its circumstances, how it aggregates or disaggregates disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics. As a minimum, an entity presents information separately for interests in subsidiaries, joint ventures, joint operations, associates and unconsolidated structured entities.

3.	*IFRS 10.C2B, C4–C4A, C5–C5A*	For the purposes of IFRS 10, the 'date of initial application' is the beginning of the annual reporting period for which the IFRS is applied for the first time. At this date, an entity tests whether there is a change in the consolidation conclusion for its investees. If the consolidation conclusion does not change, then the entity is not required to make adjustments to the previous accounting for its involvement with the investees. On the other hand, if at this date an entity determines that the consolidation conclusion changes and therefore it consolidates an investee not previously consolidated, then the entity retrospectively adjusts the accounting for the investee as if the investee had been consolidated from the date that the entity would have obtained control of that investee under IFRS 10. If such retrospective application is impracticable, then the entity applies the requirements of IFRS 3 *Business Combinations* as of the beginning of the earliest period for which retrospective application is practicable, which may be the current period.

4.	*IFRS10.C4–C4A, C5–C5A, C6A*	In respect of the restatement of comparatives, an entity is only required to restate one year of comparatives. This is relevant for entities that present additional comparatives on a voluntary basis, as they may elect not to restate all comparative periods presented.

Appendix II

Example disclosures for entities that early adopt IFRS 10 *Consolidated Financial Statements* and IFRS 12 *Disclosure of Interests in Other Entities*[1, 2, 3]

2. Basis of preparation (extract)

IAS 8.28

(e) Change in accounting policy

The Group has early adopted IFRS 10 *Consolidated Financial Statements* and IFRS 12 *Disclosure of Interests in Other Entities*, with a date of initial application of 1 January 2012.

Subsidiaries, including structured entities

As a result of the adoption of IFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that is applicable to all investees, including structured entities. See Notes 3(a)(ii) and (iii).

In accordance with the transitional requirements of IFRS 10, the Group re-assessed the control conclusion for its investees as of 1 January 2012. As a consequence, the Group has changed its consolidation conclusions for certain structured entities to which the Group transfers assets as part of its securitisation programme (see Note 5). Previously these structured entities were not consolidated, principally because the Group did not have rights to the majority of the benefits and did not retain the majority of the residual or ownership risks related to such entities. However, as a consequence of re-assessment, the Group has concluded that it controls those entities.

Accordingly, the Group has restated its financial statements to reflect the consolidation of these investees.[4]

Explanatory notes

1.	*IFRS 10.C2A, IAS 8.28(f)*	When IFRS 10 is first applied, an entity is only required to disclose the quantitative impact of the change in accounting policy for the immediately preceding period. The entity may also elect to present this information for the current period or for any earlier comparative periods, but is not required to do so. In these illustrative financial statements, the Group has elected to present this information only for the immediately preceding period.
2.	*IAS 1.10(f), 39*	Although not illustrated in these illustrative financial statements, a third statement of financial position and related notes are also presented if the effect of the change in accounting policy is material.

Notes to the consolidated financial statements

2. Basis of preparation (extract) (continued)

IAS 8.28

(e) Change in accounting policy (continued)

Subsidiaries, including structured entities (continued)

The following table summarises the adjustments made to the Group's statements of financial position at 1 January 2011 and 31 December 2011, and its statements of comprehensive income and cash flows for the year ended 31 December 2011 as a result of the consolidation of these structured entities.

Statement of financial position[1, 2]

	1 January 2011		
In millions of euro	**As previously reported**	**Adjustments**	**As restated**
Cash and cash equivalents	3,040	5	3,045
Loans and advances to customers	50,548	193	50,741
Investment securities	5,128	(24)	5,104
Overall impact on total assets		174	
Debt securities issued	(9,448)	(178)	(9,626)
Other liabilities	(214)	(10)	(224)
Overall impact on total liabilities		(188)	
Retained earnings	(2,680)	10	(2,670)
Other comprehensive income – fair value reserve	(234)	4	(230)
Overall impact on total equity		14	

	31 December 2011		
In millions of euro	**As previously reported**	**Adjustments**	**As restated**
Cash and cash equivalents	2,992	7	2,999
Loans and advances to customers	56,805	211	57,016
Investment securities	5,269	(23)	5,246
Overall impact on total assets		195	
Debt securities issued	(10,248)	(204)	(10,452)
Other liabilities	(431)	(10)	(441)
Overall impact on total liabilities		(214)	
Retained earnings	(2,949)	14	(2,935)
Other comprehensive income – fair value reserve	(211)	5	(206)
Overall impact on total equity		19	

Explanatory note

1.	*IAS 8.28(f), IFRS 10.C2A*	If IAS 33 applies to the financial statements of an entity, then the entity also discloses the effect of applying IFRS 10 on basic and diluted earnings per share for the annual period immediately preceding the date of initial application of IFRS 10. The entity may also elect to present this information for the current period or for any earlier comparative periods presented, but is not required to do so.

Notes to the consolidated financial statements

2. Basis of preparation (extract) (continued)

IAS 8.28

(e) Change in accounting policy (continued)

Subsidiaries, including structured entities (continued)

Statement of comprehensive income

	For the year ended 31 December 2011		
In millions of euro	As previously reported	Adjustments	As restated
Profit for the year			
Interest income	3,528	15	3,543
Interest expense	(1,686)	(13)	(1,699)
Fee and commission income	759	(2)	757
Other revenue	186	(6)	180
Income tax expense	(118)	2	(116)
Other comprehensive income, net of income tax			
Fair value reserve (net)	(23)	(1)	(24)
Overall impact on profit and total comprehensive income		(5)	

The change in accounting policy had no impact on earnings per share for the year ended 31 December 2011.[1]

Statement of cash flows

	For the year ended 31 December 2011		
In millions of euro	As previously reported	Adjustments	As restated
Net cash used in operating activities	(813)	(198)	(1,011)
Net cash from financing activities	1,030	200	1,230
Overall impact on cash and cash equivalents		2	

3. Significant accounting policies (extract)

(a) Basis of consolidation

(ii) Subsidiaries

IFRS 10.6

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(iii) Structured entities

IFRS 10.B17, 12.A

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as the purpose and design of the investee; its practical ability to direct the relevant activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns of the investee.

Explanatory notes

1.	*IFRS 12.7–9, IAS 1.122*	An entity discloses information about significant judgements and assumptions that it has made in determining that it has control of another entity. Such disclosures include changes to those judgements and assumptions, and information when changes in facts and circumstances cause a change in the control conclusion during the reporting period.
2.		An in-depth discussion of the application of IFRS 10 to fund managers is included in our publication *IFRS Practice Issues: Applying the consolidation model to fund managers*.

Notes to the consolidated financial statements

5. Use of estimates and judgements – Critical accounting judgements in applying the Group's accounting policies (extract)

Determination of control over investees[1]

IFRS 12.7

The control indicators set out in Notes 3(a)(ii) and (iii) are subject to management's judgement that can have a significant effect in the case of the Group's interests in securitisation vehicles and investment funds.

Securitisation vehicles

IFRS 12.7(a), 9(b)

Certain securitisation vehicles sponsored by the Group under its securitisation programme are run according to pre-determined criteria that are part of the initial design of the vehicles. Outside of the day-to-day servicing of the receivables (which is carried out by the Group under a servicing contract), key decisions are required only when receivables in the vehicles go into default, and it is the Group that makes those decisions. In addition, the Group is exposed to variability of returns from the vehicles through its holding of debt securities in the vehicles. As a result, the Group has concluded that it controls these vehicles and they have been consolidated as of 1 January 2012 (see Note 2(e)).

Investment funds

IFRS 12.7(a), 9(c)

The Group acts as fund manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the fund (comprising any carried interests and expected management fees) and the investors' rights to remove the fund manager. For all funds managed by the Group, the investors (whose number ranges from 300 to over 1,000) are able to vote by simple majority to remove the Group as fund manager without cause, and the Group's aggregate economic interest is in each case less than 15 percent. As a result, the Group has concluded that it acts as agent for the investors in all cases, and therefore has not consolidated these funds.[2] See Note X for further disclosure in respect of investment funds in which the Group has an interest.

Explanatory notes

1.	*IFRS 12.10(b)(ii), 15–17*	An entity discloses information that enables users of its consolidated financial statements to evaluate the nature of, and changes in, the risks associated with its interests in consolidated structured entities. In addition to the disclosure presented in these illustrative financial statements, if during the reporting period a parent or any of its subsidiaries has, without a contractual obligation to do so, provided financial or other support to a consolidated structured entity, then the entity discloses: • the type and amount of support provided, including situations in which the parent or its subsidiaries assisted the structured entity in obtaining financial support; and • the reasons for providing the support. In addition, if the above non-contractual financial or other support was provided to a previously unconsolidated structured entity and that provision of support resulted in the entity controlling the structured entity, then the entity discloses an explanation of the relevant factors in reaching that decision. An entity also discloses any current intention to provide financial or other support to a consolidated structured entity, including any intention to assist the structured entity in obtaining financial support.
2.	*IFRS 12.10(a)(ii), 12(d), B17*	An entity discloses information that enables users of its consolidated financial statements to understand the interest that non-controlling interests (NCI) have in the group activities and cash flows. In addition to the disclosures presented in these illustrative financial statements, an entity discloses the proportion of voting rights held by NCI if different from the proportion of ownership interests held. However, if an entity's interest in a subsidiary is classified as held-for-sale in accordance with IFRS 5, then it is not required to present the summarised financial information for that subsidiary.
3.	*IFRS 12.10(b)(i), 13*	If applicable, an entity discloses information that enables users of its consolidated financial statements to evaluate the nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the group. In this regard, it discloses: • significant restrictions on its ability to access or use the assets and settle the liabilities of the group, such as: – those that restrict the ability of a parent or its subsidiaries to transfer cash or other assets to (or from) other entities within the group; or – guarantees or other requirements that may restrict dividends and other capital distributions being paid, or loans and advances being made or repaid, to (or from) other entities within the group; • the nature and extent to which protective rights of NCI can significantly restrict the entity's ability to access or use the assets to settle the liabilities of the group (such as when a parent is obliged to settle liabilities of a subsidiary before settling its own liabilities, or approval of NCI is required either to access the assets or to settle the liabilities of a subsidiary); and • the carrying amounts in the consolidated financial statements of the assets and liabilities to which those restrictions apply.

Notes to the consolidated financial statements

36. Group entities (extract)

Financial support given to structured entities[1]

IFRS 12.14

During the year, the Group has issued guarantees of €80 million (2011: nil) to holders of notes issued by certain structured entities that the Group consolidates. These guarantees would require the Group to reimburse the note holders for losses that they incur if the underlying assets do not perform up to the specified amount of their contractual cash flows.

Non-controlling interests in subsidiaries[2, 3]

IFRS 12.10(a)(ii), 12(g), B10(b)

The following table summarises the information relating to the Group's subsidiary that has material non-controlling interests (NCI), before any intra-group eliminations.

IFRS 12.12(a)

Blue Banking Pty Ltd

IFRS 12.12(c)

NCI percentage	**20%**	**20%**
In millions of euro	**2012**	**2011**
Loans and advances	**2,015**	1,770
Other assets	**120**	230
Debt securities issued	**-**	-
Other liabilities	**1,360**	1,360
Net assets	**775**	640
Carrying amount of NCI (*IFRS 12.12(f)*)	**155**	128
Revenue	**750**	717
Profit (loss)	**135**	130
Total comprehensive income	**135**	130
Profit (loss) allocated to NCI (*IFRS 12.12(e)*)	**27**	26
Cash flows from operating activities	**126**	211
Cash flows from investment activities	**(50)**	(23)
Cash flows from financing activities, before dividends to NCI	**12**	(15)
Cash flows from financing activities – cash dividends to NCI (*IFRS 12.B10(a)*)	**-**	-
Net increase (decrease) in cash and cash equivalents	**88**	173

IFRS 12.12(b)

Blue Banking Pty Ltd has its principal place of business in [Country].

Explanatory notes

1.	*IFRS 12.C2B*	The disclosure requirements related to its interests in unconsolidated structured entities may be presented prospectively as from the first annual period for which IFRS 12 is applied. This approach is followed in these illustrative financial statements.
2.	*IFRS 12.24–31*	The disclosure objective in respect of an entity's interests in unconsolidated structured entities is to provide information that helps users of its financial statements to: • understand the nature and extent of its interests in unconsolidated structured entities; and • evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities. In order to meet this disclosure objective, IFRS 12 requires extensive qualitative and quantitative disclosures about the nature of an entity's interests and the nature of its risks.
3.	*IFRS 12.24, B25–B26*	The standard requires certain disclosures if an entity has sponsored an unconsolidated structured entity for which it does not have an interest at the end of the reporting period. An entity discloses additional information that is necessary to meet the disclosure objective.

Note X Involvement with unconsolidated structured entities[1,2]

IFRS 12.26–27(a), 29

The table below describes the types of structured entities in which the Group either holds an interest, or does not hold an interest but is a sponsor. The Group considers itself a sponsor of a structured entity when it facilitates the establishment of the structured entity.

Type of structured entity	Nature and purpose	Interest held by the Group
Securitisation vehicles for loans and advances (see Note 35)	Generate: • funding for the Group's lending activities • margin through sale of assets to investors • fees for loan servicing. These vehicles are financed through the issue of notes to investors.	Investments in senior notes issued by the vehicles
Investment funds	Generate fees from managing assets on behalf of third-party investors. These vehicles are financed through the issue of units to investors.	Investments in units issued by the fund
Securitisation vehicles for third-party receivables	Created on behalf of third parties to securitise their trade receivables. These vehicles are financed through loans from third-party banks.	None

IFRS 12.29

The table below sets out interests held by the Group in unconsolidated structured entities. The maximum exposure to loss is equal to the sum of carrying amount of the assets held.

31 December 2012

Carrying amount *In millions of euro*	**Investment securities**
Securitisation vehicles for loans and advances	**256**
Investment funds	**238**
Total	**494**

IFRS 12.30

During the year, the Group provided financial support of €10 million to an unconsolidated securitisation vehicle to enable it to make payments to the holders of the notes issued by the vehicle. Although under no contractual obligation to do so, the Group decided to provide such support after careful consideration of its role in the set-up of the vehicle and its reputation in providing such services. The support was provided in order to manage the short-term liquidity needs of the entity.

IFRS 12.27(b)–(c)

The table below sets out information in respect of structured entities that the Group sponsors, but in which the Group does not have an interest.[3]

2012

In millions of euro	
Securitisation vehicles for third-party receivables	
Fee income earned from securitisation vehicles	**20**
Carrying amount of assets transferred by third parties to securitisation vehicles	**769**

Explanatory note

1. *IFRS 13.6–7, C2*

This Appendix illustrates the disclosures in annual financial statements on adoption of IFRS 13 *Fair Value Measurement*. The standard is effective for annual periods beginning on or after 1 January 2013.

The Appendix assumes that the entity early adopted the standard on 1 January 2012 and that the adoption of IFRS 13 does not change the fair value measurement of the Group's assets and liabilities. However, measurement differences may arise in practice, for example in respect of:

- the extent to which portfolios of financial assets and financial liabilities with offsetting risks are measured on the basis of net exposures;
- reflecting the size of the net position in the fair value measurement of portfolios of financial instruments; or
- reflecting non-performance risk in measuring fair values of financial liabilities.

IFRS 13 disclosure requirements relate to assets and liabilities measured at fair value or for which fair value disclosures are made, with limited explicit exceptions. Other currently effective IFRSs also include some disclosure requirements on fair value measurements, e.g. IFRS 7 requires extensive disclosures on financial instruments, and IAS 40 requires disclosures on investment properties stated at fair value and disclosure of the fair value of properties stated at cost, which in some cases are the same as or similar to the IFRS 13 disclosure requirements.

To avoid any duplication, this Appendix does not include many detailed disclosures, which were already included under the current guidance but instead focuses on additional disclosures required by IFRS 13. However, as implementation of IFRS 13 is likely to require extensive changes to disclosures about the valuation of financial instruments, the part of Note 5 relating to valuation of financial instruments has been reproduced in full and amended paragraphs marked by double line in the margin. This makes it easier to see changes in their relevant context.

IFRS 13 is applied prospectively as of the beginning of the annual period in which it is initially applied. Prospective application will mean that any changes from adjustments to valuation techniques at the date of adoption will be recognised in the period of adoption either in profit or loss or other comprehensive income, when a gain or loss is recognised in other comprehensive income in accordance with the IFRS that requires or permits fair value measurement. The disclosure requirements of IFRS 13 need not be applied in comparative information provided for periods before its initial application. Accordingly, this Appendix does not include comparative information for 2011.

Further guidance on IFRS 13 is included in the 9th Edition 2012/13 of our publication *Insights into IFRS* (2.4A).

Appendix III

Example disclosures for entities that early adopt IFRS 13 *Fair Value Measurement*[1]

2. Basis of preparation (extract)

IAS 8.28

(e) Change in accounting policy

The Group has early adopted IFRS 13 *Fair Value Measurement* with effect from 1 January 2012. In accordance with the transitional provisions, IFRS 13 has been applied prospectively from that date. As a result, the Group has adopted a new definition of fair value, as set out in Note 3(j)(vi). The change had no impact on the measurements of the Group's assets and liabilities. However, the group has included new disclosures in the financial statements which are required under IFRS 13.

3. Significant accounting policies (extract)

(j) Financial assets and financial liabilities

(vi) Fair value measurement

Policy applicable from 1 January 2012

IFRS 13.9, 24, 42

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

IFRS 13.79, A

When applicable, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

IFRS 13.61–62

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

IFRS 7.28(a)

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

IFRS 13.70–71

If an asset or a liability measured at fair value has a bid price and an ask price, the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

IFRS 13.48

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

IFRS 13.95

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Explanatory note

1. *IFRS 13.93, C3*

Many of the IFRS 13 disclosure requirements regarding financial assets and financial liabilities are already required under IFRS 7.

However, IFRS 13 includes additional disclosure requirements. These include the following in respect of fair value measurements categorised within Level 3:

- for recurring and non-recurring fair value measurements, quantitative information about significant unobservable inputs (the entity is not required to create such quantitative information if the unobservable inputs are not developed by the entity when measuring fair value. However, when providing this disclosure, the entity does not ignore quantitative unobservable inputs that are significant to the fair value measurement that are reasonably available);
- for recurring and non-recurring fair value measurement, a description of the valuation process used by the entity. For recurring fair value measurements, a narrative description of the sensitivity of the fair value measurements to changes in unobservable inputs and inter-relationships between unobservable inputs;
- for recurring fair value measurements, disclosure of gains or losses recognised in other comprehensive income and of unrealised gains and losses.

IFRS 13 also requires disclosure of:

- all transfers (not just significant ones) between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers;
- for each class of assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed, the level of the fair value hierarchy within which the fair value measurements are categorised;
- when an entity concludes that transaction price was not the best evidence of fair value at initial recognition, the reasons for this conclusion and a description of evidence that supports fair value.

Some of the new disclosures in IFRS 13 have already been reflected in the main body of these illustrative financial statements in response to recommendations made by the IASB Expert Advisory Panel. Where appropriate, we have expanded these sections to illustrate additional disclosures that would be required following the implementation of IFRS 13.

Notes to the consolidated financial statements

5. Use of estimates and judgements

IAS 1.122

Critical accounting judgements in applying the Group's accounting policies

Valuation of financial instruments[1]

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

IFRS 13.72

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

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable 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: Inputs that are unobservable. 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 13.93(d)

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 other valuation techniques.

Other 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 measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

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.

However, where the Group measures portfolios of financial assets and financial liabilities on the basis of net exposures, it applies judgement in determining appropriate portfolio level adjustments such as bid-ask spread. Such adjustments are derived from observable bid-ask spreads for similar instruments and adjusted for factors specific to the portfolio.

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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.

IFRS 13.93(g), 13.IE65

The Group has an established control framework 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;
- re-performance of model valuations;
- a review and approval process for new models and changes to models involving both Product Control and Group Market Risk;
- quarterly calibration and back testing of models against observed market transactions;
- analysis and investigation of significant daily valuation movements;
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous month, by a committee of senior Product Control and Group Market Risk personnel.

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, Product Control assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- verifying that the broker or pricing service is approved by the Group for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;
- where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

Significant valuation issues are reported to the Group Audit Committee.

Explanatory note

1.	*IAS 39.AG76*	The guidance on recognising gains or losses at initial recognition, although modified by IFRS 13, is retained in IAS 39. However, under IAS 39 before the adoption of IFRS 13, the best evidence of fair value at initial recognition is assumed to be the transaction price unless a different fair value measurement is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. Under the amended guidance, the initial measurement of the financial instrument is based on fair value as defined in IFRS 13, but the carrying amount of the financial instrument is adjusted to defer any difference between the transaction price and a fair value measurement that is not evidenced by a quoted price in an active market or by a valuation technique that uses only observable market data. Accordingly, although we assume in this Appendix that the aggregate difference yet to be recognised in profit or loss did not change as a result of the adoption of IFRS 13; it now represents the difference between the transaction price and the fair value at initial recognition under IFRS 13 while previously it represented the difference between the fair value under IAS 39 (which was the transaction price) and the amount that would have been determined at that date using a valuation technique which is dependent on unobservable inputs. The change in the nature of the difference does not impact the amount at which financial instruments are initially recognised. We assume in this Appendix that the fair value presented in note 5 for financial instruments measured at fair value in the statement of financial position is equal to their carrying amount although the carrying amount may also include a deferred difference as described above.

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 13.93(b)

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. The amounts are based on the values recognised in the statement of financial position.[1]

In millions of euro	Note	Level 1	Level 2	Level 3	Total
31 December 2012					
Trading assets	18	**10,805**	**5,177**	**680**	**16,662**
Derivative assets held for risk management	19	**26**	**832**	**-**	**858**
Loans and advances to customers	21	**-**	**3,827**	**159**	**3,986**
Investment securities	22	**2,606**	**2,886**	**709**	**6,201**
		13,437	**12,722**	**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**

IFRS 13.93(c)

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.

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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 13.93(e)

The 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:

2012

	In millions of euro	Trading assets	Loans and advances to customers	Investment securities	Trading liabilities	Total
IFRS 13.93(e)	Balance at 1 January	**743**	**119**	**873**	**(69)**	**1,666**
	Total gains or losses:					
IFRS 13.93(e)(i)	in profit or loss	**12**	**(4)**	**(71)**	**5**	**(58)**
IFRS 13.93(e)(ii)	in other comprehensive income	**-**	**-**	**(81)**	**-**	**(81)**
IFRS 13.93(e)(iii)	Purchases	**41**	**44**	**-**	**-**	**85**
IFRS 13.93(e)(iii)	Issues	**-**	**-**	**-**	**(6)**	**(6)**
IFRS 13.93(e)(iii)	Settlements	**(51)**	**-**	**(6)**	**-**	**(57)**
IFRS 13.93(e)(iv)	Transfers into Level 3	**-**	**-**	**-**	**-**	**-**
IFRS 13.93(e)(iv)	Transfers out of Level 3	**(65)**	**-**	**(6)**	**-**	**(71)**
IFRS 13.93(e)	Balance at 31 December	**680**	**159**	**709**	**(70)**	**1,478**

Total gains or losses for the year in the above table are presented in the statement of comprehensive income as follows

2012

	In millions of euro	Trading assets	Loans and advances to customers	Investment securities	Trading liabilities	Total
IFRS 13.93(e)(i)–(ii)	Total gains or losses included in profit or loss for the year:					
	Net trading income	**12**	**-**	**-**	**5**	**17**
	Net income from other financial instruments carried at fair value	**-**	**(4)**	**(71)**	**-**	**(75)**
	Total gains or losses recognised in other comprehensive income – net change in fair value of available-for-sale financial assets	**-**	**-**	**(81)**	**-**	**(81)**
IFRS 13.93(f)	Total gains or losses for the year included in profit or loss attributable to the change in unrealised gains and losses relating to assets and liabilities held at the end of the reporting period:					
	Net trading income	**6**	**-**	**-**	**6**	**12**
	Net income from other financial instruments carried at fair value	**-**	**(2)**	**(65)**	**-**	**(67)**

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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 13.93(e)(iv)

During the current year, 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-dated option volatilities, which were previously unobservable became observable.

Apart from the above, during the current year low trading volumes continued and there has not been sufficient trading volume to establish an active market and so the Group continued to determine the fair value of certain asset-backed securities using valuation techniques. These securities are backed primarily by static pools of residential mortgages and enjoy a senior claim on cash flows. The fair value of asset-backed securities measured using significant unobservable inputs at 31 December 2012 was €422 million for trading securities and €685 million for investment securities.

IFRS 13.93(d)

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, expected house price movements and expected prepayment 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. 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.

As part of its trading activities the Group enters into OTC structured derivatives, primarily options indexed to credit spreads, 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, principally expected long-term volatilities and expected correlations between different underlyings.

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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 13.93(d), 93(h)(i), IE63, IE66

The table below sets out information about significant unobservable inputs used at year end in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Type of financial instrument	Fair values at 31 December 2012	Valuation technique	Significant unobservable input	Range of estimates (weighted average) for unobservable input	Fair value measurement sensitivity to unobservable inputs
Residential asset-backed securities	1,107	Discounted cash flow	Probability of default Loss severity Expected prepayment rate	8%-12% (10%) 40%-60% (50%) 3%-6% (4.8%)	Significant increases in any of these inputs in isolation would result in lower fair values. Significant reduction would result in higher fair values. Generally, a change in assumption used for the probability of default is accompanied by a directionally similar change in assumptions used for the loss severity and a directionally opposite change in assumptions used for prepayment rates.
OTC option-based credit structured derivatives	100	Option model	Correlations between credit spreads Annualised volatility of credit spreads	0.35-0.55 (0.47) 5%-60% (20%)	Significant increase in volatility would result in higher fair value.
OTC option-based non-credit structured derivatives	88	Option model	Correlations between different underlyings Volatility of interest rate Volatility of FX rate Volatilities of equity indices	0.35-0.55 (0.47) 5%-30% (15%) 10%-40% (20%) 10%-90% (40%)	Significant increases in volatilities would result in higher fair value.
Loans and advances and retained interest in securitisations	183	Discounted cash flow	Risk adjusted discount rate	Spread of 5%-7% (6%) above risk free interest rate	Significant increase in the spread above risk free rate would result in a lower fair value.

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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 13.IE65(e)

Significant unobservable inputs are developed as follows:

- Expected prepayment rates are derived from historical prepayment trends, adjusted to reflect current conditions.
- Probabilities of defaults and loss severities for commercial assets are derived from the Credit Default Swap (CDS) market. When this information is not available, the inputs are obtained from historical default and recovery information and adjusted for current conditions.
- Probabilities of default and loss severities for retail assets are derived from historical default and recovery information and adjusted for current conditions.
- Correlations between and volatilities of the underlying are derived through extrapolation of observable volatilities, recent transaction prices, quotes from other market participants, data from consensus pricing services and historical data adjusted for current conditions.
- Risk adjusted spreads are derived from the CDS market (when this information is available) and from historical defaults and prepayment trends adjusted for current conditions.

IFRS 13.93(h)(ii)

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:

	Effect on profit or loss		Effect on other comprehensive income	
In millions of euro	**Favourable**	**(Unfavourable)**	**Favourable**	**(Unfavourable)**
31 December 2012				
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)**	**-**	**-**
Total	**114**	**(112)**	**44**	**(53)**

IFRS 13.93(h)(ii)

The favourable and unfavourable effects of using reasonably possible alternative assumptions for valuation of residential asset-backed securities have been calculated by recalibrating the model values using unobservable inputs based on averages of the upper and lower quartiles respectively of the Group's ranges of possible estimates. Key inputs and assumptions used in the models at 31 December 2012 include expected weighted average probability of default of 10 percent (with reasonably possible alternative assumptions of 6 percent and 14 percent), a loss severity of 50 percent (with reasonably possible alternative assumptions of 35 percent and 70 percent) and an expected prepayment rate of 4.8 percent (with reasonably possible alternative assumptions of 2 percent and 8 percent).

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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 13.93(h)(ii)

The favourable and unfavourable effects of using reasonably possible alternative assumptions for valuation of OTC structured derivatives 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). The most significant unobservable inputs used in the models at 31 December 2012 relate to correlations of changes in prices between different underlyings and the volatilities of the underlyings. The weighted average of correlations used in the models is 0.47 with reasonably possible alternative assumptions of 0.30 and 0.58. The weighted average of the credit spread volatilities used in the models at 31 December 2012 is 20 percent with reasonably possible alternative assumptions of 5 percent and 70 percent; interest rate volatilities: 15, 5 and 40 percent respectively; FX rate volatilities: 20, 5 and 50 percent respectively; and equity indices volatilities: 40, 10 and 100 percent respectively.

The favourable and unfavourable effects of using reasonably possible alternative assumptions for valuation of loans and advances and retained interests in securitisations have been calculated by recalibrating the model values using unobservable inputs based on averages of the upper and lower quartiles respectively of the Group's ranges of possible estimates. The most significant unobservable inputs relate to risk adjusted discount rates. The weighted average of risk adjusted discount rates used in the models at 31 December 2012 is 6 percent above risk free interest rate (with reasonably possible alternative assumptions of 4 percent and 8 percent).

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, judgement is exercised in selecting the most appropriate point in the range, including 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.

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 or losses reported above that are attributable to observable and unobservable inputs. However, the losses on asset-backed securities in 2012 are principally dependent on the unobservable inputs described above.

Explanatory notes

1.	*IFRS 13.97*	IFRS 13 includes additional disclosure requirements regarding the level of the fair value hierarchy within which the fair value measurements are categorised for financial assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed. Consequently, these additional disclosure requirements are included as a modification of Note 7.
2.	*IFRS 7.28(c), 13.57–59, B4*	Paragraph 28 of IFRS 7, as amended by IFRS 13, now requires an explanation of why the entity has concluded that the transaction price was not the best evidence of fair value, including description of evidence that supports fair value. These additional disclosure requirements are included as a modification of the part of Note 18 discussing "unobservable valuation differences on initial recognition".

Notes to the consolidated financial statements

7. Financial assets and liabilities (extract)[1]

Accounting classifications and fair values

IFRS 13.97

The following table analyses the fair values of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised:

31 December 2012

In millions of euro	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Assets					
Cash and cash equivalents	-	2,907	-	2,907	2,907
Loans and advances to banks	-	5,602	-	5,602	5,572
Loans and advances to customers	-	61,960	418	62,378	59,084
Held to maturity investment securities	106	-	-	106	101
Liabilities					
Deposits from banks	-	12,301	-	12,301	11,678
Deposits from customers	-	55,696	-	55,696	53,646
Debt securities issued	-	9,885	-	9,885	8,818
Subordinated liabilities	-	5,763	-	5,763	5,642

18. Trading assets and liabilities (extract)[2]

Unobservable valuation differences on initial recognition

IFRS 7.28

The Group enters into derivative transactions with corporate clients. The transaction price in the market in which these transactions are undertaken may be different from fair value in the Group's principal market for those instruments which is the wholesale dealer market. At initial recognition, the Group estimates the fair values of derivatives transacted with corporate clients using valuation techniques. In many cases all significant inputs into the valuation techniques are wholly observable, for example by reference to information from similar transactions in the wholesale dealer market. In cases where all inputs are not observable, for example because there are no observable trades in a similar risk at the trade date, the Group uses valuation techniques that rely on unobservable inputs – e.g. volatilities of certain underlyings.

When fair value at initial recognition is not evidenced by a quoted price in an active market or based on a valuation technique that uses data only from observable markets, any difference between the fair value at initial recognition and the transaction price is not recognised in profit or loss immediately but is deferred (see Note 3(j)(vi)).

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	2012
Balance at 1 January	22
Increase due to new trades	24
Reduction due to passage of time	(8)
Reduction due to redemption / sales / transfers / improved observability	(12)
Balance at 31 December	26

Explanatory note

1.	*IFRS 13.93(a)–(b)*	IFRS 13 includes additional fair value disclosures in respect of investments properties under the scope of IAS 40. These additional disclosure requirements are included as a modification of Note 26.

Notes to the consolidated financial statements

26. Other assets (extract)

IFRS 13.93(a)–(b)

Fair value hierarchy[1]

The fair values of the Group's investment properties are categorised into Level 3 of the fair value hierarchy.

IFRS 13.93(e)

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements of the Group's investment properties.

	In millions of euro	Investment property
IFRS 13.93(e)	Balance at 1 January 2012	**71**
IFRS 13.93(e)(iii)	Acquisitions	**6**
IFRS 13.93(e)(iii)	Disposals	**(8)**
IFRS 13.93(e)(iii)	Reclassification from property, plant and equipment	**-**
IFRS 13.93(e)(i)	**Gains and losses for the period**	
IFRS 13.93(f)	Changes in fair value – other income – realised	**-**
IFRS 13.93(f)	Changes in fair value – other income – unrealised	**(10)**
IFRS 13.93(e)	Balance at 31 December 2012	**59**

Explanatory notes

1.	*IFRS 13.93(d)*	If there has been a change in the valuation techniques applied to fair value measurements categorised in Levels 2 or 3, then the entity discloses the reasons for the change.

2.	*IFRS 13.93(d)*	The entity is not required to create quantitative information for inputs to fair value measurements categorised in Level 3 if the unobservable inputs are not developed by the entity when measuring fair value. However, when providing this disclosure, the entity does not ignore quantitative unobservable inputs that are significant to the fair value measurement that are reasonably available.

26. Other assets (extract) (continued)

IFRS 13.93(d), 93(h), 99, IE65(e)

The following table shows the valuation techniques used in the determination of fair values for investment properties, as well as the unobservable inputs used in the valuation models.

Type of investment property	Valuation approach[1]	Key unobservable inputs[2]	Inter-relationship between key unobservable inputs and fair value measurement
Commercial properties when prices per square metre for comparable buildings and leases are available	The fair values are determined by applying the market-comparison approach. The valuation model is based on a price per square metre for buildings derived from observable market data from an active and transparent market. This price is adjusted for differences in quality and lease terms between the subject property and comparable properties.	• Prices per square metre (X to Y). • Premium (discount) on the quality of the building and lease terms (-30% to 35%).	The estimated fair value increases the higher are prices per square metre and premiums for higher quality buildings and lease terms.
Commercial properties when comparable prices per square metre for comparable buildings and leases are not available	In the absence of a price per square metre for similar buildings with comparable lease terms, the fair value is determined by applying the income approach. The valuation models are based on the estimated rental value of the property. A market yield is applied to the estimated rental value to arrive at the gross property valuation. When actual rents differ materially from the estimated rental value, adjustments are made to reflect actual rents. Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Group and the lessee, and the remaining economic life of the property.	• Market rents (A to B). • Investment property yields (from 4.8% to 7.9% depending on the location). Yields are derived from specialised publications from the related markets and comparable transactions.	The estimated fair value increases the lower are yields.

Explanatory notes

1.	*IFRS 7.13B, 13F, B51–B53*	The purpose of this Appendix is to assist in the preparation of consolidated financial statements on early adoption of *Disclosures–Offsetting Financial Assets and Financial Liabilities* (amendments to IFRS 7). It illustrates one possible format for how an entity might present the minimum quantitative disclosures required by IFRS 7.13C(a)–(e) by type of financial instrument. However, other formats are possible. Where appropriate, an entity will have to supplement the specific quantitative disclosures required with additional (qualitative) disclosures, depending on: • the terms of the enforceable master netting arrangements and similar agreements, including the nature of the rights of set-off; and • their actual and potential effect on the entity's financial position. In addition, it may be helpful if an entity considers whether any related existing disclosures – e.g. disclosures related to collateral under IFRS 7.14–15 – should be included in the note or cross-referred to it. Further guidance on these Amendments is included in the 9th Edition 2012/13 of our publication *Insights into IFRS* (7.8.150) and *First Impressions Offsetting financial assets and financial liabilities* (February 2012).
2.	*IFRS 7.44R, BC24AI, IAS 1.10(f)*	When an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements, IAS 1.10(f) requires an entity to provide a statement of financial position as at the beginning of the earliest comparative period. The IASB clarifies in the Basis for Conclusions to the Amendments that IAS 1.10(f) does not apply to the Amendments.
3.		This Appendix illustrates the key changes to the financial statements. In addition, consequential changes may be required to other parts of the financial statements, for example to Note 4(b).

Appendix IV

Example disclosures for entities that early adopt *Disclosures – Offsetting Financial Assets and Financial Liabilities* (amendments to IFRS 7)[1, 2, 3]

Offsetting financial assets and financial liabilities

IFRS 7.13A

The Group has early adopted *Disclosures – Offsetting Financial Assets and Financial Liabilities* (amendments to IFRS 7). The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

IFRS 7.B40–B41

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the tables below unless they are offset in the statement of financial position.

IFRS 7.13E, B50

The Group's derivative transactions that are not transacted on an exchange are entered into under International Derivatives Swaps and Dealers Association (ISDA) Master Netting Agreements. In general, under such agreements the amounts owed by each counterparty that are due on a single day in respect of all transactions outstanding in the same currency under the agreement are aggregated into a single net amount being payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions.

The Group's sale and repurchase, and reverse sale and repurchase transactions, and securities borrowing and lending are covered by master agreements with netting terms similar to those of ISDA Master Netting Agreements.

The above ISDA and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties. In addition the Group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The Group receives and accepts collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives;
- sale and repurchase, and reverse sale and repurchase agreements; and
- securities lending and borrowing.

Such collateral is subject to the standard industry terms of ISDA Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

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Offsetting financial assets and financial liabilities (continued)

IFRS 7.13C

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

31 December 2012

In millions of euro

Types of financial assets	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position: Financial instruments	Related amounts not offset in the statement of financial position: Cash collateral received	Net amount
Derivatives-trading assets	**978**	**-**	**978**	**(287)**	**(688)**	**3**
Derivatives held for risk management	**858**	**-**	**858**	**(147)**	**(708)**	**3**
Reverse sale and repurchase, securities borrowing and similar agreements	**7,818**	**-**	**7,818**	**(7,818)**	**-**	**-**
Loans and advances to customers	**112**	**(98)**	**14**	**-**	**-**	**14**
Total	**9,766**	**(98)**	**9,668**	**(8,252)**	**(1,396)**	**20**

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

31 December 2012

In millions of euro

Types of financial liabilities	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position: Financial instruments	Related amounts not offset in the statement of financial position: Cash collateral pledged	Net amount
Derivatives-trading liabilities	**408**	**-**	**408**	**(287)**	**(117)**	**4**
Derivatives held for risk management	**828**	**-**	**828**	**(147)**	**(676)**	**5**
Sale and repurchase, securities lending and similar agreements	**387**	**-**	**387**	**(387)**	**-**	**-**
Customer deposits	**98**	**(98)**	**-**	**-**	**-**	**-**
Total	**1,721**	**(98)**	**1,623**	**(821)**	**(793)**	**9**

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Offsetting financial assets and financial liabilities (continued)

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

31 December 2011

In millions of euro

Types of financial assets	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position: Financial instruments	Related amounts not offset in the statement of financial position: Cash collateral received	Net amount
Derivatives-trading assets	957	-	957	(239)	(715)	3
Derivatives held for risk management	726	-	726	(109)	(614)	3
Reverse sale and repurchase, securities borrowing and similar agreements	7,412	-	7,412	(7,343)	-	69
Loans and advances to customers	109	(97)	12	-	-	12
Total	9,204	(97)	9,107	(7,691)	(1,329)	87

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

31 December 2011

In millions of euro

Types of financial liabilities	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position: Financial instruments	Related amounts not offset in the statement of financial position: Cash collateral pledged	Net amount
Derivatives-trading liabilities	372	-	372	(239)	(130)	3
Derivatives held for risk management	789	-	789	(109)	(677)	3
Sale and repurchase, securities lending and similar agreements	412	-	412	(412)	-	-
Customer deposits	97	(97)	-	-	-	-
Total	1,670	(97)	1,573	(760)	(807)	6

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Offsetting financial assets and financial liabilities (continued)

IFRS 7.B42

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statement of financial position that are disclosed in the above tables are measured in the statement of financial position on the following basis:

- derivative assets and liabilities – fair value;
- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements and securities lending and borrowing – amortised cost;
- loans and advances to customers – amortised cost; and
- customer deposits – amortised cost.

The amounts in the above tables that are offset in the statement of financial position are measured on the same basis.

IFRS 7.B46

The tables below reconcile the 'Net amounts of financial assets and financial liabilities presented in the statement of financial position', as set out above, to the line items presented in the statement of financial position.

31 December 2012

In millions of euro

<table>
<tr><th>Types of financial assets</th><th>Net amounts</th><th>Line item in statement of financial position</th><th>Carrying amount in statement of financial position</th><th>Financial assets not in scope of offsetting disclosures</th><th>Note</th></tr>
<tr><td>Derivatives-trading assets</td><td>978</td><td>Non-pledged trading assets</td><td>16,122</td><td>15,144</td><td>18</td></tr>
<tr><td>Derivatives held for risk management</td><td>858</td><td>Derivative assets held for risk management</td><td>858</td><td>-</td><td>19</td></tr>
<tr><td>Reverse sale and repurchase, securities borrowing and similar agreements</td><td>7,818</td><td rowspan="2">Loans and advances to customers</td><td rowspan="2">63,070</td><td rowspan="2">55,238</td><td rowspan="2">21</td></tr>
<tr><td>Loans and advances to customers</td><td>14</td></tr>
</table>

In millions of euro

<table>
<tr><th>Types of financial liabilities</th><th>Net amounts</th><th>Line item in statement of financial position</th><th>Carrying amount in statement of financial position</th><th>Financial liabilities not in scope of offsetting disclosures</th><th>Note</th></tr>
<tr><td>Derivatives-trading liabilities</td><td>408</td><td rowspan="2">Trading liabilities</td><td rowspan="2">7,026</td><td rowspan="2">6,548</td><td rowspan="2">18</td></tr>
<tr><td rowspan="2">Sale and repurchase, securities lending and similar agreements</td><td>70</td></tr>
<tr><td>317</td><td>Deposits from banks</td><td>11,678</td><td>11,361</td><td>27</td></tr>
<tr><td>Derivatives held for risk management</td><td>828</td><td>Derivative liabilities held for risk management</td><td>828</td><td>-</td><td>19</td></tr>
<tr><td>Customer deposits</td><td>-</td><td>Customer deposits</td><td>53,646</td><td>53,646</td><td>28</td></tr>
</table>

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Offsetting financial assets and financial liabilities (continued)

31 December 2011

In millions of euro

Types of financial assets	Net amounts	Line item in statement of financial position	Carrying amount in statement of financial position	Financial assets not in scope of offsetting disclosures	Note
Derivatives-trading assets	957	Non-pledged trading assets	15,249	14,292	18
Derivatives held for risk management	726	Derivative assets held for risk management	726	-	19
Reverse sale and repurchase, securities borrowing and similar agreements	7,412	Loans and advances to customers	56,805	49,381	21
Loans and advances to customers	12				

In millions of euro

Types of financial liabilities	Net amounts	Line item in statement of financial position	Carrying amount in statement of financial position	Financial liabilities not in scope of offsetting disclosures	Note
Derivatives-trading liabilities	372	Trading liabilities	6,052	5,594	18
Sale and repurchase, securities lending and similar agreements	86				
	326	Deposits from banks	10,230	9,904	27
Derivatives held for risk management	789	Derivative liabilities held for risk management	789	-	19
Customer deposits	-	Customer deposits	48,904	48,904	28

Technical guide

Form and content of financial statements

IAS 1 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. IFRS is not limited to a particular legal framework. Therefore, financial statements prepared under IFRS 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 on for a complete understanding of the requirements of IFRS and should not be used as a substitute for referring to the standards and interpretations themselves. The accounting policies appropriate for an entity depend on the facts and circumstances of that entity, including the accounting policy choices an entity makes, and may differ from the disclosures presented in these illustrative financial statements. The recognition and measurement requirements of IFRS are discussed in our publication *Insights into IFRS* (9th Edition).

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; and
- the entity's resources not recognised in the statement of financial position in accordance with IFRS.

First-time adopters of IFRS

These illustrative financial statements assume that the entity is not a first-time adopter of IFRS. IFRS 1 *First-time Adoption of International Financial Reporting Standards* applies to an entity's first financial statements prepared in accordance with IFRS. IFRS 1 requires extensive disclosures explaining how the transition from previous GAAP to IFRS 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 IFRS 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. For more information see KPMG's *Illustrative financial statements: first-time adopters*, published in February 2010 and *Illustrative condensed interim financial statements: first-time adopters*, published in July 2011.

Other ways KPMG member firms' professionals can help

A more detailed discussion of the accounting issues that arise from the application of IFRS can be found in the 9th Edition 2012/13 of our publication *Insights into IFRS*.

In addition, you may find it helpful to visit kpmg.com/ifrs to keep up to date with the latest developments in IFRS and browse our suite of publications. Whether you are new to IFRS or a current user of IFRS, you can find digestible summaries of recent developments, detailed guidance on complex requirements, and practical tools such as IFRS Newsletters and checklists.

For a sector-specific or local perspective, follow the links to the IFRS resources available from KPMG member firms around the world, which are also available on kpmg.com.

All of these publications are relevant for those involved in external IFRS reporting. The *In the Headlines* series provides a high level briefing for audit committees and boards.

User need	Publication series	Purpose
Briefing	In the Headlines	Provides a high-level summary of significant accounting, auditing and governance changes together with their impact on entities.
	IFRS Newsletters	Highlights recent IASB and FASB discussions on the financial instruments, insurance, leases and revenue projects. Includes an overview, an analysis of the potential impact of decisions, current status and anticipated timeline for completion.
	The Balancing Items	Focuses on narrow-scope amendments to IFRS.
	New on the Horizon	Considers the requirements of due process documents such as exposure drafts and provides KPMG's insight. Also available for specific sectors.
	First Impressions	Considers the requirements of new pronouncements and highlights the areas that may result in a change in practice. Also available for specific sectors.
Application issues	Insights into IFRS	Emphasises the application of IFRS in practice and explains the conclusions that we have reached on many interpretive issues.
	Insights into IFRS: An overview	Provides a structured guide to the key issues arising from the standards.
	IFRS Practice Issues	Addresses practical application issues that an entity may encounter when applying IFRS. Also available for specific sectors – including banking.
	IFRS Handbooks	Includes extensive interpretative guidance and illustrative examples to elaborate or clarify the practical application of a standard.
Interim and annual reporting	Illustrative financial statements	Illustrates one possible format for financial statements prepared under IFRS, based on a fictitious multinational corporation. Available for annual and interim periods, and for specific sectors.
	Disclosure checklist	Identifies the disclosures required for currently effective requirements for both annual and interim periods.
GAAP comparison	IFRS compared to US GAAP	Highlights significant differences between IFRS and US GAAP. The focus is on recognition, measurement and presentation; therefore, disclosure differences are generally not discussed.

User need	Publication series	Purpose
Sector-specific issues	IFRS Sector Newsletters	Provides a regular update on accounting and regulatory developments that directly impact specific sectors – including banking.
	Application of IFRS	Illustrates how entities account for and disclose sector-specific issues in their financial statements.
	Accounting under IFRS	Focuses on the practical application issues faced by entities in specific sectors and explores how they are addressed in practice.
	Impact of IFRS	Provides a high-level introduction to the key IFRS accounting issues for specific sectors – including banking – and discusses how the transition to IFRS will affect an entity operating in that sector.

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