KPMG

cutting through complexity

IFRS

Guide to annual financial statements: IFRS 9 – Illustrative disclosures for banks

March 2016

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About this guide

This guide has 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.

It helps you to prepare financial statements in accordance with IFRS, illustrating one possible format for financial statements based on a fictitious banking group involved in a range of general banking activities. Our hypothetical corporation (the Group) has been applying IFRS for some time – i.e. it is not a first-time adopter of IFRS. For more information on adopting IFRS for the first time, see Chapter 6.1 in the 12th edition 2015/16 of our publication Insights into IFRS.

Standards covered

This guide illustrates example disclosures for the early adoption of IFRS 9 *Financial Instruments* and of consequential amendments to other standards, which are required to be adopted at the same time. It assumes that the Group has not adopted the hedge accounting requirements of IFRS 9 but continued to apply hedge accounting requirements of IAS 39. With the exception of IFRS 9, other standards or amendments that are effective for annual periods beginning after 1 January 2015 ('forthcoming requirements') are not illustrated in this guide. Our IFRS: New standards – Are you ready? provides a summary of newly effective and forthcoming standards (in addition to IFRS 9).

Accordingly, except for the early adoption of IFRS 9, this guide reflects IFRSs in issue at 31 December 2015 that are required to be applied by an entity with an annual period beginning on 1 January 2015 ('currently effective requirements').

IFRS 9 is a new and complex standard, and the interpretation of its requirements is subject to ongoing discussions between preparers, auditors, regulators and other stakeholders. This guide does not intend to pre-empt this process and provide a view on how the requirements of the standard should be interpreted. Instead, it gives an indication of possible disclosure requirements that would apply if a bank interpreted the requirements in a particular way. It is intended to help banks implement IFRS 9, by guiding them through the decision-making process needed to prepare the required disclosures.

This guide is not intended to be seen as a complete and exhaustive summary of all disclosure requirements under IFRS. Instead, it focuses on disclosure requirements that are particularly relevant to banks. For examples of other disclosures, see our Guide to annual financial statements – Illustrative disclosures (September 2015).

In addition, IFRS and its interpretation change over time. Accordingly, this guide should not be used as a substitute for referring to the standards and interpretations themselves.

An entity should also have regard to applicable legal and regulatory requirements. This guide does not consider the requirements of any particular jurisdiction. For example, IFRS does not require the presentation of separate financial statements for the parent entity, and this guide includes only consolidated financial statements.

Other guidance

In preparing this guide, we had regard to the recommendations made by the Enhanced Disclosure Task Force (EDTF) in its report *Enhancing the Risk Disclosures of Banks,* issued on 29 October 2012, and its revision issued on 7 December 2015, *Impact of Expected Credit Loss Approaches on Bank Risk Disclosures.* 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 recommendations' scope is wider than the financial statements, because they apply to all financial reports, including public disclosures required by regulators and other communications with stakeholders. 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.

Many regulators continue to focus on disclosures in financial statements. For example, the European Securities and Markets Authority (ESMA) has published its public statement on European common enforcement priorities for 2015. This statement identifies specific considerations relevant for the banking sector in 2015.

In addition, in preparing this guide we also had regard to the recommendations made by the Basel Committee on Banking Supervision in its *Guidance on credit risk and accounting for expected credit losses* issued in December 2015.

Need for judgement

This guide is part of our suite of publications – Guides to financial statements – and specifically focuses on compliance with IFRS. Although it is not exhaustive, this guide illustrates the disclosures *required* by IFRS for one hypothetical bank or a similar financial institution; for ease of illustration, the disclosures here are generally presented without regard to materiality.

This guide should not be used as a boiler plate template. The preparation of an entity's own financial statements requires judgement, in terms of the choice of accounting policies, how the disclosures should be tailored to reflect the entity's specific circumstances, and the materiality of disclosures in the context of the organisation.

Applying the concept of materiality to disclosures

An entity needs to consider the concept of materiality when preparing the notes to its financial statements; it is not appropriate simply to apply the disclosure requirements in a standard without considering materiality. An entity does not need to provide specific disclosures under IFRS if the information resulting from that disclosure is immaterial. Also, an entity has to take care not to reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures and functions.

For example, a standard may provide specific disclosures for a material item in the financial statements, but even if the item is material, this does not mean that all of the disclosures specified in that standard will be material for that item. An entity applies the materiality concept on a disclosure-by-disclosure basis.

Step-up in the quality of financial statements

Investors continue to ask for a step-up in the quality of business reporting so entities should be careful not to become buried in compliance to the exclusion of relevance. In preparing its financial statements, an entity needs to keep in mind its wider responsibilities for reporting this information in the most meaningful way. For more information, see our Better business reporting website.

References and abbreviations

References are included in the left-hand margin of this publication to identify their sources. Generally, the references relate only to presentation and disclosure requirements.

IAS 1.82(a)	Paragraph 82(a) of IAS 1.
[IFRS 9.4.1.1]	Paragraph 4.1.1 of IFRS 9. The brackets indicate that the paragraph relates to recognition and measurement requirements, as opposed to presentation and disclosure requirements.
Insights 2.3.60.10	Paragraph 2.3.60.10 of the 12th edition 2015/16 of our publication Insights into IFRS.
IFRS 7R.8	Paragraph 8 of IFRS 7 as amended by IFRS 9.
IFRS 7.8	Paragraph 8 of IFRS 7 before amendments by IFRS 9.
	Disclosures that are applicable only to entities in the scope of IFRS 8 *Operating Segments* and IAS 33 *Earnings per Share*.

Footnotes in italics refer to recommendations in the EDTF report, which are not specific requirements of IFRS.

The following abbreviations are used often in this guide.

CGU	Cash-generating unit
ECL	Expected credit losses
EDTF	Enhanced Disclosure Task Force
EPS	Earnings per share
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
NCI	Non-controlling interests
Notes	Notes to the financial statements
OCI	Other comprehensive income

[*Name of auditors' firm*]

Independent auditors' report

Independent auditors' report on consolidated financial statements[a]

[*Addressee*]

We have audited the accompanying consolidated financial statements of [*name of bank*] (the 'Bank'), which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statements of profit or loss and 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 Bank as at 31 December 2015, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

[*Name of auditors' firm*]
[*Date of report*]
[*Address*]

a. This example report has been prepared based on International Standard on Auditing 700 *Forming an Opinion and Reporting on Financial Statements*. Its format does not reflect the legal requirements of any particular jurisdiction.

[*Name of bank*]

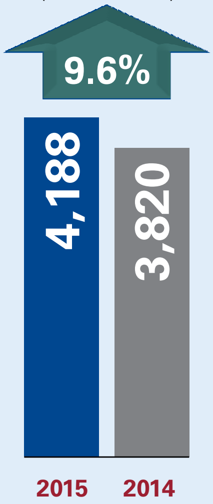
Consolidated financial statements

31 December 2015

Financial highlights[a]

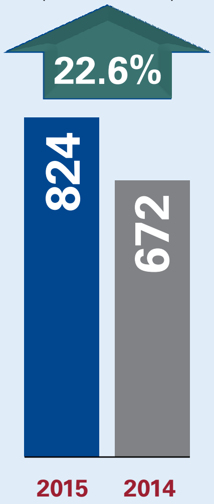
REVENUE

(million euro)



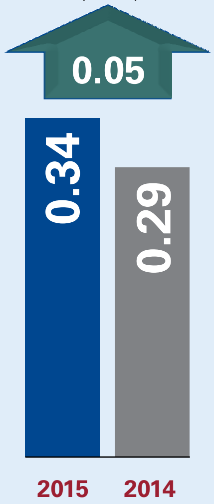
PROFIT BEFORE TAX

(million euro)



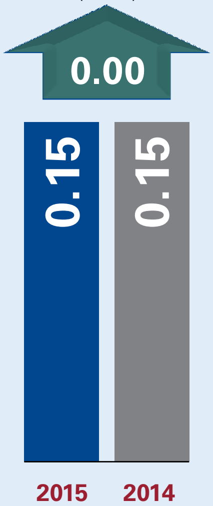
BASIC EARNINGS PER SHARE

(euro)



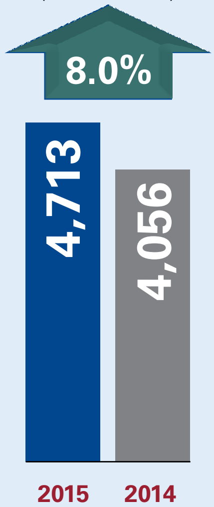
DIVIDENDS PER ORDINARY SHARE

(euro)



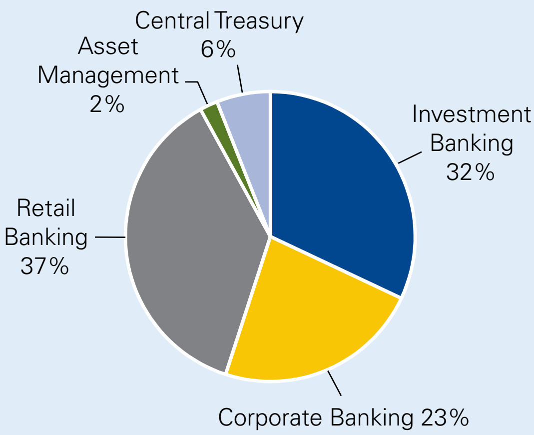
CORE TIER 1 CAPITAL

(million euro)



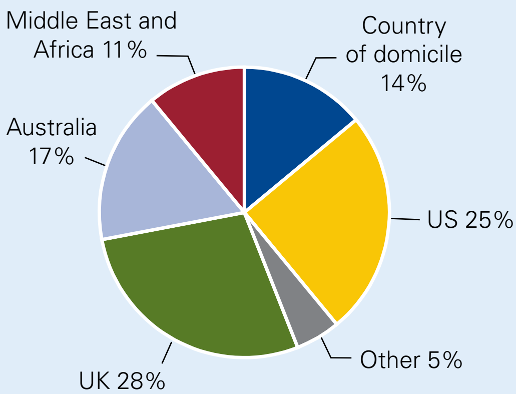
REVENUE BY SEGMENT

2015



REVENUE BY REGION

2015



a. Banks will have to consider the impact of IFRS 9 on comparability of the financial highlights and whether additional explanations are necessary.

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Consolidated statement of financial position[a, b]

Reference	In millions of euro	Note	31 December 2015	31 December 2014
IAS 1.10(a), 10(ea), 38–38A, 40A–40B, 113	**Assets**			
IAS 1.54(i)	Cash and cash equivalents	19	**2,907**	2,992
IAS 1.54(d)	Non-pledged trading assets	20	**16,122**	15,249
IAS 1.54(d), 39.37(a), IFRS 9.3.2.23(a)	Pledged trading assets	20	**540**	519
IAS 1.54(d)	Derivative assets held for risk management	21	**858**	726
IAS 1.54(d)	Loans and advances to banks	22	**5,572**	4,707
IAS 1.54(d)	Loans and advances to customers	23	**62,347**	56,805
IAS 1.54(d)	Investment securities	24	**6,302**	5,269
IAS 1.54(n)	Current tax assets		**47**	53
IAS 1.54(a)	Property and equipment	25	**409**	378
IAS 1.54(c)	Intangible assets	26	**275**	259
IAS 1.54(o)	Deferred tax assets	17	**557**	296
	Other assets	27	**689**	563
	Total assets		**96,625**	87,816

The notes on pages 16 to 184 are an integral part of these consolidated financial statements.

Consolidated statement of financial position (continued)

IAS 1.10(a), 10(ea), 38–38A, 40A–40B, 113

	In millions of euro	*Note*	31 December 2015	31 December 2014
	Liabilities			
IAS 1.54(m)	Trading liabilities	20	**7,026**	6,052
IAS 1.54(m)	Derivative liabilities held for risk management	21	**828**	789
IAS 1.54(m)	Deposits from banks	28	**11,678**	10,230
IAS 1.54(m)	Deposits from customers	29	**53,646**	48,904
IAS 1.54(m)	Debt securities issued	30	**11,227**	10,248
IAS 1.54(m)	Subordinated liabilities	31	**5,642**	4,985
IAS 1.54(l)	Provisions	32	**128**	112
IAS 1.54(o)	Deferred tax liabilities	17	**130**	123
	Other liabilities	33	**418**	403
	Total liabilities		**90,723**	81,846
	Equity			
IAS 1.54(r)	Share capital and share premium		**2,725**	2,695
IAS 1.54(r)	Reserves		**155**	203
IAS 1.54(r)	Retained earnings		**2,867**	2,944
IAS 1.54(r)	**Total equity attributable to owners of the Bank**		**5,747**	5,842
IAS 1.54(q)	**Non-controlling interests**		**155**	128
	Total equity	34	**5,902**	5,970
	Total liabilities and equity		**96,625**	87,816

The notes on pages 16 to 184 are an integral part of these consolidated financial statements.

IAS 1.10 — **a.** An entity may also use other titles – e.g. ‘balance sheet’ – as long as the meaning is clear and the title not misleading.

IAS 1.60–61, 63, Insights 3.1.10 — **b.** A bank or similar financial institution usually presents a statement of financial position showing assets and liabilities in their broad order of liquidity, because this 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 reporting date,

an entity discloses in the notes the amount expected to be recovered or settled after more than 12 months.

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Consolidated statement of profit or loss and other comprehensive income[a]

IAS 1.10(b), 81A

For the year ended 31 December

Reference	*In millions of euro*	**Note**	**2015**	**2014**
IFRS 7R.20(b), 7.20(b)	Interest income	*8*	**3,341**	3,528
IFRS 7R.20(b), 7.20(b), IAS 1.82(b)	Interest expense	*8*	**(1,406)**	(1,686)
	Net interest income		**1,935**	1,842
IFRS 7R.20(c)	Fee and commission income	*9*	**854**	759
IFRS 7R.20(c)	Fee and commission expense	*9*	**(179)**	(135)
	Net fee and commission income		**675**	624
IFRS 7R.20(a), 7.20(a)	Net trading income	*10*	**1,434**	1,087
IFRS 7R.20(a), 7.20(a)	Net income from other financial instruments at FVTPL	*11*	**21**	81
IFRS 7R.20(a), 7.20(a)	Other revenue	*12*	**132**	186
IFRS 7R.20A, IAS 1.82(aa)	Net loss arising from derecognition of financial assets measured at amortised cost	*13*	**(9)**	
IAS 1.85	**Revenue**[b]		**4,188**	3,820
	Other income		**18**	10
IFRS 7.20(e), IAS 1.82 (ba)	Net impairment loss on financial assets	*5(A)*	**(336)**	(233)
IAS 1.99	Personnel expenses	*14*	**(2,264)**	(1,974)
IAS 17.35(c)	Operating lease expenses		**(338)**	(327)
IAS 1.99, 38.118(d)	Depreciation and amortisation	*25, 26*	**(47)**	(39)
IAS 1.99	Other expenses	*15*	**(397)**	(585)
IAS 1.85	**Profit before tax**		**824**	672
IAS 1.82(d), 12.77	Income tax expense	*17*	**(187)**	(118)
IAS 1.81A(a)	**Profit**		**637**	554
	Other comprehensive income			
IAS 1.82A(a)	**Items that will not be reclassified to profit or loss**			
IAS 1.85	Remeasurements of defined benefit liability (asset)		**7**	9
	Movement in fair value reserve (equity instruments):			
IFRS 7R.20(a)(vii)	Net change in fair value		**2**	
IFRS 7R.20(a)(i)	Movement in liability credit reserve	*30*	**3**	
IAS 1.91(b)	*Related tax*		**(4)**	(3)
			8	6
IAS 1.82A(b)	**Items that are or may be reclassified subsequently to profit or loss**			
	Movement in translation reserve:			
IAS 21.52(b)	Foreign currency translation differences for foreign operations		**(45)**	17
IAS 21.52(b)	Net gain (loss) on hedges of net investments in foreign operations		**30**	(15)
	Movement in hedging reserve:			
IFRS 7R.24C(b)(i), 7.23(c)	Effective portion of changes in fair value		**(25)**	(21)
IFRS 7R.24C(b)(iv), 7.23(d), IAS 1.92	Net amount transferred to profit or loss		**15**	12
	Movement in fair value reserve (debt instruments):			
IFRS 7R.20(a)(viii)	Net change in fair value		**(166)**	
IFRS 7R.20(a)(viii), IAS 1.92	Net amount transferred to profit or loss		**129**	
	Movement in fair value reserve (available-for-sale financial assets):			
IFRS 7.20(a)(ii)	Net change in fair value			(160)
IFRS 7.20(a)(ii), IAS 1.92	Net amount transferred to profit or loss			125
IAS 1.91(b)	*Related tax*		**16**	15
			(46)	(27)
IAS 1.81A(b)	**Other comprehensive income, net of tax**		**(38)**	(21)
IAS 1.81A(c)	**Total comprehensive income**		**599**	533

The notes on pages 16 to 184 are an integral part of these consolidated financial statements.

Consolidated statement of profit or loss and other comprehensive income (continued)

For the year ended 31 December

	In millions of euro	*Note*	2015	2014
	Profit attributable to			
IAS 1.81B(a)(ii)	Owners of the Bank		**610**	528
IAS 1.81B(a)(i)	Non-controlling interests		**27**	26
	Profit		**637**	554
	Total comprehensive income attributable to			
IAS 1.81B(b)(ii)	Owners of the Bank		**572**	507
IAS 1.81B(b)(i)	Non-controlling interests		**27**	26
	Total comprehensive income		**599**	533
IAS 33.4	**Earnings per share**			
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 16 to 184 are an integral part of these consolidated financial statements.

IAS 1.10A a. The Group has elected to present comprehensive income following a 'one-statement' approach. For an illustration of the alternative 'two-statement' approach, see Appendix I.

IAS 1.82(a) b. IFRS does not specify whether revenue should be presented only as a single line item in the statement of profit or loss and OCI, or whether an entity may also present the individual components of revenue, with a subtotal for revenue from continuing operations. In this guide, 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 FVTPL and other revenue. However, other presentations are possible.

Consolidated statement of changes in equity

For the year ended 31 December 2015

IAS 1.10(c), 108, 113, IFRS 7R.24E

Reference	*In millions of euro*	Attributable to owners of the Bank									
		Share capital	Share premium	Translation reserve	Hedging reserve	Fair value reserve	Liability credit reserve	Retained earnings	Total	Non-controlling interest	Total equity
	Balance at 31 December 2014	2,256	439	77	(85)	211	-	2,944	5,842	128	5,970
IAS 1.106(b)	Impact of adopting IFRS 9 at 1 January 2015 (see Note 18(B))	-	-	-	-	(4)	(1)	(483)	(488)	-	(488)
	Restated balance at 1 January 2015	**2,256**	**439**	**77**	**(85)**	**207**	**(1)**	**2,461**	**5,354**	**128**	**5,482**
	Total comprehensive income										
IAS 1.106(d)(i)	Profit	-	-	-	-	-	-	610	610	27	637
IAS 1.106(d)(ii), 106A	**Other comprehensive income**										
IAS 1.85	Remeasurements of defined benefit liability (asset)	-	-	-	-	-	-	7	7	-	7
IFRS 7R.20(a)(vii)	Fair value reserve (equity instruments):										
	Net change in fair value	-	-	-	-	2	-	-	2	-	2
IFRS 7R.20(a)(i)	Liability credit reserve	-	-	-	-	-	3	-	3	-	3
	Translation reserve:										
IAS 21.52(b)	Foreign currency translation differences for foreign operations	-	-	(45)	-	-	-	-	(45)	-	(45)
IAS 21.52(b)	Net gain on hedge of net investment in foreign operations	-	-	30	-	-	-	-	30	-	30
	Hedging reserve:										
IFRS 7R.24C(b)(iv)	Effective portion of changes in fair value	-	-	-	(25)	-	-	-	(25)	-	(25)
IFRS 7R.24C(b)(iv), IAS 1.92	Net amount reclassified to profit or loss	-	-	-	15	-	-	-	15	-	15
IFRS 7R.20(a)(viii)	Fair value reserve (debt instruments):										
	Net change in fair value	-	-	-	-	(166)	-	-	(166)	-	(166)
IFRS 7R.20(a)(viii), IAS 1.92	Net amount transferred to profit or loss	-	-	-	-	129	-	-	129	-	129
IAS 1.91(b)	Tax on other comprehensive income	-	-	-	3	12	(1)	(2)	12	-	12
	Total other comprehensive income	**-**	**-**	**(15)**	**(7)**	**(23)**	**2**	**5**	**(38)**	**-**	**(38)**
IAS 1.106(a)	**Total comprehensive income**	**-**	**-**	**(15)**	**(7)**	**(23)**	**2**	**615**	**572**	**27**	**599**
	Transactions with owners of the Bank										
IAS 1.106(d)(iii)	**Contributions and distributions**										
	Equity-settled share-based payment[a]	-	-	-	-	-	-	75	75	-	75
	Share options exercised	3	27	-	-	-	-	-	30	-	30
	Dividends to equity holders	-	-	-	-	-	-	(284)	(284)	-	(284)
	Total contributions and distributions	**-**	**27**	**-**	**-**	**-**	**-**	**(209)**	**(179)**	**-**	**(179)**
	Balance at 31 December 2015	**2,259**	**466**	**62**	**(92)**	**184**	**1**	**2,867**	**5,747**	**155**	**5,902**

The notes on pages 16 to 184 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity (continued)

For the year ended 31 December 2014

Reference	*In millions of euro*	Share capital	Share premium	Translation reserve	Hedging reserve	Fair value reserve	Retained earnings	Total	Non-controlling interest	Total equity
IAS 1.10(c), 38, 38A, 108, 113		Attributable to owners of the Bank								
	Balance at 1 January 2014	2,256	439	75	(79)	234	2,669	5,594	102	5,696
	Total comprehensive income									
IAS 1.106(d)(i)	Profit	-	-	-	-	-	528	528	26	554
IAS 1.106(d)(ii), 106A	**Other comprehensive income**									
IAS 1.85	Remeasurements of defined benefit liability (asset)	-	-	-	-	-	9	9	-	9
	Translation reserve:									
IAS 21.52(b)	Foreign currency translation differences for foreign operations	-	-	17	-	-	-	17	-	17
IAS 21.52(b)	Net loss on hedge of net investment in foreign operations	-	-	(15)	-	-	-	(15)	-	(15)
	Hedging reserve:									
IFRS 7.23(c)	Effective portion of changes in fair value	-	-	-	(21)	-		(21)		(21)
IFRS 7.23(d), IAS 1.92	Net amount reclassified to profit or loss	-	-	-	12	-	-	12	-	12
	Fair value reserve (available-for-sale financial assets):									
IFRS 7.20(a)(ii)	Net change in fair value	-	-	-	-	(160)	-	(160)	-	(160)
IFRS 7.20(a)(ii), IAS 1.92	Net amount reclassified to profit or loss	-	-	-	-	125	-	125	-	125
IAS 1.91(b)	Tax on other comprehensive income	-	-	-	3	12	(3)	12	-	12
	Total other comprehensive income	-	-	2	(6)	(23)	6	(21)	-	(21)
IAS 1.106(a)	**Total comprehensive income**	-	-	2	(6)	(23)	534	507	26	533
	Transactions with owners of the Bank									
IAS 1.106(d)(iii)	**Contributions and distributions**									
	Equity-settled share-based payment[a]	-	-	-	-	-	25	25	-	25
	Dividends to equity holders	-	-	-	-	-	(284)	(284)	-	(284)
	Total contributions and distributions	-	-	-	-	-	(259)	(259)	-	(259)
	Balance at 31 December 2014	2,256	439	77	(85)	211	2,944	5,842	128	5,970

The notes on pages 16 to 184 are an integral part of these consolidated financial statements.

Insights 4.5.900.30 a. Generally, IFRS 2 *Share-based Payment* does not address whether an increase in equity recognised in connection with a share-based payment transaction should be presented in a separate component within equity or within retained earnings. In our view, either approach is allowed. The Group has elected to present the increase in retained earnings.

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Consolidated statement of cash flows[a]

IAS 1.10(d), 38, 38A, 113

For the year ended 31 December

Reference	*In millions of euro*	*Note*	2015	2014
IAS 7.18(b)	**Cash flows from operating activities**[b, c]			
	Profit[d]		**637**	554
	Adjustments for:			
	– Depreciation and amortisation	25, 26	**47**	39
	– Net impairment loss on investment securities	5(A)	**22**	16
	– Net impairment loss on loans and advances	5(A)	**314**	217
	– Net interest income	8	**(1,935)**	(1,842)
	– Net gain on investment securities at FVTPL	11	**(50)**	(46)
	– Net gain on loans and advances at FVTPL	11	**(153)**	(194)
	– Net loss on debt securities issued at FVTPL	11	**86**	137
	– Net loss on sale of investment securities measured at FVOCI (2014: available-for-sale securities)	12	**72**	69
	– Net loss arising from derecognition of financial assets measured at amortised cost	13	**9**	-
	– Dividends on equity securities at FVOCI (2014: available-for-sale securities)	12	**(2)**	(8)
	– Equity-settled share-based payment transactions	14	**75**	25
	– Tax expense	17	**187**	118
			(691)	(915)
	Changes in:			
	– Trading assets	20	**(894)**	(993)
	– Derivative assets held for risk management	21	**(132)**	(104)
	– Loans and advances to banks	22	**(872)**	(389)
	– Loans and advances to customers	23	**(6,313)**	(6,275)
	– Other assets		**(126)**	(175)
	– Trading liabilities	20	**974**	885
	– Derivative liabilities held for risk management	21	**39**	35
	– Deposits from banks	28	**1,448**	1,071
	– Deposits from customers	29	**4,742**	4,245
	– Other liabilities and provisions		**34**	194
			(1,791)	(2,421)
IAS 7.31, 33	Interest received[e]		**3,341**	3,528
IAS 7.31, 33	Dividends received[e]		**13**	8
IAS 7.31, 33	Interest paid[e, f]		**(1,415)**	(1,695)
IAS 7.35	Income taxes paid		**(184)**	(222)
IAS 7.10	**Net cash used in operating activities**		**(36)**	(802)
IAS 7.21	**Cash flows from investing activities**[b, c]			
IAS 7.16(c)	Acquisition of investment securities		**(1,693)**	(647)
IAS 7.16(d)	Proceeds from sale of investment securities		**577**	444
IAS 7.16(a)	Acquisition of property and equipment	25	**(88)**	(63)
IAS 7.16(b)	Proceeds from the sale of property and equipment	25	**36**	18
IAS 7.16(a)	Acquisition of intangible assets	26	**(42)**	(34)
IAS 7.10	**Net cash used in investing activities**		**(1,210)**	(282)

The notes on pages 16 to 184 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows (continued)

IAS 1.10(d), 38, 38A, 113

For the year ended 31 December

Reference	*In millions of euro*	*Note*	2015	2014
IAS 7.21	**Cash flows from financing activities**[b, c]			
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	34	**30**	-
IAS 7.31, 34	Dividends paid[g]	34	**(284)**	(284)
IAS 7.10	**Net cash from financing activities**		**1,188**	1,030
	Net decrease in cash and cash equivalents		**(58)**	(54)
	Cash and cash equivalents at 1 January	19	**2,992**	3,040
IAS 7.28	Effect of exchange rate fluctuations on cash and cash equivalents held		**(27)**	6
	Cash and cash equivalents at 31 December	19	**2,907**	2,992

The notes on pages 16 to 184 are an integral part of these consolidated financial statements.

IAS 7.18–19 **a.** The Group has elected to present cash flows from operating activities using the indirect method. Alternatively, an entity may 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 Guide to annual financial statements – Illustrative disclosures (September 2015).

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

IAS 7.16(g)–(h), Insights 7A.10.60.70, 7.8.70.70, 225.70 **c.** 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 profit or loss and OCI 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 profit or loss and OCI also apply to the presentation in the statement of cash flows.

IAS 7.18, 20, A, Insights 2.3.30.20 **d.** The Group has used 'profit or loss' as the starting point for presenting operating cash flows using the indirect method. This is the starting point referred to in IAS 7 *Statement of Cash Flows*, although the example provided in the appendix to the standard starts with a different figure – 'profit before tax'. Because the appendix does not have the same status as the standard, it would be more appropriate to follow the standard.

IAS 7.33 **e.** Interest paid and interest and dividends received are usually classified as operating cash flows for a financial institution.

Insights 2.3.50.38 **f.** In our view, an entity should choose an accounting policy, to be applied consistently, to classify cash flows related to capitalised interest as follows:

- as cash flows from investing activities if the other cash payments to acquire the qualifying asset are reflected as investing activities; or
- consistently with interest cash flows that are not capitalised.

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

IAS 1.10(e)

Notes to the consolidated financial statements[a]

1. Reporting entity

IAS 1.51(a)–(b)
IAS 1.138(a)–(b)

[*Name of Bank*] (the Bank) is a company domiciled in [*Country X*]. The Bank's registered office is at [*address*]. These consolidated financial statements comprise the Bank and its subsidiaries (collectively, the Group). The Group is primarily involved in investment, corporate and retail banking, and in providing asset management services (see Note 7).

2. Basis of accounting

IAS 1.16, 112(a), 10.17

These consolidated financial statements have been prepared in accordance with IFRS. They were authorised for issue by the Bank's Board of Directors on [*date*].

Details of the Group's accounting policies, including changes during the year, are included in Notes 44 and 45. As explained in Note 44 the Group has early adopted IFRS 9 *Financial Instruments* issued in July 2014 with a date of initial application of 1 January 2015.

3. Functional and presentation currency

IAS 1.51(d)–(e)

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

4. Use of judgements and estimates

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's 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 estimates are recognised prospectively.

A. Judgements

IAS 1.122

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes.

- Applicable to 2015 only
  - Note 45(J)(ii) – classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.
- Applicable to 2015 and 2014
  - Note 45(A)(iii) – determination of control over investees.

IAS 1.113–115

a. Notes are presented in a systematic order and are cross-referred to/from items in the primary statements. IAS 1 *Presentation of Financial Statements* provides an order of notes that entities normally present. However, the standard also indicates that it may be necessary or desirable to vary the order, and that the notes providing information about the basis of preparation and specific accounting policies may be presented as a separate section of the financial statements. The Group has applied its judgement in presenting related information together in cohesive sections.

The order presented is only illustrative and entities need to tailor the organisation of the notes to fit their specific circumstances.

Notes to the consolidated financial statements (continued)

4. Use of judgements and estimates (continued)

B. Assumptions and estimation uncertainties

IAS 1.125, 129–130

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2015 is included in the following notes.

- Applicable to 2015 only
  - Note 5(A)(iii) – impairment of financial instruments: assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.
- Applicable to 2015 and 2014
  - Note 6 – determination of the fair value of financial instruments with significant unobservable inputs.
  - Note 14(B)(iv) – measurement of defined benefit obligations: key actuarial assumptions.
  - Note 17(F) – recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used.
  - Note 26(B) – impairment testing for CGUs containing goodwill: key assumptions underlying recoverable amounts.
  - Notes 32 and 38 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.
  - Note 45(J)(vii) – impairment of financial instruments: key assumptions used in estimating recoverable cash flows.

Notes to the consolidated financial statements (continued)

IFRS 7R.31

5. Financial risk review[a]

IFRS 7R.33, IAS 1.134

This note presents information about the Group's exposure to financial risks and the Group's management of capital.

For information on the Group's financial risk management framework, see Note 42.

IFRS 7R.33

A. Credit risk

IFRS 7R.33

For the definition of credit risk and information on how credit risk is mitigated by the Group, see Note 42(B).

i. Credit quality analysis

IFRS 7R.35M, 7.36(a)

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI debt investments (2015) and available-for-sale debt assets (2014). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.[b]

Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 45(J)(vii).

IFRS 7R.34

a. The financial risk disclosures presented are only illustrative and reflect the facts and circumstances of the Group. In particular, IFRS 7 *Financial Instruments: Disclosures* requires the disclosure of summary quantitative data about an entity's risk exposure based on information provided internally to the entity's key management personnel, although certain minimum disclosures are also required to the extent that they are not otherwise covered by the disclosures made under the 'management approach' above.

IFRS 7R.35

b. IFRS 7 requires disclosure of analysis of exposure to credit risk on loan commitments and financial guarantee contracts. The standard does not define the term 'exposure to credit risk'. The Group has concluded that the most useful amounts to disclose are the amounts committed in respect of loan commitments and amounts guaranteed in respect of financial guarantee contracts.

Notes to the consolidated financial statements (continued)

IFRS 7R.31

5. Financial risk review (continued)

IFRS 7R.33

A. Credit risk (continued)

i. Credit quality analysis (continued)

In millions of euro	2015					2014
	12-month ECL	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Purchased credit – impaired**	**Total**	**Total**
Loans and advances to banks at amortised cost						
Grades 1–6: Low–fair risk	**5,360**	**200**	**-**	**-**	**5,560**	4,692
Grades 7–9: Watch list	**-**	**-**	**-**	**-**	**-**	-
Grade 10: Substandard	**-**	**-**	**15**	**-**	**15**	12
Grade 11: Doubtful	**-**	**-**	**7**	**-**	**7**	6
Grade 12: Loss	**-**	**-**	**2**	**-**	**2**	2
	5,360	**200**	**24**	**-**	**5,584**	4,712
Loss allowance	**(3)**	**(1)**	**(8)**	**-**	**(12)**	(5)
Carrying amount	**5,357**	**199**	**16**	**-**	**5,572**	4,707
Loans and advances to customers at amortised cost						
Grades 1–6: Low–fair risk	**48,536**	**1,472**	**-**	**-**	**50,008**	46,550
Grades 7–9: Watch list	**-**	**4,736**	**-**	**-**	**4,736**	3,806
Grade 10: Substandard	**-**	**-**	**3,127**	**-**	**3,127**	2,446
Grade 11: Doubtful	**-**	**-**	**1,360**	**100**	**1,460**	1,139
Grade 12: Loss	**-**	**-**	**437**	**50**	**487**	380
	48,536	**6,208**	**4,924**	**150**	**59,818**	54,321
Loss allowance	**(557)**	**(791)**	**(1,014)**	**(17)**	**(2,379)**	(1,506)
Carrying amount	**47,979**	**5,417**	**3,910**	**133**	**57,439**	52,815
Lease receivables						
Grades 1–6: Low–fair risk		**849**	**-**		**849**	765
Grades 7–9: Watch list		**-**	**-**		**-**	-
Grades 10–12: Credit-impaired		**-**	**90**		**90**	96
		849	**90**		**939**	861
Loss allowance		**(2)**	**(15)**		**(17)**	(16)
Carrying amount		**847**	**75**		**922**	845

Notes to the consolidated financial statements (continued)

IFRS 7R.31

5. Financial risk review (continued)

IFRS 7R.33

A. Credit risk (continued)

i. Credit quality analysis (continued)

	2015				2014
In millions of euro	**12-month ECL**	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Total**	**Total**
Debt investment securities at amortised cost (2014: held-to-maturity)					
Grades 1–6: Low–fair risk	**416**	**-**	**-**	**416**	101
Loss allowance	**(6)**	**-**	**-**	**(6)**	-
Carrying amount	**410**	**-**	**-**	**410**	101
Debt investment securities at FVOCI (2014: available-for-sale)					
Grades 1–6: Low–fair risk	**1,002**	**131**	**-**	**1,133**	1,443
Grades 7–9: Watch list	**25**	**105**	**-**	**130**	112
Grade 10: Substandard	**-**	**-**	**60**	**60**	51
Grade 11: Doubtful	**-**	**-**	**30**	**30**	25
Grade 12: Loss	**-**	**-**	**10**	**10**	9
	1,027	**236**	**100**	**1,363**	1,640
Loss allowance	**(6)**	**(5)**	**(38)**	**(49)**	(35)
Gross carrying amount	**1,005**	**245**	**120**	**1,370**	-
Carrying amount – fair value	**1,042**	**241**	**80**	**1,363**	1,640
Loan commitments					
Grades 1–6: Low–fair risk	**1,201**	**-**	**-**	**1,201**	1,014
Loss allowance	**(5)**	**-**	**-**	**(5)**	-
Carrying amount (provision)	**(6)**	**-**	**-**	**(6)**	(2)
Financial guarantee contracts					
Grades 1–6: Low–fair risk	**740**	**-**	**-**	**740**	601
Loss allowance	**(6)**	**-**	**-**	**(6)**	-
Carrying amount (provision)	**(32)**	**-**	**-**	**(32)**	(26)

Notes to the consolidated financial statements (continued)

IFRS 7R.31

5. Financial risk review (continued)

IFRS 7R.33

A. Credit risk (continued)

i. Credit quality analysis (continued)

IFRS 7R.36(a), 7.36(a)

The following table sets out the credit analysis for non-trading financial assets measured at FVTPL.

In millions of euro	2015	2014
Loans and advances to customers		
Grades 1–6: Low–fair risk	**3,188**	2,516
Grades 7–9: Watch list	**399**	331
Grade 10: Substandard	**199**	161
Grade 11: Doubtful	**120**	95
Grade 12: Loss	**80**	42
Total carrying amount	**3,986**	3,145
Debt investment securities		
Grades 1–6: Low–fair risk	**2,541**	2,243
Grades 7–9: Watch list	**935**	687
Grade 10: Substandard	**172**	103
Grade 11: Doubtful	**194**	38
Grade 12: Loss	**192**	31
Total carrying amount	**4,034**	3,102

IFRS 7R.34(a)

The following table sets out the credit quality of trading debt securities. The analysis has been based on [*Rating Agency X*] ratings.

IFRS 7.36(c)

In millions of euro	*Note*	2015	2014
Government bonds and treasury bills			
Rated AAA	*20*	**213**	1,567
Rated AA- to AA+	*20*	**4,320**	3,256
Rated A- to A+	*20*	**5,316**	4,821
Rated BBB+ and below	*20*	**372**	198
		10,221	9,842
Corporate bonds			
Rated AA- to AA+	*20*	**2,500**	3,130
Rated A- to A+	*20*	**1,437**	814
Rated BBB+ and below	*20*	**554**	126
		4,491	4,070
Asset-backed securities			
Rated AA- to AA+	*20*	**340**	372
Rated A- to A+	*20*	**119**	46
Rated BBB+ and below	*20*	**57**	45
		516	463

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Notes to the consolidated financial statements (continued)

IFRS 7R.31

5. Financial risk review (continued)

IFRS 7R.33

A. Credit risk (continued)

i. Credit quality analysis (continued)

The following table shows an analysis of counterparty credit exposures arising from derivative transactions. Derivative transactions of the Group are generally fully collateralised by cash. For further discussion of collateral and other credit enhancements, see Note 5(A)(ii).[a]

					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
2015								
Derivative assets	**13,318**	**1,836**	**979**	**261**	**8,559**	**1,106**	**3,780**	**469**
Derivative liabilities	**11,740**	**(1,236)**	**774**	**(136)**	**9,183**	**(918)**	**1,783**	**(182)**
2014								
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 7R.34(a), 35K(a), 35M, 7.36

The Group held cash and cash equivalents of €2,907 million at 31 December 2015 (2014: €2,992 million). The cash and cash equivalents are held with central banks and financial institution counterparties that are rated at least AA- to AA+, based on [*Rating Agency X*] ratings.

a. *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 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 clearing counterparties (CCPs). For the purposes of this guide, we have assumed that disclosure of this information enhances the user's understanding of the Group's credit risk exposures and so these disclosures have been included.*

Notes to the consolidated financial statements (continued)

IFRS 7R.31

5. Financial risk review (continued)

IFRS 7R.33

A. Credit risk (continued)

ii. Collateral held and other credit enhancements

IFRS 7R.35K(b), 36(b), B8G, 7.36(b)

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

Type of credit exposure

		Percentage of exposure that is subject to collateral requirements		
In millions of euro	***Note***	**31 December 2015**	**31 December 2014**	**Principal type of collateral held**
Trading derivative assets[a]	*20*	**100**	100	Cash
Derivative assets held for risk management[a]	*21*	**100**	100	Cash
Loans and advances to banks	*22*			
Reverse sale-and-repurchase agreements[a]		**100**	100	Marketable securities
Securities borrowing[a]		**100**	100	Marketable securities
Loans and advances to retail customers	*23*			
Mortgage lending		**100**	100	Residential property
Personal loans		**-**	-	None
Credit cards		**-**	-	None
Loans and advances to corporate customers	*23*			
Finance leases		**100**	100	Property and equipment
Other		**91**	92	Commercial property, floating charges over corporate assets
Reverse sale-and-repurchase agreements		**100**	100	Marketable securities
Investment debt securities	*24*	**-**	-	None

IFRS 7R.35K(b), 7.36(b)

Derivatives, reverse sale-and-repurchase agreements and securities borrowing

The Group mitigates the credit risk of derivatives, reverse sale-and-repurchase agreements and securities lending by entering into master netting agreements and holding collateral in the form of cash and marketable securities.

IFRS 7R.13E, B50

Derivative transactions are transacted on exchanges, with CCPs or entered into under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, under these agreements, in certain circumstances – e.g. when a credit event such as a default occurs – all outstanding transactions under the agreement with the counterparty are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions with the counterparty. The Group executes a credit support annex in conjunction with the ISDA agreement, which requires the Group and its counterparties to post collateral to mitigate counterparty credit risk. Collateral is also posted daily in respect of derivatives transacted on exchanges and with CCPs.

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.

IFRS 7R.13A–F, 35K, 36(b), 7.36(b)

a. In this guide, disclosure of the financial effect of collateral in respect of derivatives, reverse repurchase agreements and securities borrowing agreements is shown in Note 5(A)(vi). However, there may be circumstances in which disclosures under paragraph 13A of IFRS 7 do not provide all of the information required by paragraphs 35K and 36(b) of IFRS 7 in respect of these transactions and so additional disclosures may be necessary.

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IFRS 7R.31

5. Financial risk review (continued)

IFRS 7R.33

A. Credit risk (continued)

ii. Collateral held and other credit enhancements (continued)

IFRS 7R.35K(b), 7.36(b)

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

Quantification of the collateral arrangements relating to derivatives, securities, repurchase and reverse repurchase agreements and securities borrowing and lending is set out in Note 5(A)(vi).

IFRS 7R.35K(b), 7.36(b)

Residential mortgage lending

The following tables 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 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. For credit-impaired loans the value of collateral is based on the most recent appraisals.

In millions of euro	*Note*	31 December 2015	31 December 2014
LTV ratio			
Less than 50%		**4,780**	4,385
51–70%		**6,065**	5,564
71–90%		**2,755**	2,528
91–100%		**879**	806
More than 100%		**377**	346
Total	*23*	**14,856**	13,629

IFRS 7R.35K(c)

Credit-impaired loans

In millions of euro	2015
Less than 50%	**380**
51–70%	**530**
More than 70%	**200**
Total	**1,110**

IFRS 7R.35K(b)

Commitments to advance residential mortgage loans

In millions of euro	31 December 2015	31 December 2014
LTV ratio		
Less than 50%	**411**	353
51–70%	**542**	427
71–90%	**200**	188
91–100%	**48**	46
More than 100%	**-**	-
Total	**1,201**	1,014

IFRS 7R.35K, 7.36(b)

Loans and advances to corporate customers

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 42(B)). However, collateral provides additional security and the Group generally requests that corporate borrowers 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, the Group does not routinely update the valuation of collateral held against all loans to corporate customers. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. For credit-impaired loans, the Group obtains appraisals of collateral because it provides input into determining the management credit risk actions.

Notes to the consolidated financial statements (continued)

IFRS 7R.31

5. Financial risk review (continued)

IFRS 7R.33

A. Credit risk (continued)

ii. Collateral held and other credit enhancements (continued)

Loans and advances to corporate customers (continued)

At 31 December 2015, the net carrying amount of credit-impaired loans and advances to corporate customers amounted to €2,078 million (2014: €1,506 million) and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to €1,943 million (2014: €1,312 million). For each loan, the value of disclosed collateral is capped to the nominal amount of the loan that is held against.

Investment securities designated as at FVTPL

IFRS 7R.9(a)–(b)

At 31 December 2015, the maximum exposure to credit risk of the investment securities designated as at FVTPL is their carrying amount of €2,879 million. The Group has mitigated the credit risk exposure on some of these investment securities by purchasing credit risk protection in the form of credit derivatives. At 31 December 2015, these derivative contracts provided notional principal protection of €967 million.

IFRS 7R.9(c)–(d)

The Group has recognised the following changes in fair value of these investment securities and the related credit derivatives.

In millions of euro	For the year 2015	Cumulative 2015
Investment securities at FVTPL: change in fair value attributable to credit risk	**(84)**	**(30)**
Related credit derivative contracts: full fair value change	**32**	**12**

IFRS 7R.11(a)

The change in fair value attributable to changes in credit risk is determined based on changes in the prices of credit-default swaps referenced to similar obligations of the same borrower when such prices are observable, because these credit swaps best reflect the market assessment of credit risk for a particular financial asset. When such prices are not observable, the change in fair value attributable to change in credit risk is determined 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. In the absence of specific observable data, this approach provides a reasonable approximation of changes attributable to credit risk because it estimates the change of margin above the benchmark that the market may require for the financial asset.

Loans and advances to customers designated as at FVTPL

IFRS 7.9(a)–(b)

At 31 December 2014, the maximum exposure to credit risk of loans and advances to customers designated as at FVTPL is their carrying amount of €3,145 million. The Group has mitigated the credit risk exposure of these loans and advances by purchasing credit risk protection in the form of credit derivatives. At 31 December 2014, these derivative contracts provided a notional principal protection of €2,325 million.

IFRS 7.9(c)–(d)

Details of changes in the fair value of these loans and advances attributable to credit risk and fair value changes of the related derivatives are set out below.

In millions of euro	For the year 2014	Cumulative 2014
Loans and advances at FVTPL	21	21
Related credit derivative contracts	(17)	(17)

IFRS 7.11(a)

The above changes in fair value attributable to changes in credit risk are determined in the same manner as described above for investment securities.

Other types of collateral and credit enhancements

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

IFRS 7R.35K(b)(iii)

At 31 December 2015, the Group did not hold any financial instruments for which no loss allowance is recognised because of collateral.

IFRS 7R.35K(b)(ii)

During the period, there was no change in the Group's collateral policies.

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5. Financial risk review (continued)

IFRS 7R.33

A. Credit risk (continued)

ii. Collateral held and other credit enhancements (continued)

Assets obtained by taking possession of collateral

IFRS 7R.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 and held at the year end, are shown below.

In millions of euro	2015	2014
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 does not generally use the non-cash collateral for its own operations.

iii. Amounts arising from ECL[a]

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 45(J)(vii).

IFRS 7R.35F(a), 35G

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Credit risk grades

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

a. This note illustrates how a hypothetical banking group could disclose certain information about amounts arising from expected credit losses. Disclosures will reflect the way in which an entity has implemented the requirements of IFRS 9 as well as the judgements that it makes regarding the application of IFRS 7. Relatively few entities have yet adopted IFRS 9 (2014). Discussions about the application of IFRS 9 and IFRS 7 are ongoing and market practice will develop and evolve in the period leading up to and following mandatory adoption by banks in 2018. Accordingly, these illustrative disclosures do not reflect any existing practices and are not intended to provide interpretative guidance, but are an illustration of the nature of disclosures that may be relevant if an entity has interpreted the requirements in the way described. Depending on the facts and circumstances, more detail or information about other matters additional to those specifically illustrated may be required. The illustrative disclosures include square-bracketed placeholders for descriptions of more particular information.

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5. Financial risk review (continued)

IFRS 7R.33

A. Credit risk (continued)

iii. Amounts arising from ECL (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

IFRS 7R.35F(a), 35G

Significant increase in credit risk (continued)

Credit risk grades (continued)

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Corporate exposures	Retail exposures	All exposures
• Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes • Data from credit reference agencies, press articles, changes in external credit ratings • Quoted bond and credit default swap (CDS) prices for the borrower where available • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	• Internally collected data on customer behaviour – e.g. utilisation of credit card facilities • Affordability metrics • External data from credit reference agencies including industry-standard credit scores	• Payment record – this includes overdue status as well as a range of variables about payment ratios • Utilisation of the granted limit • Requests for and granting of forbearance • Existing and forecast changes in business, financial and economic conditions

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

The Group employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark interest rates and unemployment. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

Based on advice from the Group Market Risk Committee and economic experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Group then uses these forecasts to adjust its estimates of PDs.

[*Disclosure of use of different approaches for different portfolios. Relevant information would typically include a description of different methods used – e.g. simpler methodology for smaller portfolios – and the size of portfolios both in terms of value and number of items.*]

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5. Financial risk review (continued)

A. Credit risk (continued)

iii. Amounts arising from ECL (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

IFRS 7R.35F(a), 35G

Significant increase in credit risk (continued)

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's quantitative modelling, the remaining lifetime PD is determined to have increased by more than [*a predetermined percentage/range*].

[*Disclosure of what increase in credit risk the bank considers significant for each type of product/ portfolio.*]

Using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. [*Disclosure of relevant qualitative indicators, including different criteria used for different portfolios – e.g. retail mortgages, credit cards, commercial real estate etc.*]

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due or, for [*certain types of exposure*], more than 15 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.[a]

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

IFRS 7R.35F(f), B8B, 7.B5(g)

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 45(J)(iv).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

IFRS 7R.35F(a)(ii) a. If an entity has rebutted the presumption in paragraph 5.5.11 of IFRS 9 that credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, then it explains how it has rebutted the presumption.

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5. Financial risk review (continued)

IFRS 7R.33

A. Credit risk (continued)

iii. Amounts arising from ECL (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

IFRS 7R.35F(f), B8B, 7.B5(g)

Modified financial assets (continued)

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities'[a]) to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Group Audit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 45(J)(vii)) /in default. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

IFRS 7R.35F(b), B8A

Definition of default

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Group for regulatory capital purposes (see (D)(i)).

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

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A. Credit risk (continued)

iii. Amounts arising from ECL (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

IFRS 7R.35G(b)

Incorporation of forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Group Market Risk Committee and economic experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organisations such as the OECD and the International Monetary Fund, and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 31 December 2015 included the following ranges of key indicators for [*Country X*] for the years ending 31 December 2016 and 2017.

	2016	2017
Unemployment rates	Base 8% Range between 7 and 10%	Base 6% Range between 5 and 8%
Interest rates	Base 1% Range between 0.5 and 2%	Base 2% Range between 1 and 3%
GDP growth	Base 1.5% Range between 0 and 2.5%	Base 2% Range between 0.5 and 3%
House prices	Base 2% growth Range between reduction of 15% and increase of 18%	Base 3% growth Range between reduction of 10% and increase of 12%

[*Disclosure of estimates for other periods and countries that may have a material impact on ECL estimates.*]

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 10 to 15 years.

[*Disclosure of uncertain events that are relevant to the risk of default occurring but where, despite best efforts, the bank is not able to estimate the impact on ECL because of lack of reasonable and supportable information. Also disclosure of other information that has been excluded from the determination of ECL.*]

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5. Financial risk review (continued)

IFRS 7R.33

A. Credit risk (continued)

iii. Amounts arising from ECL (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

IFRS 7R.35G(a)

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

[IFRS 9.5.5.19]

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

[IFRS 9.5.5.20, B5.5.39]

However, for retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Group measures ECL over a period longer than the maximum contractual period if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

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A. Credit risk (continued)

iii. Amounts arising from ECL (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

IFRS 7R.35G(a)
IFRS 7R.35F(c)

Measurement of ECL (continued)

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk gradings;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

		External benchmarks used	
	Exposure	**PD**	**LGD**
Portfolio 1 [*describe*]	[*amount*]	Moody's default study	S&P recovery studies
Portfolio 2 [*describe*]	[*amount*]	Moody's default study	S&P recovery studies
Portfolio 3 [*describe*]	[*amount*]	Moody's default study	S&P recovery studies

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5. Financial risk review (continued)

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A. Credit risk (continued)

iii. Amounts arising from ECL (continued)

Loss allowance

IFRS 7R.35H, 7.16

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 45(J)(vii). Comparative amounts for 2014 represent allowance account for credit losses and reflect measurement basis under IAS 39.

In millions of euro	2015 12-month ECL	2015 Lifetime ECL not credit-impaired	2015 Lifetime ECL credit-impaired	2015 Total	2014 Total
Loans and advances to banks at amortised cost					
Balance at 1 January	**2**	**-**	**5**	**7**	-
Transfer to 12-month ECL	**-**	**-**	**-**	**-**	
Transfer to lifetime ECL not credit-impaired	**(1)**	**1**	**-**	**-**	
Transfer to lifetime ECL credit-impaired	**-**	**(1)**	**1**	**-**	
Net remeasurement of loss allowance	**-**	**1**	**2**	**3**	5
New financial assets originated or purchased	**2**	**-**	**-**	**2**	
Financial assets that have been derecognised	**-**	**-**	**(1)**	**(1)**	-
Write-offs	**-**	**-**	**(1)**	**(1)**	-
Recoveries of amounts previously written off	**-**	**-**	**1**	**1**	-
Changes in models/risk parameters	**1**	**-**	**-**	**1**	
Foreign exchange and other movements	**(1)**	**-**	**1**	**-**	-
Balance at 31 December	**3**	**1**	**8**	**12**	5

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A. Credit risk (continued)

iii. Amounts arising from ECL (continued)

Loss allowance (continued)

	2015					2014		
In millions of euro	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased credit-impaired	Total	Individual	Collective	Total
Loans and advances to customers at amortised cost*								
Balance at 1 January	**505**	**800**	**885**	**15**	**2,205**	584	706	1,290
Transfer to 12-month ECL	**65**	**(60)**	**(5)**	**-**	**-**			
Transfer to lifetime ECL not credit-impaired	**(85)**	**152**	**(67)**	**-**	**-**			
Transfer to lifetime ECL credit-impaired	**(25)**	**(165)**	**190**	**-**	**-**			
Net remeasurement of loss allowance	**27**	**64**	**138**	**2**	**231**	187	24	211
New financial assets originated or purchased	**70**	**-**	**-**	**-**	**70**			
Financial assets that have been derecognised	**-**	**-**	**(77)**	**-**	**(77)**	(15)	(12)	(27)
Write-offs	**-**	**-**	**(60)**	**-**	**(60)**	(4)	(4)	(8)
Recoveries of amounts previously written off	**-**	**-**	**25**	**-**	**25**	5	5	10
Changes in models/ risk parameters	**4**	**4**	**-**	**-**	**8**			
Foreign exchange and other movements	**(4)**	**(4)**	**(15)**	**-**	**(23)**	18	12	30
Balance at 31 December	**557**	**791**	**1,014**	**17**	**2,379**	775	731	1,506

Notes to the consolidated financial statements (continued)

IFRS 7R.31

5. Financial risk review (continued)

IFRS 7R.33

A. Credit risk (continued)

iii. Amounts arising from ECL (continued)

Loss allowance (continued)

In millions of euro	2015				
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased credit-impaired	Total
Loans and advances to customers at amortised cost – retail customers*					
Balance at 1 January	249	380	410	-	1,039
Transfer to 12-month ECL	35	(32)	(3)	-	-
Transfer to lifetime ECL not credit-impaired	(70)	85	(15)	-	-
Transfer to lifetime ECL credit-impaired	(15)	(75)	90	-	-
Net remeasurement of loss allowance	15	42	46	-	103
New financial assets originated or purchased	50	-	-	-	50
Financial assets that have been derecognised	-	-	(37)	-	(37)
Write-offs	-	-	(32)	-	(32)
Recoveries of amounts previously written off	-	-	10	-	10
Changes in models/risk parameters	2	2	-	-	4
Foreign exchange and other movements	(2)	(2)	(10)	-	(14)
Balance at 31 December	264	400	459	-	1,123

IFRS 7R.B8E

* The loss allowance in these tables includes ECL on loan commitments for certain retail products such as credit cards and overdrafts, because the Group cannot separately identify the ECL on the loan commitment component from those on the financial instrument component.[a]

a. This disclosure is not specifically required. However, the Group has included it because it considered it useful for users of the financial statements.

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A. Credit risk (continued)

iii. Amounts arising from ECL (continued)

Loss allowance (continued)

	2015				
In millions of euro	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased credit-impaired	Total
Loans and advances to customers at amortised cost – corporate customers					
Balance at 1 January	**256**	**420**	**475**	**15**	**1,166**
Transfer to 12-month ECL	**30**	**(28)**	**(2)**	**-**	**-**
Transfer to lifetime ECL not credit-impaired	**(15)**	**67**	**(52)**	**-**	**-**
Transfer to lifetime ECL credit-impaired	**(10)**	**(90)**	**100**	**-**	**-**
Net remeasurement of loss allowance	**12**	**22**	**92**	**2**	**128**
New financial assets originated or purchased	**20**	**-**	**-**	**-**	**20**
Financial assets that have been derecognised	**-**	**-**	**(40)**	**-**	**(40)**
Write-offs	**-**	**-**	**(28)**	**-**	**(28)**
Recoveries of amounts previously written off	**-**	**-**	**15**	**-**	**15**
Changes in models/risk parameters	**2**	**2**	**-**	**-**	**4**
Foreign exchange and other movements	**(2)**	**(2)**	**(5)**	**-**	**(9)**
Balance at 31 December	**293**	**391**	**555**	**17**	**1,256**

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5. Financial risk review (continued)

IFRS 7R.33

A. Credit risk (continued)

iii. Amounts arising from ECL (continued)

Loss allowance (continued)

In millions of euro	2015 12-month ECL	2015 Lifetime ECL not credit-impaired	2015 Lifetime ECL credit-impaired	2015 Total	2014 Total
Debt investment securities at FVOCI (2014: debt available-for-sale investment securities)					
Balance at 1 January	**6**	**3**	**35**	**44**	21
Transfer to 12-month ECL	**1**	**(1)**	**-**	**-**	
Transfer to lifetime ECL not credit-impaired	**(6)**	**7**	**(1)**	**-**	
Transfer to lifetime ECL credit-impaired	**-**	**(5)**	**5**	**-**	
Net remeasurement of loss allowance	**2**	**2**	**9**	**13**	16
New financial assets originated or purchased	**3**	**-**	**-**	**3**	
Financial assets that have been derecognised	**-**	**-**	**(2)**	**(2)**	-
Write-offs	**-**	**-**	**(9)**	**(9)**	-
Recoveries of amounts previously written off	**-**	**-**	**1**	**1**	-
Changes in models/risk parameters	**1**	**-**	**1**	**2**	
Foreign exchange and other movements	**(1)**	**(1)**	**(1)**	**(3)**	(2)
Balance at 31 December	**6**	**5**	**38**	**49**	35

The above loss allowance is not recognised in the statement of financial position because the carrying amount of debt investment securities at FVOCI (2014: available-for-sale) is their fair value.

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5. Financial risk review (continued)

A. Credit risk (continued)

iii. Amounts arising from ECL (continued)

Loss allowance (continued)

In millions of euro	2015 12-month ECL	2014 Total
Debt investment securities at amortised cost		
Balance at 1 January	**4**	-
Net remeasurement of loss allowance	**1**	-
New financial assets originated or purchased	**1**	
Foreign exchange and other movements	**-**	-
Balance at 31 December	**6**	-
Cash and cash equivalents		
Balance at 1 January	**1**	-
Net remeasurement of loss allowance	**1**	-
Net decrease in cash and cash equivalents	**(1)**	-
Foreign exchange and other movements	**-**	-
Balance at 31 December	**1**	-
Loan commitments and financial guarantee contracts		
Balance at 1 January	**10**	-
Net remeasurement of loss allowance	**(2)**	-
New loan commitments and financial guarantees issued	**4**	-
Foreign exchange and other movements	**(1)**	-
Balance at 31 December	**11**	-

In millions of euro	2015 Lifetime ECL not credit-impaired	2015 Lifetime ECL credit-impaired	2015 Total	2014 Total
Financial lease receivable				
Balance at 1 January	**2**	**16**	**18**	16
Net remeasurement of loss allowance	**-**	**(2)**	**(2)**	1
New financial assets originated or purchased	**-**	**1**	**1**	
Financial assets that have been derecognised	**-**	**(1)**	**(1)**	-
Foreign exchange and other movements	**-**	**1**	**1**	(1)
Balance at 31 December	**2**	**15**	**17**	16

IFRS 7R.35H(c)

The total amount of undiscounted ECL at initial recognition on purchased credit-impaired financial assets that were initially recognised during the period was as follows.

In millions of euro	2015
Loans and advances to corporate customers	**18**

Notes to the consolidated financial statements (continued)

IFRS 7R.31

5. Financial risk review (continued)

IFRS 7R.33

A. Credit risk (continued)

iii. Amounts arising from ECL (continued)

Loss allowance (continued)

IFRS 7R.35I, IG20B

The following table provides an explanation of how significant changes in the gross carrying amount of financial instruments during the period contributed to changes in loss allowance.

	2015 Impact: increase/(decrease)		
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired
Loans and advances to customers at amortised cost			
The acquisition of a prime mortgage portfolio increased the residential mortgage book by €4,000 million	**31**		
The expected increase in unemployment in region [*Y*]		**39**	
Debt investment securities at FVOCI			
The write-off of a portfolio of securities following the collapse of the local market			**(9)**
Loan commitments and financial guarantee contracts			
Increase in retail credit card loan commitments due to strategic growth initiative which resulted in acquisition of new customers	**3**		

Credit-impaired financial assets (2014: impaired financial assets)

See accounting policy in Note 45(J)(vii).

Credit-impaired loans and advances are graded 10 to 12 in the Group's internal credit risk grading system (see Note 42(B)).

The following table sets out a reconciliation of changes in the net carrying amount of credit-impaired (2014: impaired) loans and advances to customers.[a]

In millions of euro	2015	2014
Credit-impaired (2014: impaired) loans and advances to customers at 1 January	**3,065**	2,762
Change in allowance for impairment	**(140)**	(199)
Classified as credit-impaired (2014: impaired) during the year	**1,419**	1,224
Transferred to not credit-impaired (2014: impaired) during the year	**(155)**	(512)
Net repayments	**(91)**	(87)
Recoveries of amounts previously written off	**21**	20
Disposals	**(200)**	(150)
Other movements	**124**	92
Credit-impaired (2014: impaired) loans and advances to customers at 31 December	**4,043**	3,150

IFRS 7R.35L

The contractual amount outstanding on financial assets that were written off during the year ended 31 December 2015 and that are still subject to enforcement activity is €23 million.

a. *The EDTF report recommends that banks disclose a reconciliation of the opening and closing balances of non-performing or impaired loans in the period.*

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

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IFRS 7R.31

5. Financial risk review (continued)

IFRS 7R.33

A. Credit risk (continued)

iii. Amounts arising from ECL (continued)

Modified financial assets

IFRS 7R.35J The following table provides information on financial assets that were modified while they had a loss allowance measured at an amount equal to lifetime ECL.

In millions of euro	**2015**
Financial assets modified during the period	
Amortised cost before modification	**450**
Net modification loss	**17**
Financial assets modified since initial recognition	
Gross carrying amount at 31 December of financial assets for which loss allowance has changed to 12-month measurement during the period	**14**

iv. Impaired financial assets – Comparative information under IAS 39

	In millions of euro	Loans and advances to customers 2014	Loans and advances to banks 2014	Investment securities 2014
IFRS 7.36				
	Loans with renegotiated terms			
IFRS 7.34(a)	Gross carrying amount	982		
IFRS 7.34(a)	Impaired amount	884		
IFRS 7.34(a)	Allowance for impairment	(288)		
IFRS 7.34(a)	Net carrying amount	694		
	Neither past due nor impaired			
IFRS 7.36(c)	Grades 1–6: Low–fair risk	47,007	4,692	101
IFRS 7.36(c)	Grades 7–9: Watch list	3,200	-	-
IFRS 7.36(c)		50,207	4,692	101
	Past due but not impaired			
IFRS 7.37(a)	30–60 days	361		
IFRS 7.37(a)	61–90 days	98		
IFRS 7.37(a)	91–180 days	8		
IFRS 7.37(a)	181 days+	2		
IFRS 7.37(a)		469		
	Individually impaired			
IFRS 7.37(b)	Grade 10: Substandard	2,277	12	51
IFRS 7.37(b)	Grade 11: Doubtful	1,139	6	25
IFRS 7.37(b)	Grade 12: Loss	380	2	9
		3,796	20	85
IFRS 7.37(b)	**Allowance for impairment**			
IFRS 7.37(b)	Individual	791	5	35
IFRS 7.34(a)	Collective	731	-	-
IFRS 7.34(a)	Total allowance for impairment	1,522	5	35

Loans with renegotiated terms

Loans with renegotiated terms are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Group has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Group had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write-off.

IFRS 7R.31
IFRS 7R.33

5. Financial risk review (continued)

A. Credit risk (continued)

iv. Impaired financial assets – Comparative information under IAS 39 (continued)

Loans and investment debt securities that are past due but not impaired

IFRS 7.34(c)

Loans and investment debt securities that are 'past due but not impaired' 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 or collateral available and/or the stage of collection of amounts owed to the Group. The amounts disclosed exclude assets measured at FVTPL.

v. Concentrations of credit risk

IFRS 7R.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, loan commitments, financial guarantees and investment securities is shown below.

		Loans and advances to banks		Loans and advances to customers		Investment debt securities		Loan commitments and financial guarantees issued	
In millions of euro	**Note**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Carrying amount	22, 23, 24	**5,572**	4,707	**62,347**	56,805	**5,807**	4,843	**(38)**	(28)
Amount committed/guaranteed								**1,941**	1,615
IFRS 7R.34(c) **Concentration by sector**									
Corporate:		**-**	-	**42,029**	37,987	**4,885**	4,047	**1,288**	1,071
Real estate		**-**	-	***16,581***	*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:		**-**	-	**20,318**	18,818	**98**	87	**653**	544
Mortgages		**-**	-	***14,414***	*13,361*	***98***	*87*	***630***	*524*
Unsecured lending		**-**	-	***5,904***	*5,457*	**-**	-	***23***	*20*
		5,572	4,707	**62,347**	56,805	**5,807**	4,843	**1,941**	1,615
IFRS 7R.34(c) **Concentration by location**									
North America		**1,118**	944	**12,649**	11,393	**2,374**	2,246	**80**	67
Europe		**3,139**	2,652	**35,515**	32,656	**2,443**	1,761	**1,803**	1,499
Asia Pacific		**722**	664	**8,188**	7,356	**528**	446	**40**	33
Middle East and Africa		**593**	447	**5,995**	5,400	**462**	390	**18**	16
		5,572	4,707	**62,347**	56,805	**5,807**	4,843	**1,941**	1,615

Concentration by location for loans and advances, loan 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.

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5. Financial risk review (continued)

IFRS 7R.33

A. Credit risk (continued)

vi. Offsetting financial assets and financial liabilities

IFRS 7R.13A

The disclosures set out in the following tables 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 7R.B40–B41

The 'similar agreements' include derivative clearing agreements, global master repurchase agreements and global master securities lending agreements. Similar financial instruments include derivatives, sale-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 following tables unless they are offset in the statement of financial position.

The ISDA and similar master netting arrangements (see (ii)) do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement 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 or following other predetermined events. 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 gives 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.

This collateral is subject to standard industry terms including, when appropriate, an ISDA credit support annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction but have to be returned on maturity of the transaction. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

IFRS 7R.13C

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

				Related amounts not offset in the statement of financial position		
31 December 2015 *In millions of euro*	**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**	**Financial instruments (including non-cash collateral)**	**Cash collateral received**	**Net amount**
Types of financial assets						
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**

Notes to the consolidated financial statements (continued)

IFRS 7R.31

5. Financial risk review (continued)

IFRS 7R.33

A. Credit risk (continued)

vi. Offsetting financial assets and financial liabilities (continued)

IFRS 7R.13C

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

31 December 2015 *In millions of euro*	**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 (including non-cash collateral)	Cash collateral pledged	**Net amount**
Types of financial liabilities						
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**

IFRS 7.13C

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

31 December 2014 *In millions of euro*	**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 (including non-cash collateral)	Cash collateral received	**Net amount**
Types of financial assets						
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

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5. Financial risk review (continued)

IFRS 7R.33

A. Credit risk (continued)

vi. Offsetting financial assets and financial liabilities (continued)

IFRS 7.13C

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

31 December 2014 *In millions of euro*	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 (including non-cash collateral)	Related amounts not offset in the statement of financial position: Cash collateral pledged	Net amount
Types of financial liabilities						
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

IFRS 7.B42

The gross amounts of financial assets and financial liabilities and their net amounts disclosed in the above tables have been measured in the statement of financial position on the following bases:

- 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.

Notes to the consolidated financial statements (continued)

IFRS 7R.31

5. Financial risk review (continued)

IFRS 7R.33

A. Credit risk (continued)

vi. Offsetting financial assets and financial liabilities (continued)

IFRS 7R.B46

The following tables 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.

Reconciliation to the net amounts of financial assets and financial liabilities presented in the statement of financial position

31 December 2015 *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	**978**	Non-pledged trading assets	**16,122**	**15,144**	*20*
Derivatives held for risk management	**858**	Derivative assets held for risk management	**858**	**-**	*21*
Loans and advances to customers	**14**	Loans and advances to customers	**62,347**	**56,015**	*23*
Reverse sale-and-repurchase, securities borrowing and similar agreements	**6,318**				
	1,500	Loans and advances to banks	**5,572**	**4,072**	*22*

31 December 2015 *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	**408**	Trading liabilities	**7,026**	**6,618**	*20*
Derivatives held for risk management	**828**	Derivative liabilities held for risk management	**828**	**-**	*21*
Sale-and-repurchase, securities lending and similar agreements	**387**	Deposits from banks	**11,678**	**11,291**	*28*
Customer deposits	**-**	Deposits from customers	**53,646**	**53,646**	*29*

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5. Financial risk review (continued)

IFRS 7R.33

A. Credit risk (continued)

vi. Offsetting financial assets and financial liabilities (continued)

Reconciliation to the net amounts of financial assets and financial liabilities presented in the statement of financial position (continued)

31 December 2014 *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	*20*
Derivatives held for risk management	726	Derivative assets held for risk management	726	-	*21*
Loans and advances to customers	12	Loans and advances to customers	56,805	50,659	*23*
Reverse sale-and-repurchase, securities borrowing and similar agreements	6,134				
	1,278	Loans and advances to banks	4,707	3,429	*22*

31 December 2014 *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	5,680	*20*
Derivatives held for risk management	789	Derivative liabilities held for risk management	789	-	*21*
Sale-and-repurchase, securities lending and similar agreements	412	Deposits from banks	10,230	9,818	*28*
Customer deposits	-	Deposits from customers	48,904	48,904	*29*

Notes to the consolidated financial statements (continued)

IFRS 7R.31

5. Financial risk review (continued)

IFRS 7R.33

B. Liquidity risk[a]

For the definition of liquidity risk and information on how liquidity risk is managed by the Group, see Note 42(C).

i. 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' includes 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. 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 7R.34(a), 39(c)

	2015	2014
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%

IFRS 7R.34(a), 39(c)

a. The example shown in this guide 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. It also assumes that this is the entity's approach to managing liquidity risk. However, other presentations are possible.

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IFRS 7R.31

5. Financial risk review (continued)

IFRS 7R.33

B. Liquidity risk (continued)

IFRS 7R.39(a)–(b)

ii. Maturity analysis for financial liabilities and financial assets

The following tables set out the remaining contractual maturities of the Group's financial liabilities and financial assets.[a]

IFRS 7R.B11

31 December 2015 *In millions of euro*	*Note*	Carrying amount	Gross nominal inflow/ (outflow)	Less than 1 month	1–3 months	3 months –1 year	1–5 years	More than 5 years
Financial liability by type								
Non-derivative liabilities (*IFRS 7R.39(a)*)								
Trading liabilities	*20*	6,618	(6,882)	(5,625)	(926)	(331)	-	-
Deposits from banks	*28*	11,678	(12,713)	(10,683)	(1,496)	(534)	-	-
Deposits from customers	*29*	53,646	(55,340)	(39,318)	(741)	(3,540)	(11,741)	-
Debt securities issued	*30*	11,227	(12,881)	-	-	(201)	(12,680)	-
Subordinated liabilities	*31*	5,642	(6,660)	-	-	-	(5,499)	(1,161)
Issued financial guarantee contracts (*IFRS 7R.B11C(c)*)	*33*	32	(740)	-	-	(740)	-	-
Issued loan commitments (*IFRS 7R.B11D(e)*)		6	(1,201)	(1,201)	-	-	-	-
		88,849	(96,417)	(56,827)	(3,163)	(5,346)	(29,920)	(1,161)
Derivative liabilities (*IFRS 7R.39(b), B11B*)								
Trading:	*20*	408	-	-	-	-	-	-
Outflow		-	(3,217)	(398)	(1,895)	(856)	(68)	-
Inflow		-	2,789	138	1,799	823	29	-
Risk management:	*21*	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)
Financial asset by type								
Non-derivative assets								
Cash and cash equivalents	*19*	2,907	2,920	2,550	370	-	-	-
Pledged trading assets	*20*	540	550	390	125	35	-	-
Non-pledged trading assets	*20*	15,144	15,300	13,540	1,460	270	30	-
Loans and advances to banks	*22*	5,572	5,620	4,480	450	690	-	-
Loans and advances to customers	*23*	62,347	76,829	10,180	5,256	14,280	25,000	22,113
Investment securities	*24*	6,302	6,790	2,713	234	932	2,643	268
		92,812	108,009	33,853	7,895	16,207	27,673	22,381
Derivative assets								
Trading:	*20*	978	-	-	-	-	-	-
Inflow		-	6,345	654	3,890	1,723	78	-
Outflow		-	(5,279)	(250)	(3,321)	(1,643)	(65)	-
Risk management:	*21*	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

IFRS 7R.39, B11, B11E

a. The entity has disclosed a contractual maturity analysis for its financial instruments. This includes a maturity analysis for financial assets that 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 – because the entity considers that this information is necessary to enable financial statement users to evaluate the nature and extent of its liquidity risk. *The EDTF report recommends that banks disclose a contractual maturity analysis for financial assets.*

Insights 7A.10.650.80, 7.8.370.80

Because IFRS 7 does not mandate the number of time bands to be used in the analysis, the entity has applied judgement to determine an appropriate number of time bands.

Notes to the consolidated financial statements (continued)

IFRS 7R.31

5. Financial risk review (continued)

IFRS 7R.33

B. Liquidity risk (continued)

IFRS 7R.39(a)–(b)

ii. Maturity analysis for financial liabilities and financial assets (continued)

	31 December 2014 *In millions of euro*	*Note*	**Carrying amount**	**Gross nominal inflow/ (outflow)**	**Less than 1 month**	**1–3 months**	**3 months –1 year**	**1–5 years**	**More than 5 years**
IFRS 7.B11	**Financial liability by type**								
IFRS 7.39(a)	**Non-derivative liabilities**								
	Trading liabilities	*20*	5,680	(6,627)	(5,568)	(780)	(279)	-	-
	Deposits from banks	*28*	10,230	(11,324)	(9,516)	(1,332)	(476)	-	-
	Deposits from customers	*29*	48,904	(50,292)	(36,758)	(713)	(3,443)	(9,378)	-
	Debt securities issued	*30*	10,248	(11,785)	-	-	-	(11,785)	-
	Subordinated liabilities	*31*	4,985	(5,898)	-	-	-	(4,782)	(1,116)
IFRS 7.B11C(c)	Issued financial guarantee contracts	*33*	26	(601)	-	-	(601)	-	-
IFRS 7.B11D(e)	Issued loan commitments		2	(1,014)	(1,014)	-	-	-	-
			80,075	(87,541)	(52,856)	(2,825)	(4,799)	(25,945)	(1,116)
IFRS 7.39(b), B11B	**Derivative liabilities**								
	Trading:	*20*	372	-	-	-	-	-	-
	Outflow		-	(2,925)	(381)	(1,651)	(835)	(58)	-
	Inflow		-	2,533	122	1,583	789	39	-
	Risk management:	*21*	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)
	Financial asset by type								
	Non-derivative assets								
	Cash and cash equivalents	*19*	2,992	3,007	2,649	358	-	-	-
	Pledged trading assets	*20*	519	528	375	121	32	-	-
	Non-pledged trading assets	*20*	14,292	14,450	13,410	750	265	25	-
	Loans and advances to banks	*22*	4,707	4,753	3,721	443	589	-	-
	Loans and advances to customers	*23*	56,805	70,119	9,701	4,976	12,890	22,450	20,102
	Investment securities	*24*	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:	*20*	957						
	Inflow		-	6,334	678	3,811	1,756	89	-
	Outflow		-	(5,258)	(270)	(3,254)	(1,670)	(64)	-
	Risk management:	*21*	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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5. Financial risk review (continued)

IFRS 7R.33

B. Liquidity risk (continued)

IFRS 7R.39(a)–(b)

ii. Maturity analysis for financial liabilities and financial assets (continued)

IFRS 7R.39, B11B, B11D

The amounts in the table above have been compiled as follows.

Type of financial instrument	Basis on which amounts are compiled
Non-derivative financial liabilities and financial assets	Undiscounted cash flows, which include estimated interest payments.
Issued financial guarantee contracts, and unrecognised loan commitments	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.
Derivative financial liabilities and financial assets held for risk management purposes	Contractual undiscounted cash flows. The amounts shown are the gross nominal inflows and outflows for derivatives that have simultaneous gross settlement (e.g. forward exchange contracts and currency swaps) and the net amounts for derivatives that are net settled.
Trading derivative liabilities and assets forming part of the Group's proprietary trading operations that are expected to be closed out before contractual maturity	Fair values at the date of the statement of financial position. This is because contractual maturities do not reflect the liquidity risk exposure arising from these positions. These fair values are disclosed in the 'less than one month' column.
Trading derivative liabilities and assets that are entered into by the Group with its customers	Contractual undiscounted cash flows. This is because these instruments are not usually closed out before contractual maturity and so the Group believes that contractual maturities are essential for understanding the timing of cash flows associated with these derivative positions.

The Group's expected cash flows on some financial assets and financial liabilities vary significantly from the contractual cash flows. The principal differences are as follows:

- demand deposits from customers are expected to remain stable or increase;
- unrecognised loan commitments are not all expected to be drawn down immediately; and
- retail mortgage loans have an original contractual maturity of between 20 and 25 years but an average expected maturity of six years because customers take advantage of early repayment options.

As part of the management of liquidity risk arising from financial liabilities, the Group holds liquid assets comprising cash and cash equivalents, and debt securities issued by sovereigns, which can be readily sold to meet liquidity requirements. In addition, the Group maintains agreed lines of credit with other banks and holds unencumbered assets eligible for use as collateral with central banks (these amounts are referred to as the 'Group's liquidity reserves').

Notes to the consolidated financial statements (continued)

IFRS 7R.31

5. Financial risk review (continued)

IFRS 7R.33

B. Liquidity risk (continued)

IFRS 7R.39(a)–(b)

ii. Maturity analysis for financial liabilities and financial assets (continued)

IAS 1.61

The following table sets out the carrying amounts of non-derivative financial assets and financial liabilities expected to be recovered or settled more than 12 months after the reporting date.

In millions of euro	**Note**	**2015**	**2014**
Financial assets			
Loans and advances to customers	*23*	**34,215**	31,002
Investment securities	*24*	**2,668**	2,613
Financial liabilities			
Deposits from customers	*29*	**40,808**	35,789
Debt securities issued	*30*	**10,248**	10,230
Subordinated liabilities	*31*	**5,642**	4,985

iii. Liquidity reserves

The following table sets out the components of the Group's liquidity reserves.[a]

IFRS 7R.34(a), 39(c)

Liquidity reserves

In millions of euro	**2015 Carrying amount**	**2015 Fair value**	**2014 Carrying amount**	**2014 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	**10,657**	**10,657**	10,178	10,178
Undrawn credit lines granted by central banks*	**250**	**-**	231	-
Other assets eligible for use as collateral with central banks	**15,548**	**16,550**	13,686	14,278
Total liquidity reserves	**28,962**	**29,964**	26,698	27,290

* The amount is the actual credit line available.

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

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5. Financial risk review (continued)

IFRS 7R.33

B. Liquidity risk (continued)

IFRS 7R.39(a)–(b)

iv. Financial assets available to support future funding

IFRS 7R.34(a)

The following table sets out the availability of the Group's financial assets to support future funding.[a]

31 December 2015 *In millions of euro*	*Note*	**Encumbered** Pledged as collateral	**Encumbered** Other*	**Unencumbered** Available as collateral	**Unencumbered** Other**	**Total**
Cash and cash equivalents		**-**	**-**	**2,507**	**400**	**2,907**
Trading assets	*20*	**540**	**60**	**14,553**	**1,509**	**16,662**
Derivative assets held for risk management		**-**	**-**	**-**	**858**	**858**
Loans and advances		**2,015**	**-**	**15,548**	**51,079**	**68,642**
Investment securities		**-**	**30**	**5,915**	**357**	**6,302**
Non-financial assets		**-**	**-**	**-**	**1,738**	**1,738**
Total assets		**2,555**	**90**	**38,523**	**55,941**	**97,109**

IFRS 7R.14(a)

31 December 2014 *In millions of euro*	*Note*	**Encumbered** Pledged as collateral	**Encumbered** Other*	**Unencumbered** Available as collateral	**Unencumbered** Other**	**Total**
Cash and cash equivalents		-	-	2,603	389	2,992
Trading assets	*20*	519	54	13,838	1,357	15,768
Derivative assets held for risk management		-	-	-	726	726
Loans and advances		1,730	-	13,686	46,096	61,512
Investment securities		-	26	4,922	321	5,269
Non-financial assets		-	-	-	1,549	1,549
Total assets		2,249	80	35,049	50,438	87,816

IFRS 7.14(a)

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

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

v. Financial assets pledged as collateral

IFRS 7R.14(a)

The total financial assets recognised in the statement of financial position that had been pledged as collateral for liabilities at 31 December 2015 and 2014 is shown in the preceding table.

IFRS 7R.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. In addition, as part of these transactions, the Group has received collateral that it is permitted to sell or repledge in the absence of default.

IFRS 7R.15(a)

At 31 December 2015, the fair value of financial assets accepted as collateral that the Group is permitted to sell or repledge in the absence of default was €7,788 million (2014: €7,308 million).

IFRS 7R.15(b)

At 31 December 2015, the fair value of financial assets accepted as collateral that had been sold or repledged was €5,661 million (2014: €5,205 million). The Group is obliged to return equivalent securities.

At 31 December 2015, for derivative liabilities that are classified as trading liabilities and derivatives liabilities held for risk management, the Group had posted cash collateral with its counterparties for which it had recognised receivables of €793 million (2014: €807 million). These receivables are regarded as encumbered and included in loans and advances to banks or customers.

a. *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 purposes of this guide, we have assumed that including this information in the financial statements for assets recognised in the statement of financial position will enhance users' understanding of the Group's exposure to liquidity risk.*

Notes to the consolidated financial statements (continued)

IFRS 7R.31

5. Financial risk review (continued)

IFRS 7R.33

C. Market risk[a]

For the definition of market risk and information on how the Group manages the market risks of trading and non-trading portfolios, see Note 42(D).

IFRS 7R.34(a)

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

			Market risk measure	
31 December 2015 *In millions of euro*	***Note***	**Carrying amount**	**Trading portfolios**	**Non-trading portfolios**
Assets subject to market risk				
Cash and cash equivalents	*19*	**2,907**	**-**	**2,907**
Trading assets	*20*	**16,662**	**16,662**	**-**
Derivatives held for risk management	*21*	**858**	**-**	**858**
Loans and advances to banks	*22*	**5,572**	**-**	**5,572**
Loans and advances to customers	*23*	**62,347**	**3,986**	**58,361**
Investment securities	*24*	**6,302**	**4,502**	**1,800**
Liabilities subject to market risk				
Trading liabilities	*20*	**7,026**	**7,026**	**-**
Derivatives held for risk management	*21*	**828**	**-**	**828**
Deposits	*28, 29*	**65,324**	**-**	**65,324**
Debt securities	*30*	**11,227**	**1,250**	**9,977**
Subordinated liabilities	*31*	**5,642**	**-**	**5,642**
31 December 2014				
Assets subject to market risk				
Cash and cash equivalents	*19*	2,992	-	2,992
Trading assets	*20*	15,768	15,768	-
Derivatives held for risk management	*21*	726	-	726
Loans and advances to banks	*22*	4,707	-	4,707
Loans and advances to customers	*23*	56,805	3,145	53,660
Investment securities	*24*	5,269	3,239	2,030
Liabilities subject to market risk				
Trading liabilities	*20*	6,052	6,052	-
Derivatives held for risk management	*21*	789	-	789
Deposits	*28, 29*	59,134	-	59,134
Debt securities	*30*	10,248	2,208	8,040
Subordinated liabilities	*31*	4,985	-	4,985

IFRS 7R.34, 40–41

a. The example shown in this guide in relation to market risk from interest rates illustrates value at risk (VaR) 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 VaR measure for trading 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 VaR measure and an analysis of concentration risk in relation to individual currencies. However, other presentations are possible.

b. *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, and positions included in the trading market risk disclosures. For the purposes of this guide, we have assumed that disclosure of the analysis of the line items in the statement of financial position between trading and non-trading risk portfolios will facilitate users' understanding of how the group manages market risk.*

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IFRS 7R.31

5. Financial risk review (continued)

IFRS 7R.33

C. Market risk (continued)

i. Exposure to market risk – Trading portfolios

The following is a summary of the VaR position of the Group's trading portfolios at 31 December and during the period (based on a 99% confidence level and 10-day holding period).

IFRS 7R.41

2015 *In millions of euro*	**At 31 December**	**Average**	**Maximum**	**Minimum**
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**
2014				
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

Notes to the consolidated financial statements (continued)

IFRS 7R.31

5. Financial risk review (continued)

IFRS 7R.33

C. Market risk (continued)

ii. Exposure to interest rate risk – Non-trading portfolios

The following is a summary of the Group's interest rate gap position on non-trading portfolios.

IFRS 7R.34(a)

31 December 2015 *In millions of euro*	*Note*	**Carrying amount**	**Less than 3 months**	**3–6 months**	**6–12 months**	**1–5 years**	**More than 5 years**
Cash and cash equivalents	19	**2,907**	**2,907**	**-**	**-**	**-**	**-**
Loans and advances to banks	22	**5,572**	**4,903**	**669**	**-**	**-**	**-**
Loans and advances to customers	23	**58,361**	**22,162**	**7,760**	**3,259**	**21,533**	**3,647**
Investment securities	24	**1,882**	**177**	**442**	**720**	**442**	**101**
		68,722	**30,149**	**8,871**	**3,979**	**21,975**	**3,748**
Deposits from banks	28	**(11,678)**	**(11,202)**	**(476)**	**-**	**-**	**-**
Deposits from customers	29	**(53,646)**	**(39,715)**	**(1,584)**	**(1,636)**	**(10,711)**	**-**
Debt securities issued	30	**(8,818)**	**(5,143)**	**-**	**(184)**	**(3,491)**	**-**
Subordinated liabilities	31	**(5,642)**	**-**	**(4,782)**	**-**	**-**	**(860)**
		(79,784)	**(56,060)**	**(6,842)**	**(1,820)**	**(14,202)**	**(860)**
Effect of derivatives held for risk management	21	**-**	**3,620**	**1,576**	**-**	**(5,196)**	**-**
		(10,339)	**(22,291)**	**3,605**	**2,159**	**3,300**	**2,888**
31 December 2014							
Cash and cash equivalents	19	2,992	2,992	-	-	-	-
Loans and advances to banks	22	4,707	4,142	565	-	-	-
Loans and advances to customers	23	53,660	20,381	7,227	2,913	19,867	3,272
Investment securities	24	1,741	162	406	666	406	101
		63,100	27,677	8,198	3,579	20,273	3,373
Deposits from banks	28	(10,230)	(9,778)	(452)	-	-	-
Deposits from customers	29	(48,904)	(38,735)	(1,493)	(1,065)	(7,611)	-
Debt securities issued	30	(8,040)	(4,473)	-	(178)	(3,389)	-
Subordinated liabilities	31	(4,985)	-	(4,158)	-	-	(827)
		(72,159)	(52,986)	(6,103)	(1,243)	(11,000)	(827)
Effect of derivatives held for risk management	21	-	3,225	1,240	-	(4,465)	-
		(9,059)	(22,084)	3,335	2,436	4,808	2,546

IFRS 7.34(a) (31 December 2014)

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and financial 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 50bp rise or fall in the greater than 12-month portion of all yield curves.

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IFRS 7R.31

5. Financial risk review (continued)

IFRS 7R.33

C. Market risk (continued)

ii. Exposure to interest rate risk – Non-trading portfolios (continued)

The following is 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.

IFRS 7R.40(a)

In millions of euro	100bp parallel increase	100bp parallel decrease	50bp increase after 1 year	50bp decrease after 1 year
Sensitivity of projected net interest income				
2015				
At 31 December	**(43)**	**46**	**(22)**	**23**
Average for the period	**(42)**	**45**	**(22)**	**22**
Maximum for the period	**(44)**	**48**	**(23)**	**24**
Minimum for the period	**(39)**	**41**	**(20)**	**20**
2014				
At 31 December	(39)	41	(20)	20
Average for the period	(38)	41	(19)	20
Maximum for the period	(40)	42	(20)	21
Minimum for the period	(37)	40	(19)	20
Sensitivity of reported equity to interest rate movements				
2015				
At 31 December	**(77)**	**78**	**(39)**	**39**
Average for the period	**(76)**	**78**	**(37)**	**38**
Maximum for the period	**(79)**	**80**	**(39)**	**40**
Minimum for the period	**(75)**	**77**	**(36)**	**36**
2014				
At 31 December	(69)	69	(37)	38
Average for the period	(68)	69	(36)	37
Maximum for the period	(70)	71	(38)	39
Minimum for the period	(67)	68	(36)	36

Interest rate movements affect reported equity in the following ways:

- *retained earnings:* increases or decreases in net interest income and in fair values of derivatives reported in profit or loss;
- *fair value reserve:* increases or decreases in the fair values of financial assets at FVOCI (2014: available-for-sale) reported directly in equity; and
- *hedging reserve:* increases or decreases in the fair values of hedging instruments designated in qualifying cash flow hedge relationships.

Aggregate 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 positions. The use of derivatives to manage interest rate risk is described in Note 21.

iii. Exposure to currency risks – Non-trading portfolios

As at the reporting date, there were no significant foreign currency exposures in non-trading book, other than structural foreign currency exposure arising from foreign operations, as set out in the table below.

	Net investments	
In millions	2015	2014
Functional currency of foreign operation		
GBP	**984**	782
USD	**680**	-

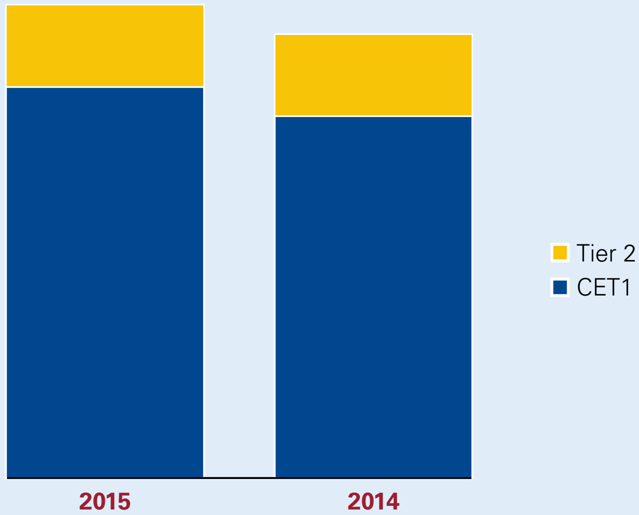
Notes to the consolidated financial statements (continued)

IFRS 7R.31

5. Financial risk review (continued)

D. Capital management[a]

i. 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 lead regulator*] adopted the Basel III capital requirements with effect from 1 January 2015. The Group has been granted approval by [*its lead regulator*] to adopt the internal rating-based advanced approach (IRB) for credit risk on the majority of its portfolios. The other portfolios are either on an IRB foundation or standardised approaches.

The Group calculates requirements for market risk in its trading portfolios based on the Group's VaR models.

IAS 1.135(a)(i)

The Group's regulatory capital[b] consists of the sum of the following elements.

- Common Equity Tier 1 (CET1) capital, which includes ordinary share capital, related share premium, retained earnings, reserves and NCI after adjustment for foreseeable dividends[c] and deductions for goodwill, intangible assets and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes perpetual bonds, qualifying subordinated liabilities and excess of expected credit losses over regulatory credit losses.

IAS 1.134–136

a. The example disclosures presented in this guide assume that the primary basis for capital management is regulatory capital requirements. However, other presentations are possible.

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

b. The Basel Committee is currently reviewing the impact on regulatory capital of the ECL impairment model in IFRS 9. The outcome of the review may impact disclosures in respect of regulatory capital. *The EDTF report* Impact of expected credit loss approaches on bank risk disclosures *issued on 30 November 2015 (page 3) recommends that banks explain the difference between accounting ECL and regulatory capital ECL.*

c. It has been assumed for illustrative purposes that the lead regulator requires deductions of the proposed dividends from the CET1 capital.

Notes to the consolidated financial statements (continued)

IFRS 7R.31

5. Financial risk review (continued)

D. Capital management (continued)

i. Regulatory capital (continued)

In millions of euro	*Note*	2015	2014
Tier 1 capital – CET1			
Ordinary share capital	*34*	**1,759**	1,756
Share premium	*34*	**466**	439
Retained earnings	*34*	**2,867**	2,944
Foreseeable dividends		**(284)**	(284)
Translation reserve	*34*	**62**	77
Other reserves	*34*	**93**	126
NCI	*34*	**155**	128
Deductions:			
Intangible assets	*26*	**(275)**	(259)
Deferred tax other than temporary differences	*17*	**(25)**	(31)
Fair value losses, net of deferred tax, arising from own credit spreads		**(5)**	(4)
Excess of expected credit losses over accounting impairment	*5(A)*	**-**	(704)
Other regulatory adjustments under Basel III		**(7)**	(6)
		4,806	4,182
Tier 2 capital			
Perpetual bonds	*34*	**500**	500
Qualifying subordinated liabilities	*31*	**300**	300
Excess of expected credit losses over regulatory credit losses	*5(A)*	**123**	
		923	800
Total regulatory capital		**5,729**	4,982

IAS 1.135(a)(iii)

The Group's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' returns 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 stronger capital position.

IAS 1.135(d)

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

The lead regulator's approach to the 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).

Notes to the consolidated financial statements (continued)

IFRS 7R.31

5. Financial risk review (continued)

D. Capital management (continued)

IAS 1.135(a)

ii. Capital allocation

Management uses regulatory capital ratios to monitor its capital base. 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 on regulatory capital requirements, but in some cases the regulatory requirements do not fully reflect 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 Asset and Liability Management Committee (ALCO).

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.

Notes to the consolidated financial statements (continued)

6. Fair values of financial instruments

See accounting policy in Note 45(J)(vi).

A. Valuation models

IFRS 13.72

The Group measures fair values using the following fair value hierarchy, which 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 in which all significant inputs are directly or indirectly observable from market data.
- *Level 3:* Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable 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 for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

IFRS 13.93(d)

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market 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 to determine the fair value of common and simple financial instruments, such as interest rate and currency swaps, that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple OTC derivatives such as interest rate swaps. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. The 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.

Notes to the consolidated financial statements (continued)

6. Fair values of financial instruments (continued)

A. Valuation models (continued)

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 may be derived from market prices or rates or estimated based on assumptions. Examples of instruments involving significant unobservable inputs include certain OTC structured derivatives, certain loans, securities for which there is no active market and retained interests in securitisations (as discussed below). 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 the selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments, determination of expected volatilities and correlations and selection of appropriate discount rates.

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 that a third party market participant would take them into account in pricing a transaction. 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. For measuring derivatives that might change classification from being an asset to a liability or vice versa – e.g. interest rate swaps – fair values take into account both credit valuation adjustment (CVA) and debit valuation adjustment (DVA) when market participants would take this into consideration in pricing the derivatives.

Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments and against broker quotes. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair value, and management uses judgement to select the most appropriate point in the range.

Asset-back securities with no active market

During the current year, low trading volumes continued and there has not been sufficient trading volume to establish an active market for certain asset-backed securities, and so the Group has determined the fair value for these asset-backed securities using other valuation techniques. These securities are backed primarily by static pools of residential mortgages and enjoy a senior claim on cash flows.

IFRS 13.93(d)

The Group's methodology for valuing these asset-backed securities uses a discounted cash flow technique that takes into account the probability of default and loss severity by considering the original underwriting criteria, vintage borrower attributes, LTV 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.

OTC structured derivatives

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.

Notes to the consolidated financial statements (continued)

6. Fair values of financial instruments (continued)

A. Valuation models (continued)

Measurement on the basis of net exposures to risks

If the Group measures portfolios of financial assets and financial liabilities on the basis of net exposures to market risks, then it applies judgement in determining appropriate portfolio-level adjustments such as bid-ask spreads. These adjustments are derived from observable bid-ask spreads for similar instruments and adjusted for factors specific to the portfolio. Similarly, when the Group measures portfolios of financial assets and financial liabilities on the basis of net exposure to the credit risk of a particular counterparty, it takes into account any existing arrangements that mitigate the credit risk exposure – e.g. master netting agreements with the counterparty.

B. Valuation framework

IFRS 13.93(g), IE65

The Group has an established control framework for 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; and
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared with the previous month, by a committee of senior Product Control and Group Market Risk personnel.

When third party information, such as broker quotes or pricing services, is used to measure fair value, Product Control assesses and documents the evidence obtained from the third parties to support the conclusion that the 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, the extent to which it represents actual market transactions and whether it represents a quoted price in an active market for an identical instrument;
- 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; and
- if a number of quotes for the same financial instrument have been obtained, then how fair value has been determined using those quotes.

Significant valuation issues are reported to the Group Audit Committee.

C. Financial instruments measured at fair value – Fair value hierarchy

IFRS 13.93(b)

The following table analyses financial instruments measured at fair value at the reporting date, 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. The fair values include any deferred differences between the transaction price and the fair value on initial recognition when the fair value is based on a valuation technique that uses unobservable inputs.

Notes to the consolidated financial statements (continued)

6. Fair values of financial instruments (continued)

C. Financial instruments measured at fair value – Fair value hierarchy (continued)

IFRS 13.93(b)

31 December 2015 *In millions of euro*	***Note***	**Level 1**	**Level 2**	**Level 3**	**Total**
Pledged trading assets	*20*				
Government bonds		**332**	**-**	**-**	**332**
Other securities		**200**	**8**	**-**	**208**
Total		**532**	**8**	**-**	**540**
Non-pledged trading assets	*20*				
Government bonds		**5,809**	**201**	**-**	**6,010**
Treasury bills		**3,777**	**102**	**-**	**3,879**
Corporate bonds		**3,898**	**450**	**-**	**4,348**
Equities		**391**	**-**	**-**	**391**
Asset-backed securities		**150**	**44**	**322**	**516**
Derivative assets:					
Credit		**120**	**212**	**-**	**332**
Foreign exchange		**74**	**76**	**-**	**150**
OTC structured derivatives		**-**	**76**	**258**	**334**
Other		**41**	**121**	**-**	**162**
Total		**14,260**	**1,282**	**580**	**16,122**
Derivative assets held for risk management	*21*				
Interest rate		**12**	**392**	**-**	**404**
Foreign exchange		**10**	**290**	**-**	**300**
Other		**4**	**150**	**-**	**154**
Total		**26**	**832**	**-**	**858**
Loans and advances to customers	*23*				
Corporate customers		**-**	**369**	**3,617**	**3,986**
Investment securities	*24*				
Government bonds		**477**	**37**	**-**	**514**
Corporate bonds		**2,882**	**923**	**-**	**3,805**
Asset-backed securities		**301**	**141**	**538**	**980**
Equities		**468**	**-**	**27**	**495**
Retained interests in securitisations		**-**	**-**	**98**	**98**
Total		**4,128**	**1,101**	**636**	**5,892**
Trading liabilities	*20*				
Short sold positions – debt		**5,423**	**932**	**-**	**6,355**
Short sold positions – equity		**201**	**62**	**-**	**263**
Derivative liabilities:					
Credit		**45**	**100**	**-**	**145**
Foreign exchange		**39**	**83**	**-**	**122**
OTC structured derivatives		**-**	**6**	**70**	**76**
Other		**11**	**54**	**-**	**65**
Total		**5,719**	**1,237**	**70**	**7,026**
Derivative liabilities held for risk management	*21*				
Interest rate		**10**	**215**	**-**	**225**
Foreign exchange		**23**	**422**	**-**	**445**
Other		**8**	**150**	**-**	**158**
Total		**41**	**787**	**-**	**828**
Debt securities issued	*30*	**1,028**	**222**	**-**	**1,250**

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Notes to the consolidated financial statements (continued)

6. Fair values of financial instruments (continued)

C. Financial instruments measured at fair value – Fair value hierarchy (continued)

IFRS 13.93(b)

31 December 2014 *In millions of euro*	*Note*	Level 1	Level 2	Level 3	Total
Pledged trading assets	*20*				
Government bonds		317	-	-	317
Other securities		200	2	-	202
Total		517	2	-	519
Non-pledged trading assets	*20*				
Government bonds		5,275	506	-	5,781
Treasury bills		3,544	200	-	3,744
Corporate bonds		3,800	125	-	3,925
Equities		379	-	-	379
Asset-backed securities		65	12	386	463
Derivative assets:					
Credit		130	239	-	369
Foreign exchange		70	71	-	141
OTC structured derivatives		-	20	257	277
Other		45	125	-	170
Total		13,308	1,298	643	15,249
Derivative assets held for risk management	*21*				
Interest rate		14	295	-	309
Foreign exchange		17	260	-	277
Other		5	135	-	140
Total		36	690	-	726
Loans and advances to customers	*23*				
Corporate customers		-	283	2,862	3,145
Investment securities	*24*				
Government bonds		574	79	-	653
Corporate bonds		2,655	489	-	3,144
Asset-backed securities		63	88	707	858
Equities		402	-	-	402
Retained interests in securitisations		-	-	87	87
Total		3,694	656	794	5,144
Trading liabilities	*20*				
Short sold positions – debt		4,854	599	-	5,453
Short sold positions – equity		178	49	-	227
Derivative liabilities:					
Credit		35	98	-	133
Foreign exchange		35	73	-	108
OTC structured derivatives		-	5	69	74
Other		10	47	-	57
Total		5,112	871	69	6,052
Derivative liabilities held for risk management	*21*				
Interest rate		10	182	-	192
Foreign exchange		15	435	-	450
Other		7	140	-	147
Total		32	757	-	789
Debt securities issued	*30*	1,486	722	-	2,208

Notes to the consolidated financial statements (continued)

6. Fair values of financial instruments (continued)

C. Financial instruments measured at fair value – Fair value hierarchy (continued)

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 the fair values of these securities based on observable market inputs. Therefore, these securities, with a carrying amount of €369 million, were transferred from Level 1 to Level 2 of the fair value hierarchy.

D. Level 3 fair value measurements

i. Reconciliation

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.

		Trading assets		Loans and advances to customers	Investment securities			Trading liabilities	
	2015 *In millions of euro*	**Asset-backed securities**	**OTC structured derivatives**		**Asset-backed securities**	**Retained interests in securitisations**	**Equities**	**OTC structured derivatives**	**Total**
IFRS 13.93(e)	Balance at 1 January	**392**	**251**	**2,862**	**707**	**87**	**25**	**(69)**	**4,255**
	Total gains or losses:								
IFRS 13.93(e)(i)	in profit or loss	**10**	**2**	**130**	**(75)**	**4**	**2**	**5**	**78**
IFRS 13.93(e)(ii)	in OCI	**-**	**-**	**-**	**(82)**	**1**	**2**	**-**	**(79)**
IFRS 13.93(e)(iii)	Purchases	**21**	**20**	**851**	**-**	**95**	**-**	**-**	**987**
IFRS 13.93(e)(iii)	Issues	**-**	**-**	**-**	**-**	**-**	**-**	**(16)**	**(16)**
IFRS 13.93(e)(iii)	Settlements	**(36)**	**(15)**	**(226)**	**(6)**	**(89)**	**(2)**	**10**	**(364)**
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	**322**	**258**	**3,617**	**538**	**98**	**27**	**(70)**	**4,790**

Notes to the consolidated financial statements (continued)

6. Fair values of financial instruments (continued)

D. Level 3 fair value measurements (continued)

i. Reconciliation (continued)

Total gains or losses for the year in the above table are presented in the statement of profit or loss and OCI as follows.

IFRS 13.93(e)(i), IFRS 13.93(e)(ii), IFRS 13.93(f)

2015 *In millions of euro*	Trading assets Asset-backed securities	Trading assets OTC structured derivatives	Loans and advances to customers	Investment securities Asset-backed securities	Investment securities Retained interests in securiti-sations	Investment securities Equities	Trading liabilities OTC structured derivatives	Total
Total gains and losses recognised in profit or loss:								
Net trading income	**10**	**2**	**-**	**-**	**-**	**-**	**5**	**17**
Net income from other financial instruments carried at fair value	**-**	**-**	**130**	**(75)**	**-**	**-**	**-**	**55**
Interest income	**-**	**-**	**-**	**-**	**4**	**-**	**-**	**4**
Other revenue	**-**	**-**	**-**	**-**	**-**	**2**	**-**	**2**
Total gains and losses recognised in OCI:								
Fair value reserve (debt instruments) – net change in fair value	**-**	**-**	**-**	**(82)**	**1**	**-**	**-**	**(81)**
Fair value reserve (equity instruments) – net change in fair value	**-**	**-**	**-**	**-**	**-**	**2**	**-**	**2**
Profit or loss – attributable to the change in unrealised gains and losses relating to assets and liabilities held at the end of the year:								
Net trading income	**5**	**1**	**-**	**-**	**-**		**6**	**12**
Net income from other financial instruments carried at fair value	**-**	**-**	**(2)**	**(67)**	**-**		**-**	**(69)**
Interest income	**-**	**-**	**-**	**-**	**2**		**-**	**2**

Notes to the consolidated financial statements (continued)

6. Fair values of financial instruments (continued)

D. Level 3 fair value measurements (continued)

i. Reconciliation (continued)

		Trading assets		Loans and advances to customers	Investment securities		Trading liabilities	
	2014 *In millions of euro*	Asset-backed securities	OTC structured derivatives		Asset-backed securities	Retained interests in securitisations	OTC structured derivatives	Total
IFRS 13.93(e)	Balance at 1 January	333	260	3,417	727	97	(60)	4,774
	Total gains or losses:							
IFRS 13.93(e)(i)	in profit or loss	30	5	(120)	6	-	(4)	(83)
IFRS 13.93(e)(ii)	in OCI	-	-	-	(10)	-	-	(10)
IFRS 13.93(e)(iii)	Purchases	80	6	100	10	5	-	101
IFRS 13.93(e)(iii)	Issues	-	-	-	-	-	(7)	(7)
IFRS 13.93(e)(iii)	Settlements	(1)	(14)	(535)	(17)	(15)	2	(580)
IFRS 13.93(e)(iv)	Transfers into Level 3	-	-	-	-	-	-	-
IFRS 13.93(e)(iv)	Transfers out of Level 3	(56)	-	-	(9)	-	-	(65)
IFRS 13.93(e)	Balance at 31 December	386	257	2,862	707	87	(69)	4,230

Total gains or losses for the year in the above table are presented in the statement of profit or loss and OCI as follows.

		Trading assets		Loans and advances to customers	Investment securities		Trading liabilities	
	2014 *In millions of euro*	Asset-backed securities	OTC structured derivatives		Asset-backed securities	Retained interests in securitisations	OTC structured derivatives	Total
IFRS 13.93(e)(i)	Total gains and losses recognised in profit or loss:							
	Net trading income	30	5	-	-	-	(4)	31
	Net income from other financial instruments carried at fair value	-	-	(120)	3	-	-	(117)
	Interest income	-	-	-	3	-	-	3
IFRS 13.93(e)(ii)	Total gains and losses recognised in OCI – net change in fair value of available-for-sale financial assets	-	-	-	(10)	-	-	(10)
IFRS 13.93(f)	Profit or loss – attributable to the change in unrealised gains and losses relating to assets and liabilities held at the end of the year:							
	Net trading income	25	3	-	-	-	(2)	26
	Net income from other financial instruments carried at fair value	-	-	1	2	-	-	3
	Interest income	-	-	-	1	-	-	1

IFRS 13.93(e)(iv) During 2015 and 2014, 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, that were previously unobservable became observable.

6. Fair values of financial instruments (continued)

D. Level 3 fair value measurements (continued)

ii. Unobservable inputs used in measuring fair value

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

The following table sets out information about significant unobservable inputs used at 31 December 2015 and 2014 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.[a]

Type of financial instrument	Fair values at 31 December 2015	Valuation technique	Significant unobservable input	Range of estimates (weighted-average) for unobservable input	Fair value measurement sensitivity to unobservable inputs
Residential mortgage-backed securities	**860** (2014: 1,093)	Discounted cash flow	Probability of default	8–12% (10%) (2014: 10–14% (12%))	Significant increases in any of these inputs in isolation would result in lower fair values.
			Loss severity	40–60% (50%) (2014: 50–60% (55%))	A 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.
			Expected prepayment rate	3–6% (4.8%) (2014: 3–8% (5.8%))	
OTC option-based structured credit derivatives	**100** (2014: 90)	Option model	Correlations between credit spreads	0.35–0.55 (0.47) (2014: 0.25–0.45 (0.37))	A significant increase in volatility would result in a higher fair value.
			Annualised volatility of credit spreads	5–60% (20%) (2014: 5–70% (25%))	
OTC option-based structured non-credit derivatives	**88** (2014: 98)	Option model	Correlations between different underlyings	0.3–0.6 (0.45) (2014: 0.4–0.7 (0.55))	Significant increases in volatilities would result in a higher fair value.
			Volatility of interest rate	5–30% (15%) (2014: 4–30% (15%))	
			Volatility of FX rates	10–40% (20%) (2014: 4–30% (15%))	
			Volatilities of equity indices	10–90% (40%) (2014: 10–90% (40%))	
Loans and advances and retained interests in securitisations	**3,595** (2014: 2,795)	Discounted cash flow	Risk-adjusted discount rate	Spread of 5–7% (6%) (2014: 3–6% (5%)) above risk-free interest rate	A significant increase in the spread above the risk-free rate would result in a lower fair value.
Equities	**27** (2014: nil)	Discounted cash flow	Expected net cash flows derived from the entity	Investment based	A significant increase in expected net cash flows would result in a higher fair value.

IFRS 13.93(d), IE63, Insights 2.4.530.50

a. IFRS 13 *Fair Value Measurement* does not specify how to summarise the information about unobservable inputs for each class of assets or liabilities – e.g. whether to include information about the range of values or a weighted average for each unobservable input used for each class. An entity should consider the level of detail that is necessary to meet the disclosure objectives. For example, if the range of values for an unobservable input that the entity uses is wide, then this may indicate that the entity should disclose both the range and the weighted average of the values as disclosed in this guide.

Notes to the consolidated financial statements (continued)

6. Fair values of financial instruments (continued)

D. Level 3 fair value measurements (continued)

ii. Unobservable inputs used in measuring fair value (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.
- The 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.
- The 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.
- Expected cash flows are derived from the entity's business plan and from historical comparison between plans and actual results.

iii. The effect of unobservable inputs on fair value measurement

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.

31 December 2015	**Effect on profit or loss**		**Effect on OCI**	
In millions of euro	**Favourable**	**(Unfavourable)**	**Favourable**	**(Unfavourable)**
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 2014				
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 13.93(h)(ii)

The favourable and unfavourable effects of using reasonably possible alternative assumptions for the 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 2015 included a weighted-average probability of default of 10% (with reasonably possible alternative assumptions of 8 and 12%) (2014: 12, 10 and 14% respectively), a loss severity of 50% (with reasonably possible alternative assumptions of 40 and 60%) (2014: 55, 50 and 60% respectively) and an expected prepayment rate of 4.8% (with reasonably possible alternative assumptions of 3 and 6%) (2014: 5.8, 3 and 8%).

Notes to the consolidated financial statements (continued)

6. Fair values of financial instruments (continued)

D. Level 3 fair value measurements (continued)

iii. The effect of unobservable inputs on fair value measurement (continued)

IFRS 13.93(h)(ii)

The favourable and unfavourable effects of using reasonably possible alternative assumptions for the 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 (based on the past two years' historical daily data). 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 2015 was 0.46 (with reasonably possible alternative assumptions of 0.26 and 0.61) (2014: 0.40, 0.28 and 0.49 respectively). The weighted average of the credit spread volatilities used in the models at 31 December 2015 was 20% (with reasonably possible alternative assumptions of 10 and 40%) (2014: 15, 8 and 35% respectively); interest rate volatilities: 15, 10 and 30% respectively (2014: 13, 9 and 25% respectively); FX volatilities: 20, 5 and 50% respectively (2014: 18, 5 and 45% respectively); and equity indices volatilities: 40, 10 and 70% respectively (2014: 35, 8 and 60% respectively).

IFRS 13.93(h)(ii)

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. 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 2015 was 6% above the risk-free interest rate (with reasonably possible alternative assumptions of 4 and 8%) (2014: 5, 3 and 7% respectively).

The Group's reporting systems and the nature of the instruments and the valuation models do not allow it accurately to analyse 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 2015 are principally dependent on the unobservable inputs described above.[a]

Insights 2.4.530.120 a. This information is not required to be disclosed by IFRS 13 but it may be considered to be helpful to users of the financial statements.

Notes to the consolidated financial statements (continued)

6. Fair values of financial instruments (continued)

E. Financial instruments not measured at fair value

IFRS 7R.25, 13.97

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

31 December 2015 *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	**-**	**435**	**60,943**	**61,378**	**58,361**
Investment securities measured at amortised cost	**415**	**-**	**-**	**415**	**410**
Liabilities					
Deposits from banks	**-**	**12,301**	**-**	**12,301**	**11,678**
Deposits from customers	**-**	**55,696**	**-**	**55,696**	**53,646**
Debt securities issued	**-**	**11,005**	**-**	**11,005**	**9,977**
Subordinated liabilities	**-**	**5,763**	**-**	**5,763**	**5,642**

31 December 2014 *In millions of euro*	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Assets					
Cash and cash equivalents	-	2,992	-	2,992	2,992
Loans and advances to banks	-	4,824	-	4,824	4,707
Loans and advances to customers	-	385	56,266	56,651	53,660
Held-to-maturity investment securities	105	-	-	105	101
Liabilities					
Deposits from banks	-	11,523	-	11,523	10,230
Deposits from customers	-	50,672	-	50,672	48,904
Debt securities issued	-	8,934	-	8,934	8,040
Subordinated liabilities	-	5,051	-	5,051	4,985

IFRS 13.97

Where they are available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses, interest rates, prepayment rates and primary origination or secondary market spreads. For collateral-dependent impaired loans, the fair value is measured based on the value of the underlying collateral. Input into the models may include data from third party brokers based on OTC trading activity, and information obtained from other market participants, which includes observed primary and secondary transactions.

To improve the accuracy of the valuation estimate for retail and smaller commercial loans, homogeneous loans are grouped into portfolios with similar characteristics such as vintage, LTV ratios, the quality of collateral, product and borrower type, prepayment and delinquency rates, and default probability.

The fair value of deposits from banks and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

IFRS 7.29(b), 30

No fair value disclosures are provided for equity investment securities of €24 million as at 31 December 2014 that were measured at cost before the adoption of IFRS 9 because their fair value was not considered to be reliably measurable. 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.

On the adoption of IFRS 9, these securities have been designated as at FVOCI (see Note 18(B)).

Notes to the consolidated financial statements (continued)

7. Operating segments[a]

See accounting policy in Note 45(Z).

A. Basis for segmentation

IFRS 8.20–22, A

The Group has the following five strategic divisions, which are reportable segments. These divisions offer different products and services, and are managed separately based on the Group's management and internal reporting structure.

Reportable segments[b]	Operations
Investment Banking	Trading and corporate finance activities
Corporate Banking	Loans, deposits and other transactions and balances with corporate customers
Retail Banking	Loans, deposits and other transactions and balances with retail customers
Asset Management	Fund management activities
Central Treasury	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

The Group's Management Committee reviews internal management reports from each division at least monthly.

IFRS 8.IN13, 27–28 a. Operating segment disclosures are consistent with the information reviewed by the chief operating decision maker (CODM) and will vary from one entity to another and may not be in accordance with IFRS.

To help understand the segment information presented, an entity discloses information about the measurement basis adopted, such as the nature and effects of any differences between the measurements used in reporting segment information and those used in the entity's financial statements, the nature and effects of any asymmetrical allocations to reportable segments and reconciliations of segment information to the corresponding IFRS amounts in the financial statements.

The Group's internal measures are consistent with IFRS. Therefore, the reconciling items are limited to items that are not allocated to reportable segments, as opposed to a difference in the basis of preparation of the information.

IFRS 8.12, 22(aa) b. When two or more operating segments are aggregated into a single operating segment, the judgements made by management in applying the aggregation criteria are disclosed. This includes a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics.

Notes to the consolidated financial statements (continued)

7. Operating segments (continued)

B. Information about reportable segments

IFRS 8.20, 27(a)

Information related to each reportable segment is set out below. Segment profit before tax, as included in internal management reports reviewed by the Group's Management Committee, is used to measure performance because management believes that this information is the most relevant in evaluating the results of the respective segments relative to other entities that operate within the same industries. Inter-segment pricing is determined on an arm's length basis.

	2015 *In millions of euro*	**Investment Banking**	**Corporate Banking**	**Retail Banking**	**Asset Manage-ment**	**Central Treasury**	**Total**
IFRS 8.23(a)	External revenue:[a]						
IFRS 8.23(c)–(d)	Net interest income[a]	**-**	**1,819**	**612**	**-**	**(496)**	**1,935**
IFRS 8.23(f)	Net fee and commission income[a]	**169**	**234**	**202**	**70**	**-**	**675**
IFRS 8.23(f)	Net trading income[a]	**1,491**	**-**	**-**	**-**	**(57)**	**1,434**
IFRS 8.23(f)	Net income from other financial instruments at FVTPL[a]	**399**	**-**	**-**	**-**	**(378)**	**21**
IFRS 8.23(f)	Other revenue[a]	**33**	**31**	**55**	**-**	**(1)**	**118**
IFRS 8.23(f)	Net loss arising from derecognition of financial assets measured at amortised cost[a]	**(3)**	**(6)**	**-**	**-**	**-**	**(9)**
IFRS 8.23(b)	Inter-segment revenue[a]	**(705)**	**(1,101)**	**699**	**-**	**1,184**	**77**
IFRS 8.32	Total segment revenue	**1,384**	**977**	**1,568**	**70**	**252**	**4,251**
IFRS 8.23(i)	Other material non-cash items:[a]						
	Impairment losses on financial assets	**-**	**314**	**22**	**-**	**-**	**336**
IFRS 8.21(b)	Segment profit before tax	**47**	**223**	**448**	**20**	**81**	**819**
IFRS 8.21(b)	Segment assets[a]	**24,968**	**38,525**	**20,908**	**362**	**10,342**	**95,105**
IFRS 8.21(b)	Segment liabilities[a]	**7,026**	**11,276**	**38,382**	**206**	**32,980**	**89,870**
	2014						
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 FVTPL	240	-	-	-	(159)	81
IFRS 8.23(f)	Other revenue	28	21	45	-	84	178
IFRS 8.23(b)	Inter-segment revenue	(520)	(924)	608	-	906	70
IFRS 8.32	Total segment revenue	998	1,003	1,416	65	400	3,882
IFRS 8.23(i)	Other material non-cash items:						
	Impairment losses on financial assets	-	209	24	-	-	233
IFRS 8.21(b)	Segment profit before tax	(241)	332	282	22	277	672
IFRS 8.21(b)	Segment assets	22,641	35,558	19,049	332	9,165	86,745
IFRS 8.21(b)	Segment liabilities	6,052	10,533	34,256	204	29,993	81,038

IFRS 8.23 a. The Group has disclosed these amounts for each reportable segment because they are regularly provided to the CODM.

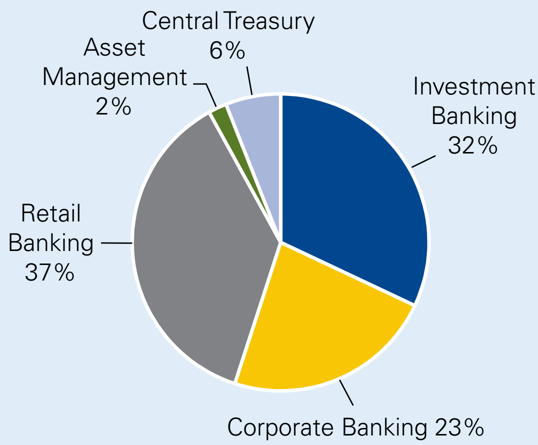
Notes to the consolidated financial statements (continued)

7. Operating segments (continued)

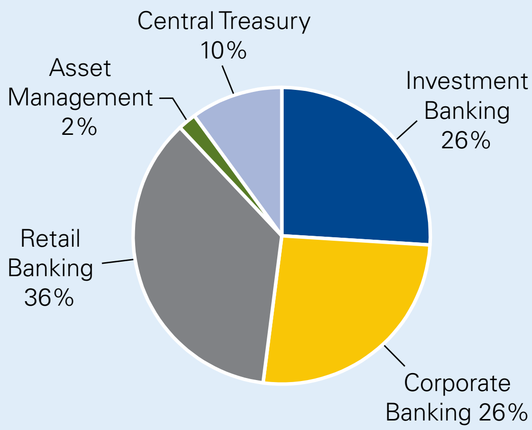
B. Information about reportable segments (continued)

Revenue

2015

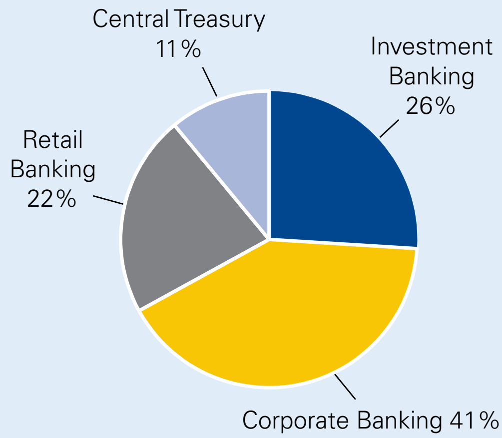


2014

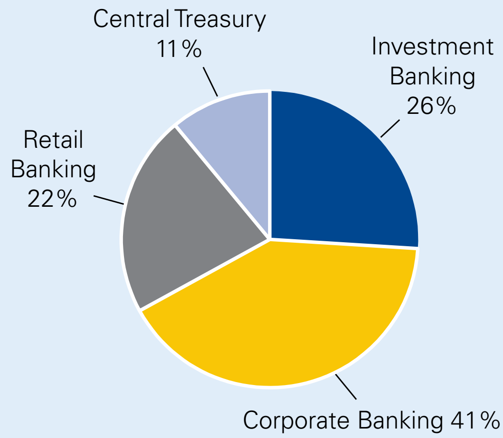


Assets

2015

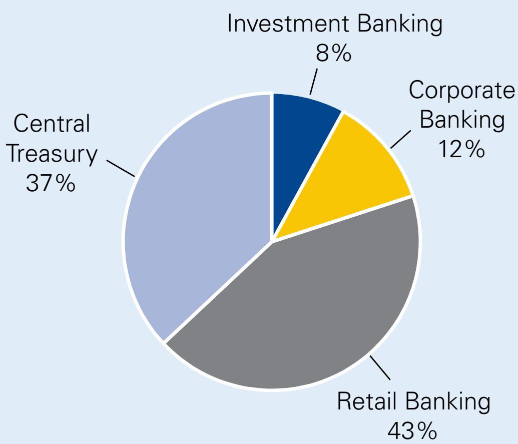


2014

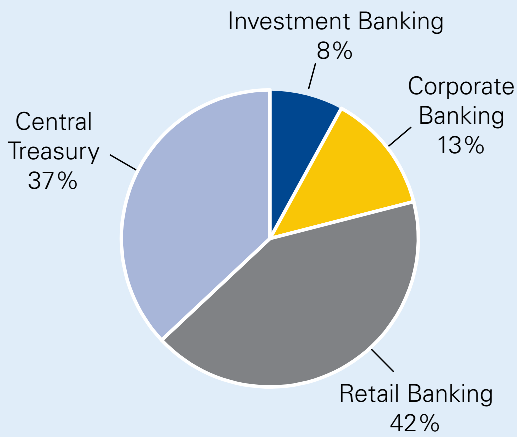


Liabilities

2015



2014



Notes to the consolidated financial statements (continued)

7. Operating segments (continued)

C. Reconciliations of information on reportable segment to IFRS measures[a on page 74]

In millions of euro	**2015**	2014
IFRS 8.28(a) **i. Revenues**		
Total revenue for reportable segments	**4,251**	3,882
Unallocated amounts	**14**	8
Elimination of inter-segment revenue	**(77)**	(70)
Consolidated revenue	**4,188**	3,820
IFRS 8.28(b) **ii. Profit before tax**		
Total profit or loss for reportable segments	**819**	672
Unallocated amounts	**5**	-
Consolidated profit before tax	**824**	672
IFRS 8.28(c) **iii. Assets**		
Total assets for reportable segments	**95,105**	86,745
Other unallocated amounts	**1,520**	1,071
Consolidated total assets	**96,625**	87,816
IFRS 8.28(d) **iv. Liabilities**		
Total liabilities for reportable segments	**89,870**	81,038
Other unallocated amounts	**853**	808
Consolidated total liabilities	**90,723**	81,846

IFRS 8.33(a)–(b)

D. Geographic information[a, b]

The geographic information analyses the Group's revenue and non-current assets by the Company's country of domicile and other countries. In presenting the geographic information below, segment revenue is based on the geographic location of customers and segment assets are based on the geographic location of the assets.

2015 *In millions of euro*	**[*Country of domicile*]**	**US**	**UK**	**Australia**	**Middle East and Africa**	**Other countries**	**Total**
IFRS 8.33(a) External revenues	**569**	**1,046**	**1,170**	**715**	**473**	**215**	**4,188**
IFRS 8.33(b) Non-current assets*	**258**	**141**	**136**	**113**	**32**	**63**	**743**
2014							
IFRS 8.33(a) External revenues	488	1,038	1,013	619	456	206	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.

IFRS 8.32, IG5 — a. 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. This disclosure is based on the financial information used to produce the entity's financial statements. The Group has not provided additional disclosures in this regard, because the revenue information provided in the overall table of information about reportable segments has already been prepared in accordance with IFRS.

Insights 5.2.220.20 — b. In our view, the disclosure of revenue from external customers by region – e.g. Europe or Asia – is not sufficient if the revenue attributed to an individual foreign country is material.

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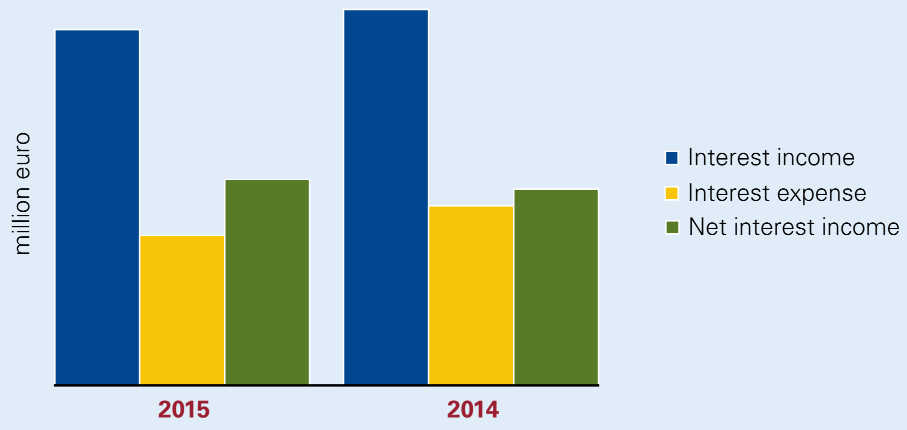
IAS 18.35(b)(iii)

8. Net interest income[a]

See accounting policy in Note 45(C).



In millions of euro	2015	2014
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 at amortised cost	**119**	75
Investment securities at FVOCI (2014: available-for-sale)	**20**	30
Other	**6**	3
Total interest income	**3,341**	3,528
Interest expense		
Derivative liabilities held for risk management	**120**	60
Deposits from banks	**54**	48
Deposits from customers	**469**	897
Debt securities issued	**343**	316
Subordinated liabilities	**410**	353
Other	**10**	12
Total interest expense	**1,406**	1,686
Net interest income	**1,935**	1,842

IFRS 7.20(d)

Included within various line items under interest income for the year ended 31 December 2014 is a total of €8 million relating to impaired financial assets.

IFRS 7R.20(b), 7.20(b)

The amounts reported above include interest income and expense, calculated using the effective interest method, that relate to the following items.

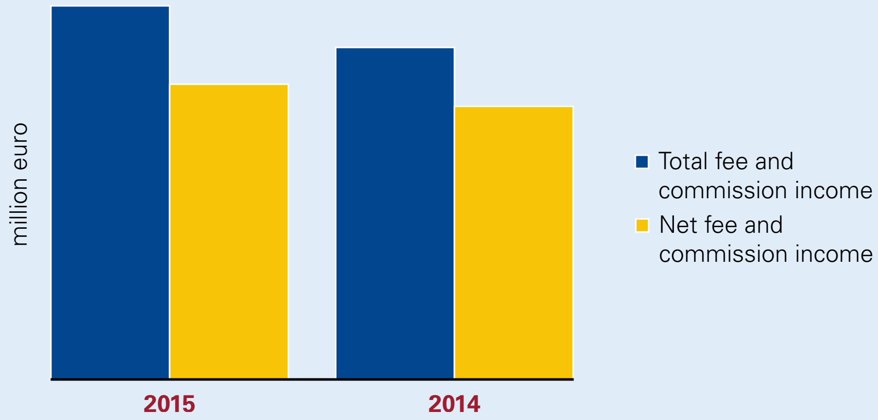
In millions of euro	2015	2014
Financial assets measured at amortised cost	**3,263**	
Financial assets measured at FVOCI	**20**	
Financial assets not at FVTPL	**3,283**	3,463
Financial liabilities measured at amortised cost	**1,788**	1,626

a. Other presentations of interest income and interest expense are possible. For example, an entity may present interest income and interest expense on financial instruments designated as at FVTPL within net interest income. The level of detail presented in this guide is not always specifically required by IFRS 7.

Notes to the consolidated financial statements (continued)

9. Net fee and commission income

See accounting policy in Note 45(D).



In millions of euro	2015	2014
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 7R.20(c)

IFRS 7R.20(c)(ii)

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

IFRS 7R.20(c)(i)

The fees and commission above include income of €651 million (2014: €523 million) and expense of €71 million (2014: €52 million) relating to financial assets and financial liabilities not measured at FVTPL. These figures exclude amounts incorporated in determining the effective interest rate on such financial assets and financial liabilities.

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Notes to the consolidated financial statements (continued)

10. Net trading income[a]

See accounting policy in Note 45(E).

In millions of euro	**2015**	2014
Fixed income	**1,261**	1,081
Equities	**70**	17
Foreign exchange	**90**	16
Other	**13**	(27)
IFRS 7R.20(a)(i), 7.20(a)(i) Net trading income	**1,434**	1,087

a. In this guide, 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 (continued)

11. Net income from other financial instruments at FVTPL[a]

See accounting policy in Note 45(F).

IFRS 7R.20(a)(i), 7.20(a)(i)

IFRS 7R.20(a)(i), 7.20(a)(i)

In millions of euro	**2015**	**2014**
Net income from financial instruments mandatorily measured at FVTPL other than those included in 'Net trading income' (see Note 10)		
Derivatives held for risk management purposes:		
Interest rate	**(76)**	(48)
Credit	**44**	(21)
Equity	**(54)**	42
Foreign exchange	**(10)**	5
Investment securities:		
Corporate bonds	**47**	
Equities	**59**	
Asset-backed securities	**12**	
Loans and advances	**153**	
Net income from financial instruments designated as at FVTPL		
Investment securities:		
Corporate bonds	**123**	210
Equities	**(10)**	(13)
Asset-backed securities	**(181)**	(151)
Loans and advances	**-**	194
Debt securities issued	**(86)**	(137)
	21	81

a. In this guide, net income from other financial instruments at FVTPL includes:
- the entire profit or loss impact of financial assets and financial liabilities designated as at FVTPL on initial recognition;
- the entire profit or loss impact of financial assets mandatorily measured at FVTPL other than those held for trading; 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.

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Notes to the consolidated financial statements (continued)

12. Other revenue[a]

See accounting policies in Notes 45(B)(i), (J)(iii) and (O).

	In millions of euro	**2015**	**2014**
IFRS 7.20(a)(ii), IAS 1.98(d)	Net loss on sale of available-for-sale securities:		
	Government bonds		(9)
	Corporate bonds		(43)
	Equities		(17)
IFRS 7R.20(a)(viii), IAS 1.98(d)	Net loss on sale of debt investment securities measured at FVOCI:		
	Government bonds	**(12)**	
	Corporate bonds	**(60)**	
IFRS 7.20(a)(ii)	Dividends on available-for-sale equity securities		8
IFRS 7R.11A(d), 20(a)(vii)	Dividends on equity securities measured at FVOCI	**2**	
IAS 21.52(a)	Net gain from foreign exchange	**170**	188
	Other	**32**	59
		132	186

a. In this guide, the following have been included in other revenue:
- dividends on available-for-sale equity securities (2014) and equity securities measured at FVOCI (2015);
- gains on sales of available-for-sale financial assets (2014) and investment securities measured at FVOCI (2015); and
- net gain from foreign exchange.

However, other presentations are possible.

Notes to the consolidated financial statements (continued)

13. Losses arising from derecognition of financial assets measured at amortised cost

See accounting policies in Note 45(J)(iii).

IFRS 7R.20A

During the year ended 31 December 2015, the Group sold certain investment securities measured at amortised cost. These sales were made because the financial assets no longer met the Group's investment policy due to a deterioration in their credit risk.

IFRS 7R.20A

The carrying amounts of the financial assets sold and the losses arising from the derecognition are set out below:

In millions of euro	**2015** **Carrying amount of financial assets sold**	**2015** **Losses arising from de-recognition**
Government bonds	**18**	**4**
Corporate bonds	**20**	**5**
	38	**9**

Notes to the consolidated financial statements (continued)

14. Personnel expenses

See accounting policy in Note 45(W).

	In millions of euro	Sub-note	2015	2014
	Wages and salaries		**1,617**	1,428
	Social security contributions		**215**	194
IAS 19.53	Contributions to defined contribution plans		**265**	243
IFRS 2.51(a)	Equity-settled share-based payments	A	**75**	25
IFRS 2.51(a)	Cash-settled share-based payments	A	**44**	35
	Expenses related to post-employment defined benefit plans	B	**40**	41
	Expenses related to long-service leave		**8**	8
			2,264	1,974

A. Share-based payment arrangements

i. Description of share-based payment arrangements

At 31 December 2015, the Group had the following share-based payment arrangements.

Share option programmes (equity-settled)

IFRS 2.44–45(a) On 1 January 2013, the Group established a share option programme that entitles key management personnel and senior employees to purchase shares in the Bank. On 1 January 2015, 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 grant date.

The terms and conditions of the grants are as follows; all options are to be settled by physical delivery of shares.

Grant date/employees entitled	Number of instruments in millions	Vesting conditions	Contractual life of options
Option grant to senior employees at 1 January 2013	10	3 years' service and 10% increase in operating income in each of the 3 years	10 years
Option grant to key management personnel at 1 January 2013	10	3 years' service	10 years
Option grant to senior employees at 1 January 2015	25	3 years' service and 10% increase in operating income in each of the 3 years	10 years
Option grant to key management personnel at 1 January 2015	10	3 years' service	10 years
Total share options	55		

Share appreciation rights (cash-settled)

IFRS 2.44–45(a) On 1 January 2012 and 1 January 2015, 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.

The terms and conditions of the grants are as follows.

Grant date/employees entitled	Number of instruments in millions	Vesting conditions	Contractual life of options
SARs granted to other employees at 1 January 2012	10	3 years' service	5 years
SARs granted to other employees at 1 January 2015	30	3 years' service	5 years
Total SARs	40		

Notes to the consolidated financial statements (continued)

14. Personnel expenses (continued)

A. Share-based payment transactions (continued)

i. Description of share-based payment arrangements (continued)

Details of the liabilities arising from the SARs were as follows.

	In millions of euro	Note	2015	2014
IFRS 2.51(b)(i)	Total carrying amount of liabilities for cash-settled arrangements	33	**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 2014 was settled in 2015.

ii. Measurement of fair values – Share options

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 the Black-Scholes formula. The service and non-market performance conditions attached to the arrangements were not taken into account in measuring fair value. The inputs used in measuring the fair values at grant date of the equity-settled share-based payment plans were as follows.

	Fair value of share options and assumptions	Key management personnel 2015	Key management personnel 2014	Senior employees 2015	Senior employees 2014
IFRS 2.47(a)	Fair value at grant date	**€4.5**	€4.0	**€3.9**	€3.5
IFRS 2.47(a)(i)	Share price at grant date	**€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

The expected volatility is based on both historical average share price volatility and implied volatility derived from traded options over the Bank's ordinary shares of maturity similar to those of the employee options.

iii. Measurement of fair values – Share appreciation rights

IFRS 2.52 The fair value of the SARs is determined using the Black-Scholes formula. The inputs used in measuring the fair value at grant date and measurement date were as follows.[a]

		Grant date 1 January 2015	Measurement date 31 December 2015
IFRS 2.52	Fair value	**€4.2**	**€6**
	Share price	**€12.0**	**€14.0**
	Exercise price	**€12.0**	**€12.0**
	Expected volatility*	**41.5%**	**43.1%**
	Expected life (weighted-average)	**3.5 years**	**2.6 years**
	Expected dividends*	**3.2%**	**3.2%**
	Risk-free interest rate (based on government bonds)*	**2.7%**	**2.6%**

* Annual rates

Insights 4.5.1000.10 a. Although it is not specifically required by IFRS 2, the Group has disclosed information about the fair value measurement for its SARs. In our view, these disclosures should be provided for cash-settled share-based payments. For awards granted during the period, disclosures about fair value measurement at grant date and at the reporting date should be given; for awards granted in previous periods but unexercised at the reporting date, disclosures about fair value measurement at the reporting date should be given.

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Notes to the consolidated financial statements (continued)

14. Personnel expenses (continued)

A. Share-based payment transactions (continued)

iii. Measurement of fair values – Share appreciation rights (continued)

The expected volatility is based on both historical average share price volatility and implied volatility derived from traded options over the Bank's ordinary shares of maturity similar to those of the employee SARs.

The fair value of the liability is remeasured at each reporting date and at settlement date.

iv. Reconciliation of outstanding share options

IFRS 2.45(b) The number and weighted-average exercise prices of share options are as follows.

	In millions of options	Number of options 2015	Weighted-average exercise price 2015	Number of options 2014	Weighted-average exercise price 2014
IFRS 2.45(b)(i)	Outstanding at 1 January	**13.0**	**€9.9**	18.0	€9.5
IFRS 2.45(b)(iii)	Forfeited during the period	**(2.5)**	**€9.5**	(5.0)	€9.5
IFRS 2.45(b)(iv)	Exercised during the period	**(3.0)**	**€10.0**	-	-
IFRS 2.45(b)(ii)	Granted during the period	**35.0**	**€12.0**	-	€10.5
IFRS 2.45(b)(vi)	Outstanding at 31 December	**42.5**	**€10.8**	13.0	€9.9
IFRS 2.45(b)(vii)	Exercisable at 31 December	**7.5**	**€10.1**	-	€9.8

IFRS 2.45(d) The options outstanding at 31 December 2015 had an exercise price in the range of €9.0 to €12.0 (2014: €9.5 to €11.0) and a weighted-average contractual life of 8.3 years (2014: 8.0 years).

IFRS 2.45(c) The weighted-average share price at the date of exercise for share options exercised in 2015 was €11.5 (2014: no options exercised).

B. Other employee benefits

IAS 19.139(a) The Group contributes to the following post-employment defined benefit plans.

- Plan A entitles a retired employee to receive an annual pension payment. Directors and executive officers (see Note 39(B)) retire at age 60 and are entitled to receive annual payments equal to 70% of their final salary until the age of 65, at which time their entitlement falls to 50% of their final salary. Other retired employees are entitled to receive annual payments equal to 1/60 of final salary for each year of service provided.
- Plan B reimburses certain medical costs for retired employees.

The defined benefit plans are administered by a single pension fund that is legally separated from the Group. The board of the pension fund comprises three employee and two employer representatives and an independent chair. The board of the pension fund is required by law to act in the best interests of the plan participants and is responsible for setting certain policies – e.g. investment, contribution and indexation policies – of the fund.

IAS 19.139(b) These defined benefit plans expose the Group to actuarial risks, such as longevity risk, currency risk, interest rate risk and market (investment) risk.

Notes to the consolidated financial statements (continued)

14. Personnel expenses (continued)

B. Other employee benefits (continued)

i. Funding

IAS 19.147(a)

Plan A is fully funded by the Group's subsidiaries, except for the obligation for directors and executive officers, which is funded by the Bank. The funding requirements are based on the pension fund's actuarial measurement framework set out in the funding policies of the plan. The funding of Plan A is based on a separate actuarial valuation for funding purposes, for which the assumptions may differ from the assumptions above. Plan B is unfunded. Employees are not required to contribute to the plans.

The Group has determined that, in accordance with the terms and conditions of the defined benefit plans, and in accordance with statutory requirements (including minimum funding requirements for Plan A), the present value of refunds or reductions in future contributions is not lower than the balance of the total fair value of the plan assets less the total present value of obligations. This determination is made on a plan-by-plan basis.

IAS 19.147(b)

The Group expects to pay €35 million in contributions to its defined benefit plans in 2016.

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Notes to the consolidated financial statements (continued)

14. Personnel expenses (continued)

B. Other employee benefits (continued)

ii. Movement in net defined benefit liability (asset)

The following table shows a reconciliation from the opening balances to the closing balances for the net defined benefit liability (asset) and its components.[a]

		Defined benefit obligations		Fair value of plan assets		Net defined benefit liability (asset)	
	In millions of euro	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
IAS 19.140	Balance at 1 January	**207**	189	**(49)**	(47)	**158**	142
	Included in profit or loss[b]						
IAS 19.141(a)	Current service cost	**32**	33	**-**	-	**32**	33
IAS 19.141(d)	Past service credit	**(1)**	-	**-**	-	**(1)**	-
IAS 19.141(b)	Interest cost (income)	**12**	11	**(3)**	(3)	**9**	8
		43	44	**(3)**	(3)	**40**	41
	Included in OCI[b]						
IAS 19.141(c)	Remeasurements loss (gain):						
	– Actuarial gain arising from:						
IAS 19.141(c)(ii)	- demographic assumptions	**(3)**	(2)	**-**	-	**(3)**	(2)
IAS 19.141(c)(iii)	- financial assumptions	**(3)**	(4)	**-**	-	**(3)**	(4)
	- experience adjustment	**(2)**	(2)	**-**	-	**(2)**	(2)
IAS 19.141(c)(i)	– Return on plan assets excluding interest income	**-**	-	**1**	(1)	**1**	(1)
IAS 19.141(e)	Effect of movements in exchange rates[c]	**1**	1	**(1)**	(1)	**-**	-
		(7)	(7)	**-**	(2)	**(7)**	(9)
	Other						
IAS 19.141(f)	Contributions paid by the employer	**-**	-	**(15)**	(14)	**(15)**	(14)
IAS 19.141(g)	Benefits paid	**(24)**	(19)	**22**	17	**(2)**	(2)
		(24)	(19)	**7**	3	**(17)**	(16)
IAS 19.140	Balance at 31 December	**219**	207	**(45)**	(49)	**174**	158

Represented by:

In millions of euro	**2015**	**2014**
Net defined benefit liability (Plan A)	**76**	61
Net defined benefit liability (Plan B)	**98**	97
	174	158

IAS 19.138 a. The Group has more than one defined benefit plan and has generally provided aggregated disclosures in respect of these plans, on the basis that these plans are not exposed to materially different risks. Further disaggregation of some or all of the disclosures – e.g. by geographic locations or by different characteristics – would be required if this were not the case.

b. Although it is not specifically required by IAS 19 *Employee Benefits*, the Group has disclosed the subtotals of items recognised in profit or loss and OCI.

IAS 21.39, Insights 4.4.1010 c. A net obligation under a defined benefit plan may be denominated in a foreign currency from the point of view of the sponsor's financial statements. In our view, in that case the net defined benefit liability (asset) should first be calculated in the currency in which it is denominated, and the resulting net amount should then be translated into the sponsor's functional currency. As a result, the foreign exchange gain or loss arising on translation will be recognised together with other foreign exchange gains and losses, rather than as part of the IAS 19 remeasurement. This is different from the situation illustrated above. In this case, the sponsor of the plan is a foreign subsidiary, and therefore the translation difference is recognised in OCI in the usual way.

IAS 19.140(a)(i), 142
IAS 19.142(b)
IAS 19.142(c)
IAS 19.142(e)
IAS 19.143
IAS 19.143
IAS 19.142
IAS 19.146

Notes to the consolidated financial statements (continued)

14. Personnel expenses (continued)

B. Other employee benefits (continued)

iii. Plan assets

Plan assets comprise[a] the following.

In millions of euro	2015	2014
Equity securities:		
Consumer markets	**8**	9
Pharmaceuticals	**6**	6
Government bonds	**14**	14
Derivatives:		
Interest rate swaps	**3**	3
Forward foreign currency contracts	**2**	3
Longevity swaps	**2**	2
Property occupied by the Group	**5**	6
Bank's own ordinary shares	**5**	6
	45	49

All equity securities and government bonds have quoted prices in active markets. All government bonds are issued by European governments and are rated AAA or AA, based on [*Rating Agency Y*] ratings.

At each reporting date, an asset-liability matching (ALM) study is performed by the pension fund's asset manager in which the consequences of the strategic investment policies are analysed. The strategic investment policy of the pension fund can be summarised as follows:

- a strategic asset mix comprising 40–50% equity securities, 40–50% government bonds and 0–10% other investments;
- interest rate risk is managed through the use of debt instruments (government bonds) and interest rate swaps;
- currency risk is managed through the use of forward foreign currency contracts; and
- longevity risk is managed with the objective of reducing the risk by 25% through the use of longevity swaps.

IAS 19.142 a. Judgement is required to determine the necessary level of disaggregation of the disclosure of the fair value of the plan assets for it to reflect the nature and risks of those assets. For example, the fair value of equity securities might be further segregated by industry type, company size, geography etc if this is necessary for an understanding of the risks of these assets.

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Notes to the consolidated financial statements (continued)

14. Personnel expenses (continued)

B. Other employee benefits (continued)

iv. Defined benefit obligation

IAS 1.125

Actuarial assumptions

IAS 19.144

The following were the principal actuarial assumptions at the reporting date (expressed as weighted averages).

	2015	2014
Discount rate	**6.1%**	5.8%
Future salary growth	**2.5%**	2.5%
Future pension growth	**3.0%**	2.0%
Medical cost trend rate	**4.5%**	4.0%

IAS 19.144

Assumptions regarding future mortality have been based on published statistics and mortality tables. The current longevities underlying the values of the defined benefit obligation at the reporting date are as follows.

	2015		2014	
	Plan A	Plan B	Plan A	Plan B
Longevity at age 65 for current pensioners				
Males	**18.5**	**18.2**	18.3	18.0
Females	**21.0**	**19.0**	21.0	18.8
Longevity at age 65 for current members aged 45				
Males	**19.2**	**19.0**	19.0	18.7
Females	**22.9**	**20.5**	22.9	20.0

IAS 19.147(c)

At 31 December 2015, the weighted-average duration of the defined benefit obligation was 17.1 years (2014: 17.5 years).

Sensitivity analysis

IAS 1.125, 129, 19.145

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	31 December 2015		31 December 2014	
Effect in millions of euro	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	**(20)**	**21**	(20)	21
Future salary growth (1% movement)	**11**	**(10)**	11	(10)
Future pension growth (1% movement)	**13**	**(12)**	13	(12)
Medical cost trend rate (1% movement)	**22**	**(19)**	22	(19)
Future mortality (1% movement)	**(7)**	**7**	(7)	7

Although this analysis does not take account of the full distribution of cash flows expected under the plans, it does provide an approximation of the sensitivity of the assumptions shown.

Notes to the consolidated financial statements (continued)

IAS 1.97

15. Other expenses

See accounting policy in Note 45(U).

In millions of euro	IAS reference	***Note***	**2015**	**2014**
Software licensing and other IT costs			**47**	58
Direct operating expenses for investment property that generated rental income	IAS 40.75(f)(ii)		**1**	1
Branch closure cost provisions	IAS 1.98(b)	*32*	**5**	67
Redundancy provisions	IAS 1.98(b)	*32*	**2**	33
Onerous lease provisions	IAS 1.98(g)	*32*	**(1)**	2
Bank levy	IAS 1.97	*32*	**12**	10
Other			**331**	414
			397	585

The amount of levy payable for each year is based on [*X%*] of elements of the Group's consolidated liabilities and equity held at the reporting date. The levy amounts to €12 million (2014: €10 million) and is presented in other expenses in the statement of profit or loss and OCI. At 31 December 2015, a payable of €2 million was included in provisions (2014: €2 million).

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16. Earnings per share

See accounting policy in Note 45(Y).

A. Basic earnings per share

The calculation of basic EPS has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

IAS 33.70(a)

i. Profit attributable to ordinary shareholders (basic)

In millions of euro	*Note*	**2015**	**2014**
Profit for the year attributable to equity holders of the Bank		**610**	528
Dividends on perpetual bonds classified as equity	*34*	**(20)**	(20)
Net profit attributable to ordinary shareholders		**590**	508

IAS 33.70(b)

ii. Weighted-average number of ordinary shares (basic)

In millions of shares	*Note*	**2015**	**2014**
Issued ordinary shares at 1 January	*34*	**1,756.0**	1,756.0
Effect of share options exercised	*34*	**1.5**	-
Weighted-average number of ordinary shares at 31 December		**1,757.5**	1,756.0

B. Diluted earnings per share

The calculation of diluted EPS has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

IAS 33.70(a)

i. Profit attributable to ordinary shareholders (diluted)

In millions of euro	**2015**	**2014**
Profit for the period attributable to ordinary shareholders (diluted)	**590**	508

IAS 33.70(b)

ii. Weighted-average number of ordinary shares (diluted)

In millions of shares	*Note*	**2015**	**2014**
Weighted-average number of ordinary shares (basic)	*34*	**1,757.5**	1,756.0
Effect of share options in issue		**12.5**	8.0
Weighted-average number of ordinary shares (diluted) at 31 December		**1,770.0**	1,764.0

The average market value of the Bank's shares for the purpose of calculating the dilutive effect of share options has been based on quoted market prices for the year during which the options were outstanding.[a]

Insights 5.3.270.80 a. Although it is not specifically required, the Group has disclosed the method used to determine the average market value of the Company's shares for the purpose of calculating the dilutive effect of outstanding share options. This disclosure is provided for illustrative purposes only.

Notes to the consolidated financial statements (continued)

17. Income taxes

See accounting policy in Note 45(I).

A. Amounts recognised in profit or loss

	In millions of euro	2015	2014
	Current tax expense		
IAS 12.80(a)	Current year	**193**	132
IAS 12.80(b)	Adjustment 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)
		(1)	(8)
	Total income tax expense	**187**	118

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Notes to the consolidated financial statements (continued)

17. Income taxes (continued)

IAS 1.90, 12.81(ab)

B. Amounts recognised in OCI

	2015			2014		
In millions of euro	**Before tax**	**Tax (expense) benefit**	**Net of tax**	**Before tax**	**Tax (expense) benefit**	**Net of tax**
Items that will not be reclassified to profit or loss						
Remeasurements of defined benefit liability (asset)	**7**	**(2)**	**5**	9	(3)	6
Movement in fair value reserve (equity instruments)	**2**	**(1)**	**1**	-	-	-
Movement in liability credit reserve	**3**	**(1)**	**2**	-	-	-
Items that are or may be reclassified subsequently to profit or loss						
Movement in hedging reserve:						
Effective portion of changes in fair value	**(25)**	**8**	**(17)**	(21)	6	(15)
Net amount transferred to profit or loss	**15**	**(5)**	**10**	12	(3)	9
Movement in fair value reserve (debt instruments):						
Net change in fair value	**(166)**	**55**	**(111)**	-	-	-
Net amount transferred to profit or loss	**129**	**(42)**	**87**			
Movement in fair value reserve (available-for-sale financial assets):						
Net change in fair value				(160)	53	(107)
Net amount transferred to profit or loss				125	(41)	84
Movement in translation reserve:						
Foreign currency translation differences for foreign operations	**(45)**	**-**	**(45)**	17	-	17
Net gain (loss) on hedges of net investments in foreign operations	**30**	**-**	**30**	(15)	-	(15)
	(50)	**12**	**(38)**	(33)	12	(21)

Notes to the consolidated financial statements (continued)

17. Income taxes (continued)

IAS 12.81(c)

C. Reconciliation of effective tax rate[a, b]

In millions of euro	2015	2015	2014	2014
Profit before tax		**824**		672
Tax using the Bank's domestic tax rate	**33.0%**	**272**	33.0%	222
Effect of tax rates in foreign jurisdictions*	**-13.5%**	**(111)**	-13.1%	(88)
Reduction in tax rates	**-0.2%**	**(2)**	-	-
Tax effect of:				
Non-deductible expenses	**6.0%**	**50**	3.9%	26
Tax-exempt income	**-0.7%**	**(6)**	-3.1%	(21)
Tax incentives	**-0.6%**	**(5)**	-1.2%	(8)
Recognition of tax effect of previously unrecognised tax losses	**-0.7%**	**(6)**	-1.0%	(7)
Adjustment relating to prior years	**-0.6%**	**(5)**	-0.9%	(6)
Total income tax expense	**22.7%**	**187**	17.6%	118

IAS 12.85 a. The Group's reconciliation of the effective tax rate is based on its domestic tax rate, with a reconciling item in respect of tax rates applied by Group companies in other jurisdictions. The reconciliation of the effective tax rate is based on an applicable tax rate that provides the most meaningful information to users. 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) b. Rather than presenting either a numerical reconciliation between total tax expense and the product of accounting profit multiplied by the applicable tax rates, or a numerical reconciliation between the average effective tax rate and the applicable tax rate, the Group has elected to present both.

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17. Income taxes (continued)

IAS 12.81(g)(i)–(ii)

D. Movement in deferred tax balances[a, b]

2015 *In millions of euro*	Net balance at 1 January	Impact of adopting IFRS 9	Recognised in profit or loss (see (a))	Recognised in OCI (see (b))	Balance at 31 December: Net	Balance at 31 December: Deferred tax assets	Balance at 31 December: Deferred tax liabilities
Property and equipment, and intangible assets	**(21)**	**-**	**(24)**	**-**	**(45)**	**-**	**(45)**
Investment securities – available-for-sale	**(70)**	**70**	**-**	**-**	**-**	**-**	**-**
Investment securities at FVOCI	**-**	**(68)**	**-**	**12**	**(56)**	**-**	**(56)**
Debt securities – credit risk component	**-**	**1**	**-**	**(1)**	**-**	**-**	**-**
Derivatives	**28**	**-**	**-**	**3**	**31**	**31**	**-**
Allowance for expected credit losses	**68**	**239**	**19**	**-**	**326**	**326**	**-**
Tax loss carry-forwards	**31**	**-**	**6**	**-**	**37**	**37**	**-**
Share-based payments	**125**	**-**	**10**	**-**	**135**	**135**	**-**
Other	**12**	**(1)**	**(10)**	**(2)**	**(1)**	**28**	**(29)**
Tax assets (liabilities)	**173**	**241**	**1**	**12**	**427**	**557**	**(130)**

2014 *In millions of euro*	Net balance at 1 January	Recognised in profit or loss (see (a))	Recognised in OCI (see (b))	Balance at 31 December: Net	Balance at 31 December: Deferred tax assets	Balance at 31 December: Deferred tax liabilities
Property and equipment, and intangible assets	(7)	(14)	-	(21)	-	(21)
Investment securities – available-for-sale	(82)	-	12	(70)	-	(70)
Derivatives	25	-	3	28	28	-
Allowance for loan losses	62	6	-	68	68	-
Tax loss carry-forwards	24	7	-	31	31	-
Share-based payments	117	8	-	125	125	-
Other	14	1	(3)	12	44	(32)
Tax assets (liabilities)	153	8	12	173	296	(123)

IAS 12.81(g), Insights 3.13.640.60

a. IAS 12 *Income Taxes* requires disclosure of the amount of recognised deferred tax assets and liabilities in respect of each 'type' of temporary difference. IFRS is unclear on what constitutes a 'type', and the Group has provided disclosures based on the classes of assets and liabilities related to the temporary differences. Another possible interpretation is to present disclosures based on the reason for the temporary difference – e.g. depreciation.

Insights 3.13.640.70

b. In our view, it is not appropriate to disclose the tax effect of gross deferred tax assets if there are unrecognised amounts because, under IFRS, it is *recognised* deferred tax assets that are required to be disclosed.

Notes to the consolidated financial statements (continued)

17. Income taxes (continued)

E. Unrecognised deferred tax liabilities[a]

IAS 12.81(f), 87

At 31 December 2015, there was a deferred tax liability of €8.3 million (2014: €7.3 million) for temporary differences of €25.3 million (2014: €22 million) related to an investment in a subsidiary. However, this liability was not recognised because the Bank controls the dividend policy of the subsidiary – i.e. the Bank controls the timing of reversal of the related taxable temporary differences and management is satisfied that they will not reverse 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 2015, the total tax-exempt reserves amounted to €82 million (2014: €64 million), which would result in a tax liability of €27 million (2014: €21 million) if the subsidiary paid dividends from these reserves.

F. Tax assets carried forward

IAS 12.82

In 2015, the Group's US subsidiary Blue Banking (North America) successfully entered into a new market. As a result, management revised its estimates of future taxable profits and the group recognised the tax effect of €6 million of previously unrecognised tax losses because management considered it probable that future taxable profits would be available against which such losses can be used.

IAS 12.81(e)

Deferred tax assets have not been recognised in respect of tax losses of €30 million (2014: €30 million) accumulated by Blue Banking (Africa) Limited because it is not probable that future taxable profit will be available against which the Group can use the benefits. These tax losses expire between 2020 and 2022.

IAS 12.81(f), 87

a. Although it is not required, in addition to the aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised, the Group has also provided the encouraged disclosure of the amounts of unrecognised deferred tax liabilities. This disclosure is provided for illustrative purposes only.

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Notes to the consolidated financial statements (continued)

18. Financial assets and financial liabilities

A. Classification of financial assets and financial liabilities

See accounting policies in Notes 45(J)(ii) and (J)(viii).

IFRS 7R.6, 8

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.[a]

31 December 2015 *In millions of euro*	*Note*	**Mandatorily at FVTPL**	**Designated as at FVTPL**	**FVOCI – debt instruments**	**FVOCI – equity instruments**	**Amortised cost**	**Total carrying amount**
Cash and cash equivalents	19	-	-	-	-	2,907	2,907
Pledged trading assets	20	540	-	-	-	-	540
Non-pledged trading assets	20	16,122	-	-	-	-	16,122
Derivative assets held for risk management	21	858	-	-	-	-	858
Loans and advances to banks	22	-	-	-	-	5,572	5,572
Loans and advances to customers:							
Measured at fair value	23	3,986	-	-	-	-	3,986
Measured at amortised cost	23	-	-	-	-	58,361	58,361
Investment securities:							
Measured at fair value	24	1,457	3,045	1,363	27	-	5,892
Measured at amortised cost	24	-	-	-	-	410	410
Other assets	27	-	-	-	-	56	56
Total financial assets		22,963	3,045	1,363	27	67,306	94,704
Trading liabilities	20	7,026	-	-	-	-	7,026
Derivative liabilities held for risk management	21	828	-	-	-	-	828
Deposits from banks	28	-	-	-	-	11,678	11,678
Deposits from customers	29	-	-	-	-	53,646	53,646
Debt securities issued:							
Measured at fair value	30	-	1,250	-	-	-	1,250
Measured at amortised cost	30	-	-	-	-	9,977	9,977
Subordinated liabilities	31	-	-	-	-	5,642	5,642
Total financial liabilities		7,854	1,250	-	-	80,943	90,047

IFRS 7R.6, B2

a. 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 this guide, the line items in the statement of financial position reflect the Group's activities. This note reconciles the carrying amount of each of the measurement categories of financial assets and financial liabilities in IFRS 9 (2014: IAS 39 *Financial Instruments: Recognition and Measurement*) to the balance sheet headings. Therefore, for example, 'Investment securities' includes financial assets measured at amortised cost, at FVTPL and at FVOCI. However, other presentations are possible.

Notes to the consolidated financial statements (continued)

18. Financial assets and financial liabilities (continued)

A. Classification of financial assets and financial liabilities (continued)

IFRS 7.6, 8

31 December 2014 *In millions of euro*	*Note*	Trading	Designated as at FVTPL	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount
Cash and cash equivalents	19	-	-	-	2,992	-	-	2,992
Pledged trading assets	20	519	-	-	-	-	-	519
Non-pledged trading assets	20	15,249	-	-	-	-	-	15,249
Derivative assets held for risk management	21	726	-	-	-	-	-	726
Loans and advances to banks	22	-	-	-	4,707	-	-	4,707
Loans and advances to customers:								
Measured at FVTPL	23	-	3,145	-	-	-	-	3,145
Measured at amortised cost	23	-	-	-	53,660	-	-	53,660
Investment securities:								
Measured at fair value	24	-	3,239	-	-	1,929	-	5,168
Measured at amortised cost	24	-	-	101	-	-	-	101
Other assets	27	-	-	-	56	-	-	56
Total financial assets		16,494	6,384	101	61,415	1,929	-	86,323
Trading liabilities	20	6,052	-	-	-	-	-	6,052
Derivative liabilities held for risk management	21	789	-	-	-	-	-	789
Deposits from banks	28	-	-	-	-	-	10,230	10,230
Deposits from customers	29	-	-	-	-	-	48,904	48,904
Debt securities issued:								
Measured at fair value	30	-	2,208	-	-	-	-	2,208
Measured at amortised cost	30	-	-	-	-	-	8,040	8,040
Subordinated liabilities	31	-	-	-	-	-	4,985	4,985
Total financial liabilities		6,841	2,208	-	-	-	72,159	81,208

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18. Financial assets and financial liabilities (continued)

B. Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

IFRS 7R.42I

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and financial liabilities as at 1 January 2015.[a]

IFRS 7R.42I(c)

IFRS 7R.42I(c)

In millions of euro	*Note*	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets					
Cash and cash equivalents	*19*	Loans and receivables	Amortised cost	2,992	2,991
Pledged trading assets	*20*	FVTPL	FVTPL (mandatory)	519	519
Non-pledged trading assets	*20*	FVTPL	FVTPL (mandatory)	15,249	15,249
Derivative assets held for risk management	*21*	FVTPL	FVTPL (mandatory)	726	726
Loans and advances to banks	*22*	Loans and receivables	Amortised cost	4,707	4,705
Loans and advances to customers[(a)]	*23*	FVTPL (designated)	FVTPL (mandatory)	3,145	3,145
Loans and advances to customers[(b)]	*23*	Loans and receivables	Amortised cost	52,799	52,120
Finance leases	*23*	-	-	861	859
Investment securities – debt	*24*	FVTPL (designated)	FVTPL (designated)	2,282	2,282
Investment securities – debt[(c)]	*24*	FVTPL (designated)	FVTPL (mandatory)	820	820
Investment securities – debt	*24*	Held-to-maturity investments	Amortised cost	101	100
Investment securities – debt[(d)]	*24*	Available for sale	Amortised cost	300	286
Investment securities – debt[(e)]	*24*	Available for sale	FVOCI	1,237	1,237
Investment securities – debt[(f)]	*24*	Available for sale	FVTPL (mandatory)	103	103
Investment securities – equity	*24*	FVTPL (designated)	FVTPL (designated)	137	137
Investment securities – equity	*24*	Available for sale	FVTPL (mandatory)	265	265
Investment securities – equity[(g)]	*24*	Available for sale	FVOCI	24	25
Other assets – restricted deposits with central banks	*27*	Loans and receivables	Amortised cost	56	56
Total financial assets				86,323	85,625

a. This information is required for each class of financial assets and financial liabilities. Accordingly, other presentations are possible.

Notes to the consolidated financial statements (continued)

18. Financial assets and financial liabilities (continued)

B. Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 (continued)

In millions of euro	*Note*	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial liabilities					
Trading liabilities	*20*	FVTPL	FVTPL (held for trading)	6,052	6,052
Derivative liabilities held for risk management	*21*	FVTPL	FVTPL (held for trading)	789	789
Deposits from banks	*28*	Amortised cost	Amortised cost	10,230	10,230
Deposits from customers	*29*	Amortised cost	Amortised cost	48,904	48,904
Debt securities issued	*30*	FVTPL (designated)	FVTPL (designated)	1,208	1,208
Debt securities issued[h]	*30*	FVTPL (designated)	Amortised cost	1,000	1,025
Debt securities issued	*30*	Amortised cost	Amortised cost	8,040	8,040
Subordinated liabilities	*31*	Amortised cost	Amortised cost	4,985	4,985
Total financial liabilities				81,208	81,233

IFRS 7R.42I(c) (Debt securities issued[h])

IFRS 7R.42I, 42J

The Group's accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 45(J)(ii). The application of these policies resulted in the reclassifications set out in the table above and explained below.

a. Certain loans and advances to customers held by the Group's investment banking business are classified under IFRS 9 as mandatorily measured at FVTPL because they are held within a business model in which they are managed and their performance is evaluated on a fair value basis. Before the adoption of IFRS 9, these loans and advances to customers were designated as at FVTPL because the Group manages them on a fair value basis in accordance with a documented investment strategy. Internal reporting and performance measurement of these loans and advances are on a fair value basis.

b. Before the adoption of IFRS 9, certain trading assets and investment securities were reclassified out of the FVTPL and available-for-sale categories to loans and advances at their then fair values. On the adoption of IFRS 9, the carrying amount of those assets was adjusted so that their amortised cost under IFRS 9 was as if those assets were accounted for at amortised cost from their inception.[a]

c. Before the adoption of IFRS 9, certain investment securities were designated as at FVTPL because the Group holds related derivatives at FVTPL and this designation eliminated or significantly reduced an accounting mismatch that would otherwise arise. Under IFRS 9, these assets meet the criteria for mandatory measurement at FVTPL because the contractual cash flows of these securities are not solely payments of principal and interest on the principal outstanding.

   The reclassified assets include certain asset-backed securities whose exposure to credit risk is higher than the exposure to credit risk of the underlying pool of financial assets.

Insights 7A.11.190

a. Under IAS 39, an entity may have previously reclassified a financial asset from the held-for-trading or available-for-sale categories, measured at fair value, to loans and receivables, measured at amortised cost. On transition to IFRS 9, entities are generally required to apply the classification and measurement requirements retrospectively, as if the new classification under IFRS 9 had always been applied. Therefore, it appears that if a previously reclassified financial asset is classified as measured at amortised cost or FVOCI under IFRS 9, then the gross carrying amount should be recalculated as if the asset had always been measured at amortised cost or FVOCI, rather than by carrying forward any measurements under IAS 39.

Notes to the consolidated financial statements (continued)

18. Financial assets and financial liabilities (continued)

B. Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 (continued)

d. Certain debt securities are held by the Group Central Treasury in a separate portfolio for long-term yield. These securities may be sold, but such sales are not expected to be more than infrequent. The Group considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows. These assets are classified as measured at amortised cost under IFRS 9.

e. Certain debt securities are held by the Group Central Treasury in separate portfolios to meet everyday liquidity needs. The Group Central Treasury seeks to minimise the costs of managing those liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual payments as well as gains and losses from the sale of financial assets. The investment strategy often results in sales activity that is significant in value. The Group considers that under IFRS 9 these securities are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

f. Certain non-trading debt securities are held by the Group Central Treasury in separate portfolios and are managed with an objective of realising cash flows through sale. The Group primarily focuses on fair value information and uses that information to assess the securities' performance and to make decisions. In addition, certain asset-backed securities have contractual cash flows that are not solely payments of principal and interest. These assets are therefore measured at FVTPL under IFRS 9.

g. Certain equity investments held by the Group for strategic purposes have been designated under IFRS 9 as at FVOCI. Before the adoption of IFRS 9, these securities were measured at cost because their fair value was not considered to be reliably measureable. IFRS 9 has removed this cost exception.

h. Under IAS 39, debt securities issued were designated as at FVTPL when the Group held related derivatives at FVTPL, and the designation therefore eliminated or significantly reduced an accounting mismatch that would otherwise have arisen. At the date of initial application of IFRS 9, the Group revoked its previous designation made under IAS 39 for some of these securities. This designation has been revoked in these cases because some of the related derivative positions have been closed and there is no longer a significant accounting mismatch arising from the securities.

Notes to the consolidated financial statements (continued)

18. Financial assets and financial liabilities (continued)

B. Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 (continued)

IFRS 7R.42K–42O

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2015.

In millions of euro	IAS 39 carrying amount 31 December 2014	Reclassification	Remeasurement	IFRS 9 carrying amount 1 January 2015
Financial assets				
Amortised cost				
Cash and cash equivalents:				
Opening balance	2,992			
Remeasurement			(1)	
Closing balance				2,991
Loans and advances to banks:				
Opening balance	4,707			
Remeasurement			(2)	
Closing balance				4,705
Loans and advances to customers:				
Opening balance	52,799			
Remeasurement			(679)	
Closing balance				52,120
Investment securities:				
Opening balance	101			
From available-for-sale		300		
Remeasurement			(15)	
Closing balance				386
Other assets	56	-	-	56
Total amortised cost	60,655	300	(697)	60,258

Notes to the consolidated financial statements (continued)

18. Financial assets and financial liabilities (continued)

B. Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 (continued)

In millions of euro	IAS 39 carrying amount 31 December 2014	Reclassifica-tion	Remeasure-ment	IFRS 9 carrying amount 1 January 2015
Available-for-sale				
Investment securities:				
Opening balance	1,929			
To FVOCI – equity		(24)		
To FVOCI – debt		(1,237)		
To FVTPL		(368)		
To amortised cost		(300)		
Closing balance				
FVOCI – debt				
Investment securities:				
Opening balance				
From available-for-sale		1,237	-	
Closing balance				1,237
FVOCI – equity				
Investment securities:				
Opening balance				
From available-for-sale		24	1	
Closing balance				25
Total FVOCI		1,261	1	1,262
FVTPL				
Non-pledged trading assets	15,249	-	-	15,249
Pledged trading assets	519	-	-	519
Derivative assets held for risk management	726	-	-	726
Loans and advances to customers	3,145	-	-	3,145
Investment securities:				
Opening balance	3,239			
From available-for-sale		368	-	
Closing balance				3,607
Total FVTPL	22,878	368	-	23,246

Notes to the consolidated financial statements (continued)

18. Financial assets and financial liabilities (continued)

B. Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 (continued)

In millions of euro	IAS 39 carrying amount 31 December 2014	Reclassification	Remeasurement	IFRS 9 carrying amount 1 January 2015
Financial liabilities				
Amortised cost				
Deposits from banks	10,230	-	-	10,230
Deposits from customers	48,904	-	-	48,904
Debt securities issued:				
Opening balance	8,040			
From FVTPL		1,000	25	
Closing balance				9,065
Subordinated liabilities	4,985	-	-	4,985
Total amortised cost	72,159	1,000	25	73,184
FVTPL				
Trading liabilities	6,052	-	-	6,052
Derivative liabilities held for risk management	789	-	-	789
Debt securities issued:				
Opening balance	2,208			
To amortised cost		(1,000)		
Closing balance				1,208
Total FVTPL	9,049	(1,000)	-	8,049

IFRS 7R.42M, 42N

The following table shows the effects of the reclassification of financial assets and financial liabilities from IAS 39 categories into the amortised cost category under IFRS 9.

From available-for-sale financial assets under IAS 39	
Fair value at 31 December 2015 (in millions of euro)	221
Fair value gain that would have been recognised during 2015 in OCI if the financial assets had not been reclassified (in millions of euro)	5
From financial liabilities at FVTPL under IAS 39	
Fair value at 31 December 2015 (in millions of euro)	1,031
Fair value gain that would have been recognised during 2015 in profit or loss if the financial liabilities had not been reclassified (in millions of euro)	6
The effective interest rate determined on the date of initial application	5.2%
The interest expense recognised during 2015	54

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Notes to the consolidated financial statements (continued)

18. Financial assets and financial liabilities (continued)

B. Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 (continued)

The following table analyses the impact, net of tax, of transition to IFRS 9 on reserves and retained earnings. The impact relates to the liability credit reserve, the fair value reserve and retained earnings. There is no impact on other components of equity.[a]

In millions of euro	**Impact of adopting IFRS 9 at 1 January 2015**
Liability credit reserve	
Closing balance under IAS 39 (31 December 2014)	-
Change of credit risk for financial liabilities designated as at FVTPL	(1)
Opening balance under IFRS 9 (1 January 2015)	(1)
Fair value reserve	
Closing balance under IAS 39 (31 December 2014)	211
Reclassification of investment securities (debt) from available-for-sale to amortised cost	(7)
Reclassification of investment securities (debt and equity) from available-for-sale to FVTPL	(4)
Reclassification of investment securities (equity) measured at cost from available-for-sale to FVOCI	1
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	6
Opening balance under IFRS 9 (1 January 2015)	207
Retained earnings	
Closing balance under IAS 39 (31 December 2014)	2,944
Reclassifications under IFRS 9	2
Recognition of expected credit losses under IFRS 9 (including lease receivables, loan commitments and financial guarantee contracts)	(485)
Opening balance under IFRS 9 (1 January 2015)	2,461

IFRS 7R.42P

The following table reconciles:

- the closing impairment allowance for financial assets in accordance with IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as at 31 December 2014; to
- the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2015.

In millions of euro	**31 December 2014 (IAS 39/ IAS 37)**	**Reclassifica-tion**	**Remeasure-ment**	**1 January 2015 (IFRS 9)**
Loans and receivables and held to maturity securities under IAS 39/financial assets at amortised cost under IFRS 9 (includes cash and cash equivalents, loans and advances to banks and loans and advances to customers)	1,511		703	2,214
Available-for-sale debt investment securities under IAS 39 reclassified to amortised cost under IFRS 9	-	-	4	4
	1,511	-	707	2,218
Available-for-sale debt investment securities under IAS 39/debt financial assets at FVOCI under IFRS 9	35		9	44
Finance lease receivables	16		2	18
Loan commitments and financial guarantee contracts issued	-		10	10
Total	1,562	-	728	2,290

a. These disclosures in respect of the opening components of equity are not specifically required under IFRS 7 but are included in this guide because the Group believes that they may be helpful for users.

Notes to the consolidated financial statements (continued)

IAS 7.45

19. Cash and cash equivalents[a]

See accounting policy in Note 45(K).

In millions of euro	2015	2014
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

IAS 7.48

a. In this guide:

- cash balances with central banks that are subject to withdrawal restrictions are disclosed as a component of other assets (see Note 27); and
- cash and cash equivalents exclude cash collateral pledged as part of securities borrowing and securitisation transactions. These are included under loans and advances.

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.

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Notes to the consolidated financial statements (continued)

20. Trading assets and liabilities

See accounting policy in Note 45(L).

Summary

	Trading assets		Trading liabilities	
In millions of euro	**2015**	**2014**	**2015**	**2014**
Non-derivatives	**15,684**	14,811	**(6,618)**	(5,680)
Derivatives	**978**	957	**(408)**	(372)
	16,662	15,768	**(7,026)**	(6,052)

A. Trading assets

In millions of euro	Pledged trading assets 2015	Non-pledged trading assets 2015	Total trading assets 2015	Pledged trading assets 2014	Non-pledged trading assets 2014	Total trading assets 2014
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 7R.14(a), 7.14(a), [IFRS 9.3.2.23(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 (see Note 5(B)).

Notes to the consolidated financial statements (continued)

20. Trading assets and liabilities (continued)

IFRS 7R.8(e)(ii), 7.8(e)(ii)

B. Trading liabilities

In millions of euro	2015	2014
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

IFRS 7R.28

C. Unobservable valuation differences on initial recognition

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 the fair value in the Group's principal market for those instruments, which is the wholesale dealer market. On 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 – e.g. with reference to information from similar transactions in the wholesale dealer market. If not all of the inputs are observable – e.g. because there are no observable trades in a similar risk at the trade date – then the Group uses valuation techniques that include unobservable inputs.

Any difference between the fair value at initial recognition and the transaction price is not recognised in profit or loss immediately but is deferred, unless the fair value on initial recognition is:

- evidenced by a quoted price in an active market; or
- based on a valuation technique in which any unobservable inputs are judged to be insignificant in relation to measuring the day one difference. (see Note 45(J)(vi)).

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

In millions of euro	2015	2014
Balance at 1 January (unrecognised gains)	**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 (unrecognised gains)	**26**	22

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Notes to the consolidated financial statements (continued)

21. Derivatives held for risk management and hedge accounting[a, b]

See accounting policy in Note 45(M).

A. Derivatives held for risk management

The following table analyses derivatives held for risk management purposes by type of instrument.

IFRS 7R.22B(a), 7.22(b)

In millions of euro	2015 Assets	2015 Liabilities	2014 Assets	2014 Liabilities
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

Details of derivatives designated as hedging instruments in qualifying hedging relationships are provided under 'Hedge accounting' below. The Group uses other derivatives, not designated in a qualifying hedging 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.

For more information about how the Group manages its market risks, see Note 42(D).

B. Hedge accounting

i. Fair value hedges of interest rate risk

IFRS 7R.22A, 22B(a)

The Group uses interest rate swaps to hedge its exposure to changes in the fair values of fixed-rate euro notes issued and fixed-rate loans and advances in respect of a benchmark interest rate (mainly Euribor). Interest rate swaps are matched to specific issuances of fixed-rate notes or loans.

IFRS 7R.22A, 22C

The Group's approach to managing market risk, including interest rate risk, is discussed in Note 42(D). The Group's exposure to interest rate risk is disclosed in Note 5(C)(ii). The Group hedges interest rate risk only to the extent of benchmark interest rates. The benchmark rate is a component of interest rate risk that is observable in the relevant environments. Hedge accounting is applied where economic hedge relationships meet the hedge accounting criteria.

By using derivative financial instruments to hedge exposures to changes in interest rates, the Group also exposes itself to credit risk of the derivative counterparty, which is not offset by the hedged item. The Group minimises counterparty credit risk in derivative instruments by entering into transactions with high-quality counterparties whose credit rating is higher than A, requiring the counterparties to post collateral and clearing through CCPs (see Note 5(A)(i)–(ii)).

IFRS 7R.22A

When fair value hedge accounting is applied by the Group, the Group assesses whether the derivative designated in each hedging relationship is expected to be and has been highly effective in offsetting changes in fair value of the hedged item using a regression analysis. The assessment is based on an evaluation of the quantitative measures of the regression results.

IFRS 7R.21B **a.** An entity presents the required hedge accounting disclosures in a single note or separate section in its financial statements. However, it need not duplicate information that is already presented elsewhere, provided that the information is incorporated by cross-reference from the financial statements to some other statement, such as 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.

IFRS 9.BC6.104 **b.** In this guide, we assume that the Group has elected, as an accounting policy choice under IFRS 9, to continue to apply the hedge accounting requirements of IAS 39. When this election is made, the disclosure requirements relating to hedge accounting in IFRS 7, as amended by IFRS 9, apply from the date of initial application of IFRS 9 (1 January 2015 in this guide). Therefore, in this guide these new disclosures are applied for 2015 to the extent that they are relevant to the Group's activities.

Notes to the consolidated financial statements (continued)

21. Derivatives held for risk management and hedge accounting (continued)

B. Hedge accounting (continued)

i. Fair value hedges of interest rate risk (continued)

IFRS 7R.22B(b)

Under the Group policy, in order to conclude that a hedge relationship is effective, all of the following criteria should be met.

- The regression co-efficient (R squared), which measures the correlation between the variables in the regression, is at least 0.8.
- The slope of the regression line is within a 0.8–1.25 range.
- The confidence level of the slope is at least 95%.

IFRS 7R.23D

In these hedge relationships, the main sources of ineffectiveness are:

- the effect of the counterparty and the Group's own credit risk on the fair value of the interest rate swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate; and
- differences in maturities of the interest rate swap and the loans or the notes.

IFRS 7R.23E

There were no other sources of ineffectiveness in these hedge relationships.

Fair value gains on derivatives held in qualifying fair value hedging relationships and the hedging gain or loss on the hedged items are included in net interest income.[a]

IFRS 7R.23B

At 31 December 2015, the Group held the following interest rate swaps as hedging instruments in fair value hedges of interest risk.

	Maturity				
Risk category	**Less than 1 month**	**1–3 months**	**3 months – 1 year**	**1–5 years**	**More than 5 years**
Interest rate risk					
Hedge of euro notes					
Nominal amount (in millions of euro)	30	50	53	190	8
Average fixed interest rate	3%	3.2%	3.6%	4.9%	6%
Hedge of loans and advances					
Nominal amount (in millions of euro)	93	200	234	720	28
Average fixed interest rate	3%	3.2%	3.6%	4.9%	6.1%

a. This disclosure is not specifically required under IFRS 7, but only the line item in which ineffectiveness is recognised. However, it is included in this guide because the Group believes that this is helpful for users.

21. Derivatives held for risk management and hedge accounting (continued)

B. Hedge accounting (continued)

i. Fair value hedges of interest rate risk (continued)

Fair value hedges

IFRS 7R.24A, 24C

The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows.

In millions of euro	2015 Nominal amount	Carrying amount Assets	Liabilities	Line item in the statement of financial position where the hedging instrument is included	Change in fair value used for calculating hedge ineffectiveness for 2015	Ineffectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness
Interest rate risk							
Interest rate swaps – hedge of euro notes	331	30	20	Derivative assets (liabilities) held for risk management	(3)	1	Net interest income
Interest rate swaps – hedge of loans and advances	1,275	145	79	Derivative assets (liabilities) held for risk management	37	3	Net interest income

IFRS 7R.24B

The amounts relating to items designated as hedged items were as follows.

In millions of euro	2015 Carrying amount Assets	Liabilities	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item Assets	Liabilities	Line item in the statement of financial position in which the hedged item is included	Change in value used for calculating hedge ineffectiveness	Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses
Notes issued	-	360	-	(9)	Subordinated liabilities	4	-
Loans and advances	1,550	-	(45)	-	Loans and advances to customers	(34)	2

Notes to the consolidated financial statements (continued)

21. Derivatives held for risk management and hedge accounting (continued)

B. Hedge accounting (continued)

i. Fair value hedges of interest rate risk (continued)

Comparative information under IAS 39

IFRS 7.22(b)

The fair values of derivatives designated as fair value hedges were as follows.

	2014	
In millions of euro	**Assets**	**Liabilities**
Instrument type		
Interest rate	101	89

IFRS 7.24(a)

Included within interest income or expense are fair value gains of €27 million on derivatives held in qualifying fair value hedging relationships, and €26 million representing net decreases in the fair value of the hedged item attributable to the hedged risk.

ii. Cash flow hedges of foreign currency debt securities issued

IFRS 7R.22A, 22B(a), 22C

The Group uses interest rate and cross-currency swaps to hedge the interest rate risks in respect of the benchmark interest rate (mainly LIBOR and Euribor) and foreign currency risks (mainly US dollar and sterling) from its issuance of floating-rate notes denominated in foreign currencies. The Group's policy of hedging interest rate risk only in respect of the benchmark interest rate is as explained above for fair value hedges.

IFRS 7R.22A

The Group's approach to managing market risk, including interest rate risk and foreign currency risk, is discussed in Note 42(D). The Group's exposure to market risk is disclosed in Note 5(C). The Group determines the amount of the exposure to which it applies hedge accounting by assessing the potential impact of changes in interest rates and foreign currency exchange rates on the future cash flows from its issuance of floating-rate notes denominated in foreign currencies. This assessment is performed using analytical techniques, such as cash flow sensitivity analysis.

As noted above for fair value hedges, by using derivative financial instruments to hedge exposures to changes in interest rates and foreign currency exchange rates, the Group exposes itself to credit risk of the counterparties to the derivatives, which is not offset by the hedged items. This exposure is managed similarly to that for fair value hedges.

IFRS 7R.22B(b)

The Group assesses whether the derivative designated in each hedging relationship is expected to be and has been highly effective in offsetting changes in cash flows of the hedged item (prospectively and retrospectively) using a regression analysis.

IFRS 7R.22B(b)

Under the Group's policy, in order to conclude that the hedging relationship is effective, all of the following criteria should be met.

- The regression co-efficient (R squared), which measures the correlation between the variables in the regression, is at least 0.8.
- The slope of the regression line is within a 0.8–1.25 range.
- The confidence level of the slope is at least 95%.

IFRS 7R.23D

In these hedge relationships, the main sources of ineffectiveness are:

- the effect of the counterparty and the Group's own credit risk on the fair value of the swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate and foreign currency; and
- differences in maturities of the swap and the notes.

IFRS 7.23E

There were no other sources of ineffectiveness in these hedge relationships.

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Notes to the consolidated financial statements (continued)

21. Derivatives held for risk management and hedge accounting (continued)

B. Hedge accounting (continued)

ii. Cash flow hedges of foreign currency debt securities issued (continued)

IFRS 7R.23B

At 31 December 2015, the Group held the following instruments to hedge exposures to changes in interest rates and foreign currency.

	Maturity				
	Less than 1 month	1–3 months	3 months–1 year	1–5 years	More than 5 years
Interest rate risk					
Interest rate swaps					
Nominal amount (in millions of euro)	**74**	**133**	**201**	**1,203**	**29**
Average fixed interest rate	**3.0%**	**3.2%**	**3.6%**	**4.9%**	**6%**
Interest rate/foreign currency risk					
Cross-currency swaps (EUR:USD)					
Nominal amount (in millions of euro)	**20**	**51**	**97**	**243**	**11**
Average EUR–USD exchange rate	**1.1**	**1.15**	**1.2**	**1.3**	**1.35**
Average fixed interest rate	**2.1%**	**2.3%**	**2.6%**	**3.8%**	**4.5%**
Cross-currency swaps (EUR:GBP)					
Nominal amount (in millions of euro)	**24**	**60**	**103**	**262**	**14**
Average EUR–GBP exchange rate	**0.7**	**0.72**	**0.75**	**0.8**	**0.82**
Average fixed interest rate	**3.5%**	**3.9%**	**4.5%**	**5.7%**	**7%**

21. Derivatives held for risk management and hedge accounting (continued)

B. Hedge accounting (continued)

ii. Cash flow hedges of foreign currency debt securities issued (continued)

Cash flow hedges

IFRS 7R.24A, 24C

The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows.

	2015									
		Carrying amount								
In millions of euro	Nominal amount	Assets	Liabilities	Line item in the statement of financial position where the hedging instrument is included	Changes in fair value used for calculating hedge ineffectiveness for 2015	Changes in the value of the hedging instrument recognised in OCI	Hedge ineffectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness	Amount reclassified from the hedge reserve to profit or loss	Line item in profit or loss affected by the reclassification
Interest rate risk										
Interest rate swaps	**1,640**	**210**	**117**	**Derivative assets (liabilities) held for risk management**	**(33)**	**(28)**	**(5)**	**Net interest income**	**10**	**Net interest income**
Interest rate/foreign currency risk										
Cross-currency swaps (EUR:USD)	**422**	**50**	**150**	**Derivative assets (liabilities) held for risk management**	**11**	**10**	**1**	**Net interest income**	**13**	**Net interest income/ Other revenue**
Cross-currency swaps (EUR:GBP)	**463**	**83**	**138**	**Derivative assets (liabilities) held for risk management**	**(7)**	**(7)**	**-**	**Net interest income**	**(8)**	**Net interest income/ Other revenue**

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Notes to the consolidated financial statements (continued)

21. Derivatives held for risk management and hedge accounting (continued)

B. Hedge accounting (continued)

ii. Cash flow hedges of foreign currency debt securities issued (continued)

IFRS 7R.24B

The amounts relating to items designated as hedged items were as follows.

In millions of euro	2015			
	Line item in the statement of financial position in which the hedged item is included	**Change in value used for calculating hedge ineffectiveness**	**Cash flow hedge reserve**	**Balances remaining in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied**
Interest rate/foreign currency risk				
USD floating-rate notes	**Subordinated liabilities**	**15**	**(20)**	**-**
GBP floating-rate notes	**Subordinated liabilities**	**10**	**(103)**	**-**

Comparative information under IAS 39

IFRS 7.22(b)

The fair values of derivatives designated as cash flow hedges were as follows.

In millions of euro	2014	
Instrument type	**Assets**	**Liabilities**
Interest rate	151	95
Interest rate and foreign exchange	99	269

IFRS 7.23(c)

During 2014, net losses of €14 million relating to the effective portion of cash flow hedges were recognised in OCI.

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

During 2014, gains of €10 million and 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 2014 was a loss of €4 million.

IFRS 7.23(a)

The time periods in which the hedged cash flows are expected to occur and affect profit or loss are as follows.

In millions of euro	**Within 1 year**	**1–5 years**	**Over 5 years**
31 December 2014	525	2,085	12

Notes to the consolidated financial statements (continued)

21. Derivatives held for risk management and hedge accounting (continued)

B. Hedge accounting (continued)

iii. Net investment hedges

IFRS 7R.22A

A foreign currency exposure arises from a net investment in subsidiaries that have a different functional currency from that of the Group. The risk arises from the fluctuation in spot exchange rates between the functional currency of the subsidiaries and the Bank's functional currency, which causes the amount of the net investment to vary. This risk may have a significant impact on the Group's financial statements. The Group's policy is to hedge these exposures only when not doing so would be expected to have a significant impact on the regulatory capital ratios of the Group and its banking subsidiaries.

IFRS 7R.22A

The hedged risk in the net investment hedges is the risk of weakening US dollar and sterling exchange rates against the euro that will result in a reduction in the carrying amount of the Group's net investment in the subsidiaries.

IFRS 7R.22B, 23D

The Group uses a mixture of forward foreign exchange contracts and foreign currency-denominated debt as hedging instruments. When the hedging instrument is foreign currency-denominated debt, the Group assesses effectiveness by comparing past changes in the carrying amount of the debt that are attributable to a change in the spot rate with past changes in the investment in the foreign operation due to movement in the spot rate (the offset method). The Group's policy is to hedge the net investment only to the extent of the debt principal; therefore, no ineffectiveness arises.

IFRS 7R.22B(b)

When the hedging instrument is a forward foreign exchange contract, the Group assesses effectiveness by comparing past changes in the fair value of the derivative with changes in the fair value of a hypothetical derivative.

Because the Group expects to hold the net investment for a period longer than the maturity of the forward foreign exchange contract, and the Group policy is to hedge the net investment only to the extent of the nominal amount of the foreign exchange leg of the derivative, the only source of ineffectiveness that is expected to arise from these hedging relationships is due to the effect of the counterparty and the Group's own credit risk on the fair value of the derivative, which is not reflected in the fair value of the hypothetical derivative.

IFRS 7R.23B

At 31 December 2015, the Group held the following forward foreign exchange contracts to hedge its net investments in subsidiaries.

	Maturity		
	Less than 1 year	**1–2 years**	**2–5 years**
Nominal amount (net) (in millions of euro)	**274**	**115**	**199**
Average EUR–GBP exchange rate	**0.73**	**0.77**	**0.81**

IFRS 7R.23B

US dollar-denominated debt, which is included within debt securities issued (see Note 30), is used to hedge the net investment in the Group's subsidiaries in the Americas with a US dollar functional currency and a maturity of three years at 31 December 2015.

21. Derivatives held for risk management and hedge accounting (continued)

B. Hedge accounting (continued)

iii. Net investment hedges (continued)

Net investment hedges

IFRS 7R.24A, 24C

The amounts relating to items designated as hedging instruments were as follows.

	2015									
		Carrying amount								
In millions of euro	**Nominal amount**	**Assets**	**Liabilities**	**Line item in the statement of financial position where the hedging instrument is included**	**Change in fair value used for calculating hedge ineffectiveness for 2015**	**Change in the value of the hedging instrument recognised in OCI**	**Hedge ineffectiveness recognised in profit or loss**	**Line item in profit or loss that includes hedge ineffectiveness**	**Amount reclassified from the hedge reserve to profit or loss**	**Line item affected in profit or loss because of the reclassification**
Foreign exchange-denominated debt (USD)	**950**	**-**	**960**	**Debt securities issued**	**36**	**36**	**-**	**Other revenue**	**-**	**n/a**
Forward foreign exchange contracts (EUR:GBP)	**588**	**85**	**93**	**Derivative assets (liabilities) held for risk management**	**(7)**	**(6)**	**(1)**	**Other revenue**	**-**	**n/a**

IFRS 7R.24B

The amounts related to items designated as hedged items were as follows.

	2015		
In millions of euro	**Change in value used for calculating hedge ineffectiveness**	**Foreign currency translation reserve**	**Balances remaining in the foreign currency translation reserve from hedging relationships for which hedge accounting is no longer applied**
USD net investment	**(36)**	**(131)**	**-**
GBP net investment	**6**	**15**	**2**

Notes to the consolidated financial statements (continued)

21. Derivatives held for risk management and hedge accounting (continued)

B. Hedge accounting (continued)

iii. Net investment hedges (continued)

Comparative information under IAS 39

IFRS 7.22(b) The fair values of derivatives designated as net investment hedges were as follows.

In millions of euro	2014	
Instrument type	**Assets**	**Liabilities**
Foreign exchange	77	78

IFRS 7.24(c) The net ineffectiveness recognised in profit or loss for net investment hedges during 2014 was a gain of €1 million.

IFRS 7.22(b) The US dollar-denominated debt used to hedge the net investment had a fair value of €831 million at the reporting date.

C. Reconciliation of components of equity

IFRS 7R.24E–24F The following table provides a reconciliation by risk category of components of equity and analysis of OCI items (net of tax) resulting from hedge accounting.

In millions of euro	Cash flow hedging reserve	Translation reserve
Balance at 1 January 2015	(85)	77
Cash flow hedges		
Effective portion of changes in fair value:		
Interest rate risk	(28)	
Interest rate/USD foreign currency risk	10	
Interest rate/GBP foreign currency risk	(7)	
Net amount reclassified to profit or loss:		
Interest rate risk	10	
Interest rate/USD foreign currency risk	13	
Interest rate/GBP foreign currency risk	(8)	
Net gain on hedge of net investment in foreign operations		
USD foreign exchange denominated debt		36
GBP forward foreign exchange contracts		(6)
Foreign currency translation differences for foreign operations		(45)
Tax on movements on reserves during the period	3	-
Balance at 31 December 2015	(92)	62

Notes to the consolidated financial statements (continued)

22. Loans and advances to banks

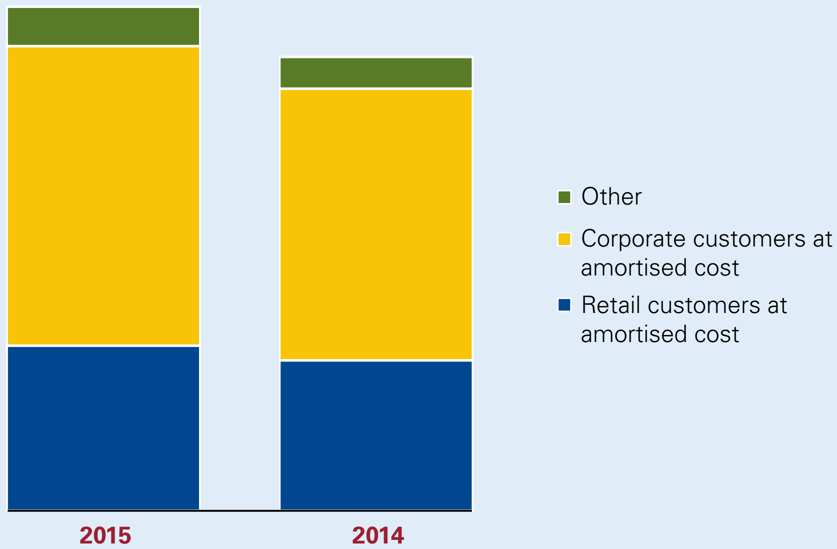
See accounting policy in Note 45(N).

In millions of euro	**2015**	**2014**
Reverse sale-and-repurchase agreements	**1,500**	1,278
Other	**4,084**	3,434
Less impairment loss allowance	**(12)**	(5)
	5,572	4,707

Notes to the consolidated financial statements (continued)

23. Loans and advances to customers[a]

See accounting policy in Note 45(N).



Reference	*In millions of euro*	2015	2014
IFRS 7R.8(f), 7.8(c)	Loans and advances to customers at amortised cost	**59,818**	54,321
	Finance leases	**939**	861
	Less impairment loss allowance	**(2,396)**	(1,522)
		58,361	53,660
IFRS 7R.8(a)(ii), 7.8(a)(i)	Loans and advances to customers at FVTPL	**3,986**	3,145
		62,347	56,805

A. Loans and advances to customers at amortised cost

	2015			2014		
In millions of euro	Gross carrying amount	ECL allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
Retail customers						
Mortgage lending	**14,856**	**(442)**	**14,414**	13,629	(268)	13,361
Personal loans	**4,164**	**(322)**	**3,842**	3,621	(207)	3,414
Credit cards	**2,421**	**(359)**	**2,062**	2,284	(241)	2,043
Corporate customers						
Reverse sale-and-repurchase agreements	**6,318**	**(20)**	**6,298**	6,134	-	6,134
Other	**32,059**	**(1,236)**	**30,823**	28,653	(790)	27,863
	59,818	**(2,379)**	**57,439**	54,321	(1,506)	52,815

a. Loans and advances as presented in the statement of financial position include loans and advances that are carried at amortised cost, those mandatorily measured at FVTPL and those that have been designated on initial recognition as at FVTPL. However, other presentations are possible.

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Notes to the consolidated financial statements (continued)

23. Loans and advances to customers (continued)

IAS 17.47

B. Finance lease receivables

IAS 17.47(f)

The following table provides an analysis of finance lease receivables for leases of certain property and equipment in which the Group is the lessor.

	In millions of euro	2015	2014
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
	Less impairment loss allowance	**(17)**	(16)
		922	845
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

C. Loans and advances to customers at FVTPL

These are loans and advances to corporate customers held by the Group's investment banking business.

Notes to the consolidated financial statements (continued)

24. Investment securities[a]

See accounting policy on Note 45(O).

		In millions of euro	2015	2014
IFRS 7R.8(a)(ii)		Investment securities mandatorily measured at FVTPL	**1,457**	
IFRS 7R.8(a)(i), 7.8(a)(i)		Investment securities designated as at FVTPL	**3,045**	3,239
IFRS 7R.8(f)		Investment securities measured at amortised cost	**410**	
IFRS 7R.8(h)(i)		Investment securities measured at FVOCI – debt instruments	**1,363**	
IFRS 7R.8(h)(ii)		Investment securities designated as at FVOCI – equity investments	**27**	
IFRS 7.8(b)		Held-to-maturity investment securities		101
IFRS 7.8(d)		Available-for-sale investment securities		1,929
			6,302	5,269

Investment securities mandatorily measured at FVTPL

In millions of euro	2015
Asset-backed securities	**523**
Corporate bonds	**632**
Debt securities	**1,155**
Equity securities	**302**
	1,457

Investment securities designated as at FVTPL

In millions of euro	2015	2014
Corporate bonds	**2,622**	2,602
Asset-backed securities	**257**	500
Debt securities	**2,879**	3,102
Equities	**166**	137
	3,045	3,239

IFRS 7R.21, B5(aa), 7.21, B5(a)

Debt investment securities have been designated as at FVTPL on initial recognition when the Group holds related derivatives at FVTPL, and designation therefore eliminates or significantly reduces an accounting mismatch that would otherwise arise.

IFRS 7R.21, [IAS 28.18]

Also included in investment securities that are designated as at FVTPL are the Group's equity investments in certain entities held by its venture capital subsidiary. These investments (2015: €166 million; 2014: €137 million) represent equity holdings in investee companies that give the Group between 20 and 45% of the voting rights of these venture capital investees. The venture capital subsidiary is managed on a fair value basis by the Group.

a. In this guide, the 'investment securities' caption in the statement of financial position includes all of the categories of investments securities. However, other presentations are possible.

Notes to the consolidated financial statements (continued)

24. Investment securities (continued)

Investment securities measured at amortised cost

In millions of euro	**2015**
Government bonds	**310**
Corporate bonds	**100**
Debt securities	**410**

Debt investment securities measured at FVOCI

In millions of euro	***Note***	**2015**
Government bonds		**514**
Corporate bonds		**551**
Asset-backed securities		**200**
Retained interests in securitisations	*37*	**98**
Debt securities		**1,363**

Equity investment securities designated as at FVOCI

IFRS 7R.8(h)(ii), 11A

At 1 January 2015, the Group designated certain investments shown in the following table as equity securities as at FVOCI. In 2014, these investments were classified as available-for-sale and measured at cost. The FVOCI designation was made because the investments are expected to be held for the long-term for strategic purposes.

	Fair value at 31 March	**Dividend income recognised**
In thousands of euro	**2015**	**2015**
Investment in XY Trust Company	**15**	**1**
Investment in AB Securities	**12**	**1**
	27	**2**

IFRS 7R.11A(e), 11B(c)

None of these strategic investments was disposed of during 2015, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

Held-to-maturity investment securities

In millions of euro	**2014**
Government bonds	56
Corporate bonds	45
Debt securities	101

Available-for-sale investment securities

In millions of euro	***Note***	**2014**
Government bonds		653
Asset-backed securities		358
Corporate bonds		542
Retained interests in securitisations	*37*	87
Debt securities		1,640
Equity securities with readily determinable fair values		265
Unquoted equity securities at cost		24
		1,929

Notes to the consolidated financial statements (continued)

25. Property and equipment[a]

See accounting policy in Note 45(P).

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 2014	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 2014	244	170	91	505
IAS 16.73(d)	Balance at 1 January 2015	**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 2015	**252**	**187**	**107**	**546**
	Accumulated depreciation and impairment losses				
IAS 16.73(d)	Balance at 1 January 2014	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 2014	39	61	27	127
IAS 16.73(d)	Balance at 1 January 2015	**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 2015	**39**	**68**	**30**	**137**
IAS 16.73(e), 1.78(a)	**Carrying amounts**				
	Balance at 1 January 2014	197	101	54	352
	Balance at 31 December 2014	205	109	64	378
	Balance at 31 December 2015	**213**	**119**	**77**	**409**

IAS 23.26

There were no capitalised borrowing costs related to the acquisition of plant and equipment during the year (2014: nil).

IAS 16.73(d)–(e), 38.118(c), (e)

a. Although IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* only require the reconciliation of carrying amounts at the beginning and at the end of the reporting period, the Group has also provided separate reconciliations of the gross carrying amount and accumulated depreciation (amortisation). These additional reconciliations are not required and a different format may be used.

26. Intangible assets and goodwill

See accounting policies in Notes 45(R) and (S).

A. Reconciliation of carrying amount[a on page 123]

	In millions of euro	Goodwill	Purchased software	Developed software	Total
IFRS 3.61, IAS 38.118(c), (e)					
	Cost				
IFRS 3.B67(d)(i), IAS 38.118(c)	Balance at 1 January 2014	78	94	116	288
IAS 38.118(e)(i)	Acquisitions	-	20	-	20
IAS 38.118(e)(i)	Internal development	-	-	14	14
IFRS 3.B67(d)(viii), IAS 38.118(c)	Balance at 31 December 2014	78	114	130	322
IFRS 3.B67(d)(i), IAS 38.118(c)	Balance at 1 January 2015	**78**	**114**	**130**	**322**
IAS 38.118(e)(i)	Acquisitions	**-**	**26**	**-**	**26**
IAS 38.118(e)(i)	Internal development	**-**	**-**	**16**	**16**
IFRS 3.B67(d)(viii), IAS 38.118(c)	Balance at 31 December 2015	**78**	**140**	**146**	**364**
	Accumulated amortisation and impairment losses				
IFRS 3.B67(d)(i), IAS 38.118(c)	Balance at 1 January 2014	5	20	18	43
IAS 38.118(e)(vi)	Amortisation for the year	-	10	10	20
IAS 38.118(e)(iv)	Impairment loss	-	-	-	-
IFRS 3.B67(d)(viii), IAS 38.118(c)	Balance at 31 December 2014	5	30	28	63
IFRS 3.B67(d)(i), IAS 38.118(c)	Balance at 1 January 2015	**5**	**30**	**28**	**63**
IAS 38.118(e)(iv)	Amortisation for the year	**-**	**16**	**10**	**26**
IFRS 3.B67(d)(v)	Impairment loss	**-**	**-**	**-**	**-**
IFRS 3.B67(d)(viii), IAS 38.118(c)	Balance at 31 December 2015	**5**	**46**	**38**	**89**
IAS 38.118(c)	**Carrying amounts**				
	Balance at 1 January 2014	73	74	98	245
	Balance at 31 December 2014	73	84	102	259
	Balance at 31 December 2015	**73**	**94**	**108**	**275**

IAS 23.26

There were no capitalised borrowing costs related to the internal development of software during the year (2014: nil).

Notes to the consolidated financial statements (continued)

26. Intangible assets and goodwill (continued)

B. Impairment testing for CGUs containing goodwill[a]

IAS 36.134(a)

For the purposes of impairment testing, goodwill is allocated to the Group's CGUs (operating divisions) as follows.

In millions of euro	2015	2014
European investment banking	**48**	48
European retail banking	**25**	25
	73	73

IAS 36.126(a)–(b)

No impairment losses on goodwill were recognised during 2015 (2014: nil).[b]

IAS 1.125, 36.134(c)–(d), [IAS 36.30]

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 expected to be generated from the continuing use of the CGUs' assets and their ultimate disposal. No impairment losses were recognised during 2015 (2014: nil) because the recoverable amounts of these CGUs were determined to be higher than their carrying amounts.

IAS 36.134(d)(i)

The key assumptions used in the calculation of value in use were as follows.[c]

		European investment banking		European retail banking	
	In percent	2015	2014	2015	2014
IAS 36.134(d)(v)	Discount rate	**10.0**	8.0	**6.0**	5.0
IAS 36.134(d)(iv)	Terminal value growth rate	**2.0**	2.8	**2.0**	2.8
IAS 36.134(d)(i)	Budgeted profit before taxes, depreciation and amortisation growth rate (average of next five years)	**5.0**	4.0	**4.5**	4.0

IAS 36.134(d)(ii)

The discount rate was a pre-tax measure[d] based on the rate of 10-year government 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 systematic risk of the specific CGU.

IAS 36.134(d)(ii)–(iii)

Five years of cash flows were included in the discounted cash flow model. A long-term growth rate into perpetuity has been determined as the lower of the nominal GDP rates for the countries in which the CGU operates and the long-term compound annual profit before taxes, depreciation and amortisation growth rate estimated by management.

Budgeted profit before taxes, depreciation and amortisation was based on expectations of future outcomes taking into account past experience, adjusted for the anticipated revenue growth. Revenue growth was projected taking into account the average growth levels experienced over the past five years and the estimated growth for the next five years.

IAS 36.134(f)

The key assumptions described above may change as economic and market conditions change. The Group estimates that reasonably possible changes in these assumptions would not cause the recoverable amount of either CGU to decline below the carrying amount.

IAS 36.134

a. The Group has provided separate disclosures for different CGUs containing goodwill. Such separate disclosures are required for each CGU for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to the CGU is significant by comparison with its carrying amount.

b. For an example when goodwill is impaired, see our Guide to annual financial statements – Illustrative disclosures (September 2015).

IAS 36.134, (d)(iv)–(v), (e)(iv)–(v), (f)

c. Although IAS 36 *Impairment of Assets* specifically requires quantitative disclosures (i.e. values) in respect of discount rates and the growth rates used to extrapolate cash flow projections, narrative disclosures are sufficient for other assumptions unless a reasonably possible change in the assumption would result in an impairment; in that case, the value of the assumption is disclosed.

IAS 36.55, A20, Insights 3.10.310.10–20

d. IAS 36 *prima facie* requires value in use to be determined using pre-tax cash flows and a pre-tax discount rate. However, in our experience it is more common to use post-tax cash flows and a post-tax discount rate such as the weighted-average cost of capital. Challenges arise in following a post-tax approach appropriately so that the resulting value in use is consistent with the pre-tax principle.

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IAS 1.77

27. Other assets[a]

See accounting policy in Note 45(Q).

A. Summary

In millions of euro		2015	2014
IAS 1.54	Assets held for sale	**10**	16
IAS 1.54(b)	Investment property	**59**	71
IAS 1.54(h)	Accounts receivable and prepayments	**160**	115
IAS 1.54(h)	Accrued income	**177**	114
IAS 7.48	Restricted deposits with central banks	**56**	56
	Other	**227**	191
		689	563

Restricted deposits with central banks are not available for use in the Group's day-to-day operations.

B. Investment property

i. Reconciliation of carrying amount

In millions of euro		2015	2014
IAS 40.76, IFRS 13.93(e)	Balance at 1 January	**71**	62
IAS 40.76(a), IFRS 13.93(e)(iii)	Acquisitions	**6**	3
IAS 40.76(c), IFRS 13.93(e)(iii)	Disposals	**(8)**	(2)
IAS 40.76(d), IFRS 13.93(e)(i), (f)	Changes in fair value (unrealised) included in other income	**(10)**	8
IAS 40.76, IFRS 13.93(e)	Balance at 31 December	**59**	71

The Group holds investment property as a consequence of the ongoing rationalisation of its retail branch network and acquisitions through enforcement of security over loans and advances.

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 historically the average renewal period is four years. Some new leases are subject to a one-year rent-free period. No other contingent rents are charged.

IAS 40.75(f)(i)

Rental income from investment property of €3 million (2014: €2 million) has been recognised in other income.

IAS 1.54

a. In this guide, immaterial assets held for sale, investment property and trade receivables have not been disclosed separately in the statement of financial position, but are shown separately as a component of other assets. The disclosures in respect of assets held for sale that may be required by IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are not included. For a more comprehensive illustration of the presentation and disclosures that may apply when such items are material, see our Guide to annual financial statements – Illustrative disclosures (September 2015).

Notes to the consolidated financial statements (continued)

IAS 1.77

27. Other assets (continued)

B. Investment property (continued)

ii. Measurement of fair value

Fair value hierarchy

IAS 40.75(e)

The fair values of investment properties were determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. The independent valuers provide the fair values of the Group's investment property portfolio every six months.

IFRS 13.93(b)

The fair value measurements for all of the investment properties have been categorised as Level 3 fair value measurements.

Valuation techniques and significant unobservable inputs

IFRS 13.93(d), 93(h)(i), 99

The following table shows the valuation technique used in measuring the fair values of investment properties, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Discounted cash flows: The valuation model considers the present value of net cash flows to be generated from the property, taking into account expected rental growth rate, void periods, occupancy rate, lease incentive costs such as rent-free periods and other costs not paid by tenants. The expected net cash flows are discounted using risk-adjusted discount rates. Among other factors, the discount rate estimation considers the quality of a building and its location (prime vs secondary), tenant credit quality and lease terms.	• Expected market rental growth (2015: 2–3%, weighted average 2.6%; 2014: 2–3%, weighted average 2.5%). • Void periods (2015 and 2014: average 6 months after the end of each lease). • Occupancy rate (2015: 90–95%, weighted average 92.5%; 2014: 91–95%, weighted average 92.8%). • Rent-free periods (2015 and 2014: 1-year period on new leases). • Risk-adjusted discount rates (2015 5–6.3%, weighted average 5.8%; 2014: 5.7–6.8%, weighted average 6.1%).	The estimated fair value would increase (decrease) if: • expected market rental growth were higher (lower); • void periods were shorter (longer); • the occupancy rate were higher (lower); • rent-free periods were shorter (longer); or • the risk-adjusted discount rate were lower (higher).

Notes to the consolidated financial statements (continued)

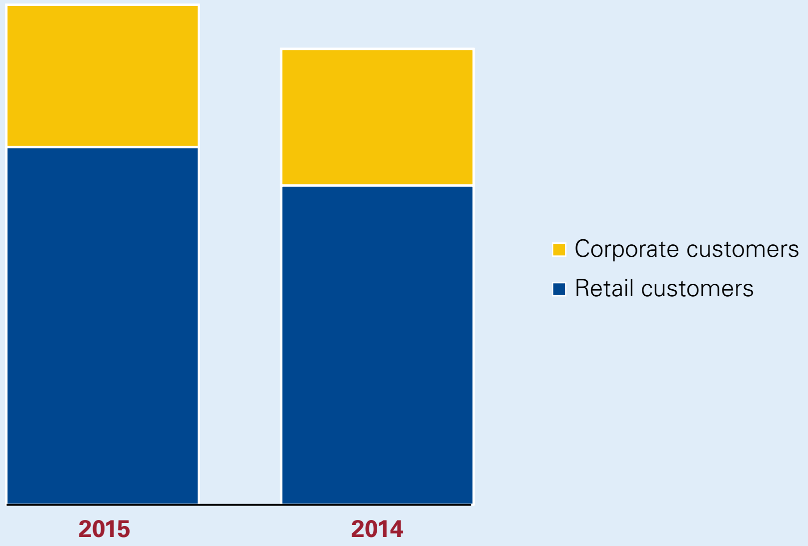
28. Deposits from banks

In millions of euro	2015	2014
Money market deposits	**10,569**	8,819
Sale-and-repurchase, securities lending and similar agreements	**387**	412
Other deposits from banks	**478**	762
Items in the course of collection	**244**	237
	11,678	10,230

Notes to the consolidated financial statements (continued)

29. Deposits from customers

See accounting policy in Note 45(T).



In millions of euro	**2015**	**2014**
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

Notes to the consolidated financial statements (continued)

30. Debt securities issued

See accounting policy in Note 45(T).

	In millions of euro	2015	2014
IFRS 7R.8(g), 7.8(f)	At amortised cost	**9,977**	8,040
IFRS 7R.8(e)(i), 7.8(e)(i)	Designated as at FVTPL	**1,250**	2,208
		11,227	10,248
	Debt securities at amortised cost		
	Floating-rate	**5,143**	4,473
	Fixed-rate	**4,834**	3,567
		9,977	8,040

IFRS 7R.21, B5(a), 7.21, B5(a)

Debt securities issued have been designated as at FVTPL when the Group holds related derivatives at FVTPL, and designation therefore eliminates or significantly reduces an accounting mismatch that would otherwise arise.

IFRS 7R.10(a)

The amount of change, during the period and cumulatively, in the fair value of the financial liabilities designated as at FVTPL that is attributable to changes in the credit risk of these liabilities and recognised in OCI is set out below.

	In millions of euro	2015
IFRS 7R.10(a)	Balance at 1 January	**(2)**
IFRS 7R.10(a)	Recognised in other comprehensive income during the year	**3**
	Balance at 31 December	**1**

IFRS 7R.10(d)

None of the liabilities designated as at FVTPL was derecognised during the year ended 31 December 2015.

IFRS 7.10(a)

At 31 December 2014, the accumulated amount of the change in fair value attributable to changes in credit risk on financial liabilities designated as at FVTPL was a loss of €4 million. For the year ended 31 December 2014, the change in fair value attributable to changes in credit risk on financial liabilities designated as at FVTPL was a gain of €2 million.

IFRS 7R.11(a), 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 debt, adjusted for subsequent changes in the credit spread observed on credit default swaps on the issuing Group entity's senior debt.

IFRS 7R.10(b), 7.10(b)

The carrying amount of financial liabilities designated as at FVTPL at 31 December 2015 was €30 million lower than the contractual amount due at maturity (2014: €43 million lower).

IFRS 7R.18–19

The Group did not have any defaults of principal or interest or other breaches with respect to its debt securities during the years ended 31 December 2015 and 2014.

Notes to the consolidated financial statements (continued)

31. Subordinated liabilities

See accounting policy in Note 45(T).

In millions of euro	**2015**	2014
Redeemable preference shares	**860**	827
Subordinated notes issued	**4,782**	4,158
	5,642	4,985

IFRS 7R.7

The terms and conditions of the subordinated notes and redeemable preference shares issued are as follows.

In millions of euro	Year of maturity	**2015**	2014
EUR 880 million redeemable preference shares with a mandatory fixed dividend payment	2022	**860**	827
EUR 1,500 million undated floating-rate primary capital notes	N/A	**1,315**	1,494
EUR 750 million callable subordinated floating-rate notes	2027	**725**	743
EUR 500 million callable subordinated notes	2015–2016	**-**	178
EUR 300 million callable subordinated floating-rate notes	2022	**300**	300
USD 1,200 million undated floating-rate primary capital notes	N/A	**744**	888
USD 750 million callable subordinated floating-rate notes	2016	**567**	555
GBP 1,000 million callable subordinated floating-rate notes	2019	**1,131**	-
		5,642	4,985

IAS 1.79(a)(v)

The redeemable preference shares do not carry the right to vote, bear non-discretionary coupons of 4% and are redeemable at the option of the holder. On liquidation, preference shareholders have priority over ordinary shareholders (see Note 34) but participate only to the extent of the face value of the shares plus any accrued dividends.

The above liabilities would, 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 7R.18–19

The Group did not have any defaults of principal or interest or other breaches with respect to its subordinated liabilities during the years ended 31 December 2015 and 2014.

Notes to the consolidated financial statements (continued)

32. Provisions

See accounting policy in Notes 45(U) and (V).

In millions of euro	2015	2014
Financial guarantee contracts issued	**32**	26
Loan commitments issued	**6**	2
Provisions recognised under IAS 37	**90**	84
	128	112

A. Financial guarantee contracts issued

The amount in respect of financial guarantee contracts issued represents:

- At 31 December 2015 – the sum of: ECL provision of €6 million (see Note 5(A)(iii)) and the amounts recognised at issuance less cumulative amortisation of €26 million.
- At 31 December 2014 – the amounts initially recognised less cumulative amortisation.

B. Loan commitments issued

The amount in respect of loan commitments issued represents:

- At 31 December 2015 – the sum of: ECL provision of €5 million (see Note 5(A)(iii)) and the amounts recognised at issuance of loan commitments to provide loans at below market rates less cumulative amortisation of €1 million.
- At 31 December 2014 – the amounts recognised at issuance of loan commitments to provide a loan at below market rates less cumulative amortisation.

C. Other provisions recognised under IAS 37

The following table sets out the provisions recognised under IAS 37.

	In millions of euro	*Note*	Redundancy	Branch closures	Onerous contracts	Other	Total
IAS 37.84(a)	Balance at 1 January 2015		**30**	**28**	**23**	**3**	**84**
IAS 37.84(b)	Provisions made during the year	*15*	**2**	**5**	**-**	**15**	**22**
IAS 37.84(c)	Provisions used during the year		**(5)**	**(2)**	**-**	**(10)**	**(17)**
IAS 37.84(d)	Provisions reversed during the year[a]	*15*	**-**	**-**	**(1)**	**-**	**(1)**
IAS 37.84(e)	Unwind of discount		**1**	**1**	**-**	**-**	**2**
IAS 37.84(a)	Balance at 31 December 2015		**28**	**32**	**22**	**8**	**90**
	Non-current		**28**	**28**	**22**	**-**	**78**
	Current		**-**	**4**	**-**	**8**	**12**
			28	**32**	**22**	**8**	**90**

IAS 37.85(a)–(b), 1.98(b)

i. Redundancy

In accordance with the *Delivery Channel Optimisation Plan* announced by the Group in November 2013, 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 2016.

IAS 37.85(a)–(b), 1.98(b)

ii. Branch closures

In accordance with the plans announced by the Group in November 2013, the Group is in the process of rationalising the branch network to optimise its efficiency and improve overall services to customers. The plan involves the closure of some branches. Twenty-three of the branches outlined in the Group's *Delivery Channel Optimisation Plan* were closed during 2014 and 2015. The remaining provision relates to the balance of the branches' closures set out in the plan, which will be completed during 2016.

[Insights 3.12.850.10] a. In our view, the reversal of a provision should be presented in the statement of profit or loss and OCI in the same line item as the original estimate.

Notes to the consolidated financial statements (continued)

32. Provisions (continued)

C. Other provisions recognised under IAS 37 (continued)

IAS 37.85(a)–(b)

iii. Onerous contracts

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.

Notes to the consolidated financial statements (continued)

33. Other liabilities

See accounting policies in Note 45(W).

	In millions of euro	**Note**	**2015**	**2014**
IAS 1.78(d)	Recognised liability for defined benefit obligations	*14*	**174**	158
IAS 1.78(d)	Liability for long-service leave		**51**	44
IAS 1.78(d)	Cash-settled share-based payment liability	*14*	**44**	38
IAS 1.78(d)	Short-term employee benefits		**62**	57
	Creditors and accruals		**51**	68
	Other		**36**	38
			418	403

Notes to the consolidated financial statements (continued)

34. Capital and reserves

See accounting policy in Note 45(X).

IAS 1.79(a)(iv)

A. Share capital and share premium

In millions of shares	Ordinary shares 2015	Ordinary shares 2014	Perpetual bonds 2015	Perpetual bonds 2014
In issue at 1 January	**1,756**	1,756	**500**	500
Exercise of share options	**3**	-	**-**	-
In issue at 31 December – fully paid	**1,759**	1,756	**500**	500
Authorised – par value €1	**2,000**	2,000	**500**	500

IAS 1.79(a)(ii) — In issue at 31 December
IAS 1.79(a)(i), (iii) — Authorised

The Group has also issued employee share options (see Note 14(A)).

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. All ordinary shares rank equally with regard to the Bank's residual assets.

The perpetual bonds do not carry the right to vote, are not redeemable by holders and bear a discretionary coupon of 4.2%. Perpetual bondholders have priority over ordinary shareholders with regard to the Bank's residual assets but participate only to the extent of the face value of the bonds plus any accrued coupon.

B. Nature and purpose of reserves

i. 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 (see Note 45(B)(ii)).

ii. 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 in profit or loss as the hedged cash flows affect profit or loss (see Note 45(M)).

iii. Fair value reserve

IAS 1.79(b)

The fair value reserve comprises the cumulative net change in the fair value of investment securities measured at FVOCI, less the ECL allowance recognised in profit or loss. Before 1 January 2015, the fair value reserve included the cumulative net change in the fair value of available-for-sale financial assets (see Note 45(O)).

iv. Liability credit reserve

IAS 1.79(b)

The liability credit reserve includes the cumulative changes in the fair value of the financial liabilities designated as at FVTPL that are attributable to changes in the credit risk of these liabilities other than those recognised in profit or loss (see Note 30).

C. Dividends

IAS 1.107

The following dividends were recognised as distributions to owners during the year ended 31 December.

In millions of euro	2015	2014
€0.15 per ordinary share (2013: €0.15)	**264**	264
€0.04 per perpetual bond (2013: €0.04)	**20**	20
	284	284

IAS 1.137(a), 10.13, 12.81(i)

After the reporting date, the following dividends were proposed by the Board of Directors. The dividends have not been recognised as liabilities and there are no tax consequences.

In millions of euro	2015	2014
€0.15 per ordinary share	**264**	264
€0.04 per perpetual bond	**20**	20
	284	284

Notes to the consolidated financial statements (continued)

35. Group subsidiaries

See accounting policy in Note 45(A).

IFRS 12.10(a)(i), 12(b)

A. List of significant subsidiaries

The following table provides details of the significant subsidiaries of the Group.

	Principal place of business	Ownership interest 2015	Ownership interest 2014
Blue Banking Plc	UK	**100%**	100%
Blue Banking (North America)	US	**100%**	100%
Blue Banking Pty Limited	Australia	**80%**	80%
Bleu Banking S.A.	France	**100%**	100%
Blue Banking (Africa) Limited	South Africa	**100%**	100%

B. Financial support given to structured entities

IFRS 12.14

During the year, the Group issued guarantees of €80 million (2014: nil) to holders of notes issued by certain structured entities that the Group consolidates (for information on judgements made to conclude that the Group controls these entities, see Note 45(A)(iii)). These guarantees would require the Group to reimburse the note holders for losses that they incur if the underlying assets do not perform at the specified amount of their contractual cash flows. For information on the accounting for these guarantees, see Note 45(V).

C. Significant restrictions

IFRS 12.13

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate. The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios. The carrying amounts of banking subsidiaries' assets and liabilities are €9,680 million and €8,150 million respectively (2014: €9,083 million and €7,705 million respectively).

D. NCI in subsidiaries

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

The following table summarises the information relating to the Group's subsidiary that has material NCI.

IFRS 12.12(a)

Blue Banking Pty Limited

IFRS 12.12(c)

		2015	2014
	NCI percentage	**20%**	**20%**
	In millions of euro	**2015**	**2014**
	Loans and advances	**2,015**	1,770
	Other assets	**120**	230
	Liabilities	**1,360**	1,360
	Net assets	**775**	640
IFRS 12.12(f)	Carrying amount of NCI	**155**	128
	Revenue	**750**	717
	Profit	**135**	130
	Total comprehensive income	**135**	130
IFRS 12.12(e)	Profit allocated to NCI	**27**	26
	Cash flows from operating activities	**126**	211
	Cash flows from investing activities	**(50)**	(23)
	Cash flows from financing activities, before dividends to NCI	**12**	(15)
IFRS 12.B10(a)	Cash flows from financing activities – cash dividends to NCI	**-**	-
	Net increase in cash and cash equivalents	**88**	173

IFRS 12.12(b)

Blue Banking Pty Limited has its principal place of business in Australia.

Notes to the consolidated financial statements (continued)

36. Involvement with unconsolidated structured entities

IFRS 12.26

The following table describes the types of structured entities that the Group does not consolidate but in which it holds an interest.

Type of structured entity *In millions of euro*	**Nature and purpose**	**Interest held by the Group**	**Total assets** **2015**	**2014**
Securitisation vehicles for loans and advances (see Note 37)	To generate: • funding for the Group's lending activities; • margin through sale of assets to investors; and • fees for loan servicing. These vehicles are financed through the issue of notes to investors.	• Investments in notes issued by the vehicles • Fees for loan servicing	**2,730**	2,540
Investment funds	To 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 • Management fees	**2,450**	2,310

IFRS 12.29

The following table sets out an analysis of the carrying amounts of interests held by the Group in unconsolidated structured entities. The maximum exposure to loss is the carrying amount of the assets held.

Carrying amount

In millions of euro	**31 December 2015 Investment securities**	**31 December 2014 Investment securities**
Securitisation vehicles for loans and advances	**256**	224
Investment funds	**238**	210
Total	**494**	434

IFRS 12.30

During 2015, 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 it is under no contractual obligation to do so, the Group decided to provide this 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 to assist the entity in managing its short-term liquidity.

IFRS 12.27

The Group considers itself a sponsor of a structured entity when it facilitates the establishment of the structured entity. The following table sets out information in respect of structured entities that the Group sponsors, but in which the Group does not have an interest.

In millions of euro	**2015**	**2014**
Securitisation vehicles for third party receivables		
Fee income earned from securitisation vehicles	**22**	20
Carrying amount of assets transferred by third parties to securitisation vehicles at the time of transfer	**780**	769

Notes to the consolidated financial statements (continued)

37. Transfers of financial assets

See accounting policy in Note 45(J)(iii).

IFRS 7R.42A, 42D(a), [IFRS 9.3.2.3–3.2.7, IAS 39.17–21]

In the ordinary course of business, the Group enters into transactions that result in the transfer of financial assets, primarily debt and equity securities, and loans and advances to customers. In accordance with the accounting policy set out in Note 45(J)(iii), the transferred financial assets continue 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 that are not derecognised in their entirety or for which the Group has continuing involvement 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 securitisation vehicles or to investors in the notes issued by consolidated securitisation vehicles.

A. Transferred financial assets that are not derecognised in their entirety

i. Sale-and-repurchase agreements

IFRS 7R.42D(a)–(c), [IFRS 9.3.2.15, B3.2.16(a)–(c), IAS 39.29, AG51(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 of 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.

ii. Securities lending

IFRS 7R.42D(a)–(c), [IFRS 9.3.2.15, B3.2.16(a)–(c), IAS 39.29, AG51(a)–(c)]

'Securities lending agreements' are transactions in which the Group lends 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 of 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 it. Because as part of the lending arrangement 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.

iii. Sale of a security with a total return swap

IFRS 7.42D(a)–(c), [IFRS 9.3.2.2, 3.2.15, B3.2.14, B3.2.16(o), IAS 39.16, 29, AG49, AG51(o)]

The Group sells debt securities that are subject to a concurrent total return swap. In all cases, the Group retains substantially all of 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.

Notes to the consolidated financial statements (continued)

37. Transfers of financial assets (continued)

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

iv. Securitisations

[IFRS 9.3.2.1, 3.2.3–3.2.7, IAS 39.15, 17–21]

Loans and advances to customers and investment securities are sold by the Group to securitisation vehicles, which in turn issue notes to investors collateralised by the purchased assets. For the purposes 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 securitisation vehicle, then the transfer is from the Group (which includes the consolidated securitisation vehicle) 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 securitisation vehicle, then the transfer is from the Group (which excludes the securitisation vehicle) to the securitisation vehicle. The transfer is in the form of a sale of the underlying assets to the securitisation vehicle.

[IFRS 9.3.2.5(c), 3.2.15, IAS 39.19(c), 29]

In the first case, the securitisation vehicles that are part of the Group generally transfer substantially all of the risks and rewards of ownership of the transferred assets to investors in the notes, but derecognition of the transferred assets is prohibited because the cash flows that the securitisation vehicles collect 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.

IFRS 7R.42D(a)–(c), [IFRS 9.3.2.5(c), 3.2.15, 3.2.17, IAS 39.19(c), 29, 31]

In certain securitisations in which the Group transfers loans and advances to an unconsolidated securitisation vehicle, it retains some credit risk (principally through the purchase of notes issued by the vehicle) while transferring some credit risk, prepayment and interest rate risk to the vehicle. Accordingly, the Group does not retain or transfer substantially all of the risks and rewards of these assets. The terms of the transfer agreement prevent the unconsolidated securitisation vehicle from selling the loans and advances to a third party.

IFRS 7R.42D(c)

If the Group transfers assets as part of securitisation transactions, then 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 (continued)

37. Transfers of financial assets (continued)

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

iv. Securitisations (continued)

IFRS 7R.42D(d)–(e)

The following table sets out the carrying amounts and fair values of all financial assets transferred that are not derecognised in their entirety and associated liabilities.

		Financial assets at fair value through profit or loss		Financial assets at amortised cost
	31 December 2015 *In millions of euro*	**Loans and advances to customers**	**Pledged trading assets**	**Loans and advances to customers**
IFRS 7R.42D(e)	Carrying amount of assets	**781**	**540**	**1,234**
IFRS 7R.42D(e)	Carrying amount of associated liabilities	**799**	**542**	**1,236**
	For those liabilities that have recourse only to the transferred financial assets			
IFRS 7R.42D(d)	Fair value of assets	**781**	**-**	**1,240**
IFRS 7R.42D(d)	Fair value of associated liabilities	**781**	**-**	**1,240**
	Net position	**-**	**-**	**-**

		Financial assets at fair value through profit or loss		Loans and receivables
	31 December 2014 *In millions of euro*	**Loans and advances to customers**	**Pledged trading assets**	**Loans and advances to customers**
IFRS 7.42D(e)	Carrying amount of assets	633	519	1,123
IFRS 7.42D(e)	Carrying amount of associated liabilities	650	520	1,125
	For those liabilities that have recourse only to the transferred financial assets			
IFRS 7.42D(d)	Fair value of assets	633	-	1,120
IFRS 7.42D(d)	Fair value of associated liabilities	633	-	1,120
	Net position	-	-	-

IFRS 7R.42D(f)

In 2015, the total carrying amount before the transfer of loans and advances transferred to unconsolidated securitisation vehicles in which the Group does not retain or transfer substantially all of the risks and rewards was €74 million (2014: €54 million). On 31 December 2015, the carrying amount of the assets that the Group continues to recognise in respect of its continuing involvement was €31 million and the carrying amount of the associated liabilities was €30 million (2014: €21 million and €19 million respectively).

Sales to unconsolidated structured entities

IFRS 7R.42C, 42E(a)–(f), [IFRS 9.3.2.1, 3.2.3–3.2.7, IAS 39.15, 17–21]

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 of the risks and rewards of ownership of financial assets to an unconsolidated securitisation vehicle and retains a relatively small interest in the vehicle 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 securitisation vehicles that the Group receives as part of the transfer and the servicing arrangement represent continuing involvement with those assets.

IFRS 7R.42E(f), 42G

In June 2015 and May 2014, the Group sold certain investment securities to an unconsolidated securitisation vehicle and, as part of the consideration, received notes issued by the securitisation vehicle. In both transactions, the notes represented 5% of the total issue. The Group classified the notes as measured at FVOCI (before 1 January 2015: available-for-sale).

Notes to the consolidated financial statements (continued)

37. Transfers of financial assets (continued)

B. Transferred financial assets that are derecognised in their entirety

i. Securitisations

Sales to unconsolidated structured entities (continued)

In 2015, the Group realised a gain of €8 million on the sale of the investment securities to the unconsolidated securitisation vehicle (2014: €5 million). During 2015, it recognised interest income of €4 million in profit or loss and a fair value gain of €1 million in OCI on the notes (2014: €3 million and €1 million respectively). The cumulative interest income and fair value gain on the notes held on 31 December 2015 were €5 million and €1 million respectively. Servicing contracts are discussed below.

The following table sets out the details of the assets that represent the Group's continuing involvement with the transferred assets that are derecognised in their entirety.

	Carrying amount	Fair value	
In millions of euro	Investment securities	Assets	Liabilities
Type of continuing involvement			
Notes issued by unconsolidated securitisation vehicle:			
31 December 2015	**98**	**98**	**-**
31 December 2014	87	87	-

IFRS 7R.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 securitisation vehicles is their carrying amount.

Other sales

IFRS 7R.42C, 42E, 42H, [IFRS 9.3.2.10, IAS 39.24]

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 securitisation vehicle. In return, the Group receives a fee that is expected to compensate the Group adequately for servicing 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 that 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 2015 and 2014, the Group transferred prime residential mortgage loans (while retaining the servicing rights) to an unconsolidated securitisation vehicle. The loans sold were classified as loans and advances to customers and measured at FVTPL. The total carrying amount of these loans at the time of transfer was €281 million in 2015 (€148 million in May and €133 million in November) (2014: €199 million in July).

IFRS 7R.42G

No gain or loss was recognised on the transfers because the residential mortgage loans transferred were measured at FVTPL.

The Group recognised income of €2 million in 2015 in respect of servicing the residential mortgage loans (2014: €1 million). On 31 December 2015, the fair value of the loans and advances to customers that the Group still services amounted to €262 million (2014: €170 million). The fair value of servicing assets and liabilities on 31 December 2015 and 31 December 2014 was not material.

Notes to the consolidated financial statements (continued)

38. Contingencies

See accounting policy in Note 45(U).

IAS 1.125, 37.86

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 2004 to 2007. Although liability is not admitted, if the 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, management believes that its defence of the action will be successful.

Notes to the consolidated financial statements (continued)

39. Related parties[a]

A. Parent and ultimate controlling party

IAS 1.138(c), 24.13

During 2015, 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*].

B. Transactions with key management personnel

i. Key management personnel compensation

IAS 24.17

Key management personnel compensation comprised the following.

	In millions of euro	2015	2014
IAS 24.17(a)	Short-term employee benefits	**12**	10
IAS 24.17(b)	Post-employment benefits	**4**	4
IAS 24.17(c)	Other long-term benefits	**1**	1
IAS 24.17(e)	Share-based payments	**4**	2
		21	17

Compensation of the Group's key management personnel includes salaries, non-cash benefits and contributions to the post-employment defined benefit plans (see Note 14(B)). Executive officers also participate in the Group's share option programme (see Note 14(A)).

ii. Key management personnel transactions

IAS 24.18

The aggregate values of transactions and outstanding balances related to key management personnel were as follows.

IAS 24.18(a)–(b)

	Transaction values for the year ended 31 December		Maximum balance for the year ended 31 December		Balance outstanding as at 31 December	
In millions of euro	2015	2014	2015	2014	2015	2014
Mortgage lending and other secured loans	**7**	6	**10**	8	**6**	6
Credit card	**1**	1	**2**	1	**1**	1
Other loans	**2**	5	**4**	6	**2**	2
Deposits received	**(3)**	(3)	**(4)**	(4)	**(2)**	(2)
	7	9	**12**	11	**7**	7

IAS 24.18(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 (2014: €1 million). The interest paid on balances outstanding to related parties amounted to €400 thousand (2014: €300 thousand). The mortgages and secured loans granted are secured over property of the respective borrowers. Other balances are not secured and no guarantees have been obtained.

IAS 24.18(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 reporting date.

IAS 24.9(b)(viii)

a. A reporting entity discloses as a related party any entity, or any member of a group of which it is a part, that provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Notes to the consolidated financial statements (continued)

40. Operating leases

See accounting policy in Note 45(H).

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.

IAS 17.35(a)

At 31 December, the future minimum lease payments under non-cancellable operating leases were payable as follows.

In millions of euro	**2015**	**2014**
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(c)

The amount of operating lease expenses recognised in profit or loss includes €6 million of contingent rent expense (2014: €5 million).

Notes to the consolidated financial statements (continued)

41. Subsequent events

Acquisition of ABC Bank

IAS 10.21–22(a)

On 22 February 2016, the Group announced its offer to acquire all of the shares of ABC Bank for €5.0 billion. The transaction still has to be approved by the Group's shareholders and by regulatory authorities. Approvals are not expected until late in 2016. Due to the early stage of the transaction, an estimate of the financial effect of this proposed acquisition cannot be made reliably.

Notes to the consolidated financial statements (continued)

IFRS 7R.31

42. Financial risk management

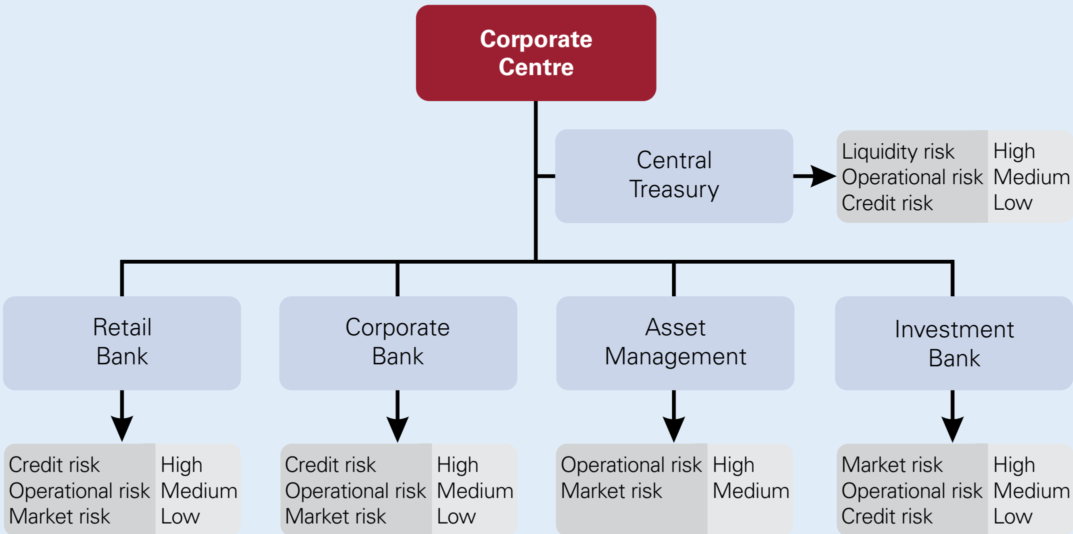
A. Introduction and overview

IFRS 7R.31–32

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

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

The following chart 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.[a]



IFRS 7R.33

This note presents information about the Group's objectives, policies and processes for measuring and managing risk.

i. 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. The 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.

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a. *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 purposes of this guide, 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 would facilitate users' understanding of the remaining risk disclosures.*

Notes to the consolidated financial statements (continued)

IFRS 7R.31

42. Financial risk management (continued)

IFRS 7R.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 – e.g. individual obligor default risk, country and sector risk.

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; for further details, see (D) below.

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

IFRS 7R.35B(a)

ii. Management of credit risk

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 managing the Group's credit risk, including the following.

- *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, the Head of Group Credit, the 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, before facilities are 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* to categorise exposures according to the degree of risk of default. The current risk grading framework consists of 12 grades reflecting varying degrees of risk of default (see Note 5(A)(i) and (iii)). The responsibility for setting risk grades lies with the final approving executive or committee, as appropriate. Risk grades are subject to regular reviews by Group Risk.
- *Developing and maintaining the Group's processes for measuring ECL:* This includes processes for:
  - initial approval, regular validation and back-testing of the models used; and
  - incorporation of forward-looking information.
- *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, which may require appropriate corrective action to be taken. These include reports containing estimates of ECL allowances.
- *Providing advice, guidance and specialist skills* to business units to promote best practice throughout the Group in the management of credit risk.

Notes to the consolidated financial statements (continued)

IFRS 7R.31

42. Financial risk management (continued)

IFRS 7R.33

B. Credit risk (continued)

IFRS 7R.35B(a)

ii. Management of credit risk (continued)

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 7R.33

C. Liquidity risk

'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.

i. Management of liquidity risk

The Group's Board of Directors sets the Group's strategy for managing liquidity risk and delegates responsibility for 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 7R.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 they are 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 financial liabilities, and the extent to which the Group's assets are encumbered and so not available as potential collateral for obtaining funding.
- 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 financial 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.

If an operating subsidiary or branch is subject to a liquidity limit imposed by its local regulator, then 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).

Notes to the consolidated financial statements (continued)

IFRS 7R.31

42. Financial risk management (continued)

IFRS 7R.33

D. Market risks

'Market risk' is the risk that changes in market prices – e.g. 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 to ensure the Group's solvency while optimising the return on risk.

i. 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 financial 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.

ii. Exposure to market risks – Trading portfolios

IFRS 7R.41(a)

The principal tool used to measure and control market risk exposure within the Group's trading portfolios is 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 on a 99% confidence level and assumes a 10-day holding period. The VaR model used is based mainly on historical simulation. Taking account of market data from the previous two years, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements.

IFRS 7R.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 market illiquidity.
- A 99% confidence level does not reflect losses that may occur beyond this level. Even within the model used, there is a 1% 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 does not cover all possible scenarios, especially those of an exceptional nature.
- The VaR measure is dependent on 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.

Notes to the consolidated financial statements (continued)

42. Financial risk management (continued)

IFRS 7R.31

D. Market risks (continued)

IFRS 7R.33

ii. 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 – e.g. periods of prolonged market illiquidity, reduced fungibility of currencies, natural disasters or other catastrophes, health pandemics etc.

The analysis of scenarios and stress tests is 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.

iii. Exposure to market risk – Non-trading portfolios

Interest rate risk

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. These day-to-day activities include monitoring changes in the Group's interest rate exposures, which include the impact of the Group's outstanding or forecast debt obligations.

ALCO is responsible for setting the overall hedging strategy of the Group. Central Treasury is responsible for implementing that strategy by putting in place the individual hedge arrangements. Many of those hedge arrangements are designated in hedging relationships for accounting purposes (see Note 21).

Foreign exchange risk

Non-structural positions

The Group's risk management policies do not allow holding of significant foreign currency positions outside of the trading book. ALCO is the monitoring body for compliance with this policy and is assisted by Central Treasury in its day-to-day monitoring activities.

Structural positions

The Group's structural foreign exchange exposures comprise net asset value of its foreign currency equity investments in subsidiaries and branches that have functional currencies other than Euro. The Group's policy of hedging such exposures are explained in Note 21(C).

Equity price risk

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

Notes to the consolidated financial statements (continued)

IFRS 7R.31

42. Financial risk management (continued)

E. Operational risk[a]

'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 – e.g. 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, Group policy requires compliance with all applicable legal and regulatory requirements.

The Board of Directors has delegated responsibility for operational risk to its Group Operational Risk 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 cost-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 Risk Committee, with summaries submitted to the Audit Committee and senior management of the Group.

a. Operational risk is not a financial risk, and is not specifically required to be disclosed by IFRS 7. However, operational risk in a financial institution is commonly 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 (continued)

IAS 1.112(a), 117(a)

43. Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for the following material items.

Items	Measurement basis
Financial instruments at FVTPL	Fair value
Financial assets at FVOCI (applicable from 1 January 2015)	Fair value
Available-for-sale financial assets (applicable before 1 January 2015)	Fair value
Investment property	Fair value
Liabilities for cash-settled share-based payment arrangements	Fair value
Recognised financial assets and financial liabilities designated as hedged items in qualifying fair value hedging relationships (which otherwise would have been measured at amortised cost)	Amortised cost adjusted for hedging gain or loss
Net defined benefit (asset) liability	Fair value of plan assets less the present value of the defined benefit obligation, limited as explained in Note 45(W)(ii)

Notes to the consolidated financial statements (continued)

44. Changes in accounting policies[a]

Except for the changes below, the Group has consistently applied the accounting policies as set out in Note 45 to all periods presented in these consolidated financial statements.

IAS 8.28

A. IFRS 9 *Financial Instruments*[b, c]

The Group has early adopted IFRS 9 *Financial Instruments* issued in July 2014 with a date of initial application of 1 January 2015. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As permitted by IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39.[d]

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Group classifies financial assets under IFRS 9, see Note 45(J)(ii).

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Group classifies financial liabilities under IFRS 9, see Note 45(J)(ii).

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Group applies the impairment requirements of IFRS 9, see Note 45(J)(vii).

IAS 8.28–29 — a. The description of the nature and effects of the changes in accounting policies presented is only an example, and may not be representative of the nature and effects of the changes for specific entities.

IFRS 9.7.1.1 — b. The effective date of IFRS 9 is 1 January 2018, with early application permitted. If an entity elects to apply the standard early, then it has to disclose that fact and apply all of the requirements in this standard at the same time.

IFRS 9.7.2.2, 7.3.2 — If the entity's date of initial application is before 1 February 2015, then it may elect (or have elected) to apply earlier versions of IFRS 9 for annual periods beginning before 1 January 2018. For the purposes of disclosures in this guide, it has been assumed that the Group has not previously adopted an earlier version of IFRS 9. Consequently, the Group has a single date of initial application for IFRS 9 (2014) in its entirety.

IFRS 9.7.2.2, Insights 7A.11.20 — c. The transition requirements of IFRS 9 refer to the date of initial application, which is the beginning of the reporting period in which an entity first applies IFRS 9. The identification of the date of initial application is relevant to several assessments necessary to apply IFRS 9 and may have important implications.

IFRS 9.7.2.21 — d. IFRS 9 allows an entity to choose as its accounting policy to defer application of the new general hedging model and continue to apply the hedge accounting requirements of IAS 39 in their entirety until the standard resulting from the IASB's separate project on macro hedge accounting is effective.

This guide assumes that the Group continues to apply the IAS 39 hedge accounting model as part of IFRS 9.

Notes to the consolidated financial statements (continued)

44. Changes in accounting policies (continued)

IAS 8.28

A. IFRS 9 *Financial Instruments* (continued)

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated.[a] Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2015. Accordingly, the information presented for 2014 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2015 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
  - For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 18(B).

IFRS 9.7.2.15, Insights 7A.11.30

a. IFRS 9 contains exemptions from full retrospective application for the classification and measurement requirements of the new standard, including impairment. These include an exception from the requirement to restate comparative information.

Notes to the consolidated financial statements (continued)

IAS 1.112(a), 117(b), 119–121

45. Significant accounting policies[a, b]

Except for the changes explained in Note 44, the Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

Set out below is an index of the significant accounting policies, the details of which are available on the pages that follow.

a. The example accounting policies illustrated reflect the circumstances of the Group on which these financial statements are based, by describing only the specific policies that are relevant to an understanding of the Group's financial statements. For example, the accounting policy for provisions is not intended to be a complete description of all types of provisions available in general, but only of those that are relevant for the Group. These example accounting policies should not be relied on for a complete understanding of IFRS and should not be used as a substitute for referring to the standards and interpretations themselves. To help you identify the underlying requirements in IFRS, references to the recognition and measurement requirements in the standards that are relevant for a particular accounting policy have been included and indicated by square brackets – e.g. IFRS 3.19.

IFRS 9.7.2.15

b. IFRS 9 contains exemptions from full retrospective application for the classification and measurement requirements of the new standard, including impairment. These include an exception from the requirement to restate comparative information.

Because the Group has elected not to restate comparatives, different accounting policies apply to financial assets and financial liabilities pre- and post-adoption of the standard. Therefore, both the pre- and post-adoption accounting policies for financial instruments are disclosed in this note.

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Notes to the consolidated financial statements (continued)

45. Significant accounting policies (continued)

A. Basis of consolidation

i. Business combinations

[IFRS 3.4, 32, 34, 53] The Group accounts for business combinations using the acquisition method when control is transferred to the Group (see A(iii)). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see (R)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities (see (J)(i) and (X)(ii)).

[IFRS 3.B52] The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

[IFRS 3.58] Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument 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.

[IFRS 3.30, B57–B61] 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 pre-combination service.

ii. Non-controlling interests

[IFRS 3.19] NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.[a]

[IFRS 10.23, B96] Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

iii. Subsidiaries

[IFRS 10.6, 20] 'Subsidiaries' are entities controlled by the Group. The Group 'controls' an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Securitisation vehicles

IFRS 12.7(a), 9(b) Certain securitisation vehicles sponsored by the Group under its securitisation programme are run according to predetermined criteria that are part of the initial design of the vehicles. The Group is exposed to variability of returns from the vehicles through its holding of debt securities in the vehicles and by issuing financial guarantees. Outside the day-to-day servicing of the receivables (which is carried out by the Group under a servicing contract), key decisions are usually required only when receivables in the vehicles go into default. In assessing whether it has control, the Group considers whether it manages the key decisions that most significantly affect these vehicles' returns. As a result, the Group has concluded that it controls some of these vehicles (for more information on consolidated vehicles, see Note 35).

[IFRS 3.19] a. An entity has a choice on a combination-by-combination basis to measure any NCI in the acquiree at either the proportionate share of the acquiree's identifiable net assets or fair value. The Group has elected the former approach.

Notes to the consolidated financial statements (continued)

45. Significant accounting policies (continued)

A. Basis of consolidation (continued)

iii. Subsidiaries (continued)

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%. 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.

For further disclosure in respect of unconsolidated securitisation vehicles and investment funds in which the Group has an interest or for which it is a sponsor, see Note 36.

iv. Loss of control

[IFRS 10.25, B98–B99]

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

v. Transactions eliminated on consolidation

[IFRS 10.B86(c), IAS 28.28]

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.

B. Foreign currency

i. Foreign currency transactions

[IAS 21.21]

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.

[IAS 21.23(a)]

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the spot exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the 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 the foreign currency translated at the spot exchange rate at the end of the year.

[IAS 21.23(b)–(c)]

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is 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.

Notes to the consolidated financial statements (continued)

45. Significant accounting policies (continued)

B. Foreign currency (continued)

i. Foreign currency transactions (continued)

[IFRS 9.B5.7.3, IAS 39.95(a), 102(a), AG83]

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of the following items are recognised in OCI:

- available-for-sale equity instruments (before 1 January 2015) or equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI (from 1 January 2015) (see Note 24);
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective (see (B)(ii)); and
- 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 into euro at the spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into euro at the spot exchange rates at the dates of the transactions.

[IFRS 10.B94, IAS 21.41]

Foreign currency differences are recognised in OCI, and accumulated in the foreign currency translation reserve (translation reserve), except to the extent that the translation difference is allocated to NCI.

[IAS 21.48–48D]

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. If the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, then the relevant proportion of the cumulative amount is reattributed to NCI.

iii. Hedge of a net investment in foreign operation

See (M)(iii).

C. Interest

IFRS 7R.21, B5(e), IAS 18.35(a)

Policy applicable from 1 January 2015

[IFRS 9 Appendix A, B5.4.7]

Effective interest rate

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 estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes 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 financial liability.

Notes to the consolidated financial statements (continued)

45. Significant accounting policies (continued)

IFRS 7R.21, B5(e), IAS 18.35(a)

C. Interest (continued)

Policy applicable from 1 January 2015 (continued)

[IFRS 9 Appendix A]

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2015).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

[IFRS 9.5.4.1] In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

[IFRS 9.5.4.1(b), 5.4.2] However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

[IFRS 9.5.4.1(a)] For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 45(J)(vii).

Presentation

[IFRS 9.5.4.1] Interest income and expense presented in the statement of profit or loss and OCI include:[a]

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on debt instruments measured at FVOCI 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 as 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 (E)).

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL (see (F)).

Insights 7.8.80.20, 7A.10.70.20 — a. IFRS allows significant scope for an entity to select its presentation of items of income and expense relating to financial assets and financial liabilities as either interest or other line items. The manner of presentation of components of interest income and expense in this guide is not mandatory – other presentations are possible.

Notes to the consolidated financial statements (continued)

45. Significant accounting policies (continued)

IFRS 7R.21, B5(e), IAS 18.35(a)

C. Interest (continued)

Policy applicable before 1 January 2015

Effective interest rate

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

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

Presentation

Interest income and expense presented in the statement of profit or loss and OCI included:[a]

- 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 as 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 were considered to be incidental to the Group's trading operations and were presented together with all other changes in the fair value of trading assets and liabilities in net trading income (see (E)).

Interest income and expense on other financial assets and financial liabilities carried at FVTPL were presented in net income from other financial instruments at FVTPL (see (F)).

D. Fees and commission

IFRS 7R.21, IAS 18.35(a), [IFRS 9.B5.4.1–B5.4.3, IAS 18.IE14]

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see (C)).

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

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

Insights 7.8.80.20, 7A.10.70.20

a. IFRS allows significant scope for an entity to select its presentation of items of income and expense relating to financial assets and financial liabilities as either interest or other line items. The manner of presentation of components of interest income and expense in this guide is not mandatory – other presentations are possible.

Notes to the consolidated financial statements (continued)

45. Significant accounting policies (continued)

IFRS 7R.21, B5(e)

E. Net trading income[a]

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

IFRS 7R.21, B5(e)

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

Net income from other financial instruments at FVTPL relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships, financial assets and financial liabilities designated as at FVTPL and from 1 January 2015, also non-trading assets mandatorily measured at FVTPL. The line item includes fair value changes, interest, dividends and foreign exchange differences.

IFRS 7R.21

G. Dividend income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in net trading income, net income from other financial instruments at FVTPL or other revenue based on the underlying classification of the equity investment.

From 1 January 2015, dividends on equity instruments designated as at FVOCI that clearly represent a recovery of part of the cost of the investment are presented in OCI.

H. Leases

i. Group acting as a lessee – Finance leases

[IAS 17.8, 20, 27]

Assets held by the Group under leases that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased asset is initially 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.

[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.

ii. Group acting as a lessee – Operating leases

[IAS 17.8]

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

[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.

iii. Group acting as a lessor – Finance leases

[IAS 17.8]

Where 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 (see (N)).

Insights 7.8.80.20, 7A.10.70.20

a. In this guide, net trading income is presented separately from net income from other financial instruments at FVTPL based on the distinction described in the notes. However, other presentations are possible.

Notes to the consolidated financial statements (continued)

45. Significant accounting policies (continued)

I. Income tax

[IAS 12.58] Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in OCI.

i. Current tax

[IAS 12.2, 12, 46] Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

ii. Deferred tax

[IAS 12.15, 24, 39, 44] 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 12.56] Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for individual subsidiaries in the Group. 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; such reductions are reversed when the probability of future taxable profits improves.

[IAS 12.37] Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

[IAS 12.47] 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 12.51, 51C] The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Group has not rebutted this presumption.

[IAS 12.74] Deferred tax assets and liabilities are offset only if certain criteria are met.

Notes to the consolidated financial statements (continued)

45. Significant accounting policies (continued)

IFRS 7R.21, B5(e)

J. Financial assets and financial liabilities

i. Recognition and initial measurement

[IAS 39.14, AG53–AG56, IFRS 9.3.1.1–3.1.2, B3.1.3–B3.1.6]

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

[IAS 39.43, IFRS 9.5.1.1]

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

ii. Classification

Financial assets – Policy applicable from 1 January 2015

[IFRS 9.4.1.1]

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

[IFRS 9.4.1.2]

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

[IFRS 9.4.1.2A]

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

[IFRS 9.4.1.4]

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI – see (O). This election is made on an investment-by-investment basis.

[IFRS 9.4.1.4]

All other financial assets are classified as measured at FVTPL.

[IFRS 9.4.1.5]

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise (see (J)(viii)).

[IFRS 9.B4.1.2]

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level[a] because this best reflects the way the business is managed and information is provided to management. The information considered includes:

[IFRS 9.B4.1.2B, B4.1.2C, B4.1.4.A, B4.1.5]

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;

IFRS 9.B4.1.1–B4.1.2, Insights 7A.4.70.30

a. The objective of the entity's business model is not based on management's intentions with respect to an individual instrument, but rather is determined at a higher level of aggregation. The assessment needs to reflect the way that an entity manages its business or businesses. A single reporting entity may have more than one business model for managing its financial instruments.

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45. Significant accounting policies (continued)

IFRS 7R.21

J. Financial assets and financial liabilities (continued)

ii. Classification (continued)

[IFRS 9.B4.1.2]

Business model assessment (continued)

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

[IFRS 9.B4.1.6]

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

[IFRS 9.4.1.3, B4.1.7A]

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

The Group holds a portfolio of long-term fixed rate loans for which the Group has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Group has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Reclassifications

[IFRS 9.4.4.1]

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Notes to the consolidated financial statements (continued)

45. Significant accounting policies (continued)

IFRS 7R.21

J. Financial assets and financial liabilities (continued)

ii. Classification (continued)

[IAS 39.9]

Financial assets – Policy applicable before 1 January 2015

The Group classified its financial assets into one of the following categories:

- loans and receivables;
- held to maturity;
- available-for-sale; and
- at FVTPL, and within this category as:
  - held for trading; or
  - designated as at FVTPL.

See (K), (L), (N) and (O).

[IFRS 9 Appendix A, IAS 39.9]

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL. See (L), (M), (T) and (V).

[IAS 39.17–20, IFRS 9.3.2.3–3.2.6]

iii. Derecognition

Financial assets[a]

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (see also (iv)), or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

[IAS 39.26, IFRS 9.3.2.12]

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 derecognised) 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 OCI is recognised in profit or loss.

From 1 January 2015 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, as explained in (O). Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

[IAS 39.20, IFRS 9.3.2.6]

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. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

[IAS 39.AG40(c), IFRS 9.B3.2.5(c)]

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 sale-and-repurchase transactions, because the Group retains all or substantially all of the risks and rewards of ownership of such assets.

[IAS 39.20, IFRS 9.3.2.6]

In transactions in which the Group neither retains nor transfers substantially all of 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, IFRS 9.3.2.10]

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 if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Insights 7.8.415.40, 7.8.420.10, 7A.10.700.40

a. 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 disclosures about transfers of financial assets.

Notes to the consolidated financial statements (continued)

45. Significant accounting policies (continued)

IFRS 7R.21

J. Financial assets and financial liabilities (continued)

iii. Derecognition (continued)

Financial assets (continued)

The Group securitises various loans and advances to customers and investment securities, which generally result in the sale of these assets to unconsolidated securitisation vehicles and in the Group transferring substantially all of the risks and rewards of ownership. The securitisation vehicles in turn issue securities to investors. Interests in the securitised financial assets are generally retained in the form of senior or subordinated tranches, interest-only strips or other residual interests (retained interests). Retained interests are recognised as investment securities and carried at FVOCI. Gains or losses on securitisation are recorded in other revenue.

Before 1 January 2015, retained interests were primarily classified as available-for-sale investment securities and measured at fair value.

Financial liabilities

[IFRS 9.3.3.1, IAS 39.39]

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

iv. Modifications of financial assets and financial liabilities

Financial assets

[IFRS 9.5.4.3, B5.5.26]

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows 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 (see (iii)) and a new financial asset is recognised at fair value.

Policy applicable from 1 January 2015

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower (see (vii)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income (see (C))[a].

Policy applicable before 1 January 2015

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate (see (vii)).

Financial liabilities

[IFRS 9.3.3.2, IAS 39.40]

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

[IAS 32.42]

v. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable 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.

Insights 7A.7.350.60 a. There is no guidance in IFRS 9 on the line item in the statement of profit or loss and OCI in which gains or losses on the modification of financial assets should be presented. A modification gain or loss may not necessarily relate to impairment, because not all modifications are performed for credit risk reasons. Accordingly, an entity exercises judgement to determine an appropriate presentation for the gain or loss.

Notes to the consolidated financial statements (continued)

45. Significant accounting policies (continued)

IFRS 7R.21

J. Financial assets and financial liabilities (continued)

vi. Fair value measurement

[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 13.77, 79, Appendix A]

When one is available, 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]

If there is no quoted price in an active market, then 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 of the factors that market participants would take into account in pricing a transaction.

IFRS 7R.28(a)

The best evidence of the fair value of a financial instrument on 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 on 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 for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on 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 wholly supported 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, then 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 the particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – 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 13.47]

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

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.

Notes to the consolidated financial statements (continued)

45. Significant accounting policies (continued)

IFRS 7R.21

J. Financial assets and financial liabilities (continued)

vii. Impairment

See also Note 5(A)(iii).

IFRS 7R.35F, [IFRS 9.2, 5.5.1]

Policy applicable from 1 January 2015

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

IFRS 7R.35F(a)(i), [IFRS 9.5.5.3, 5.5.5]

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition (see Note 5(A)(iii)).

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.[a]

IFRS 7R.35F(a)(i), [IFRS 9.5.5.10, B5.5.22–B5.5.24]

The Group considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

[IFRS 9 Appendix A]

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

[IFRS 9 Appendix A, B5.5.28–B5.5.33]

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- *financial guarantee contracts:* the expected payments to reimburse the holder less any amounts that the Group expects to recover.

See also Note 5(A)(iii).

a. For lease receivables, an entity can choose as an accounting policy choice either to apply the general model for measuring loss allowance or always to measure the loss allowance at an amount equal to the lifetime ECL. In this guide, we assume that the Group has chosen the latter policy.

Notes to the consolidated financial statements (continued)

45. Significant accounting policies (continued)

IFRS 7R.21

J. Financial assets and financial liabilities (continued)

vii. Impairment (continued)

Policy applicable from 1 January 2015 (continued)

Restructured financial assets

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 of whether the financial asset should be derecognised (see (iv)) and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 5(A)(iii)).
- If the expected restructuring will result 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 included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

IFRS 7R.35F(d)
[IFRS 9 Appendix A]

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability 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, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

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Notes to the consolidated financial statements (continued)

45. Significant accounting policies (continued)

IFRS 7R.21

J. Financial assets and financial liabilities (continued)

vii. Impairment (continued)

Policy applicable from 1 January 2015 (continued)

IFRS 7R.B8E, [IFRS 9.5.5.1–5.5.2]

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- *financial assets measured at amortised cost:* as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts:* generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component:* the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *debt instruments measured at FVOCI:* no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

IFRS 7R.35F(e), [IFRS 9.5.4.4]

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

IFRS 7.B5(f), [IAS 39.58]

Policy applicable before 1 January 2015

Objective evidence of impairment

At each reporting date, the Group assessed whether there was objective evidence that financial assets not carried at FVTPL were impaired. A financial asset or a group of financial assets was 'impaired' when objective evidence demonstrated that a loss event had occurred after the initial recognition of the asset(s) and that the loss event had an impact on the future cash flows of the asset(s) that could be estimated reliably.

In addition, a retail loan that was overdue for 90 days or more was considered impaired.

[IAS 39.59]

Objective evidence that financial assets were impaired included:

- significant financial difficulty of a borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- indications that a borrower or issuer would enter bankruptcy;
- the disappearance of an active market for a security; or
- 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 correlated with defaults in the group.

A loan that was renegotiated due to a deterioration in the borrower's condition was usually considered to be impaired unless there was evidence that the risk of not receiving contractual cash flows had reduced significantly and there were no other indicators of impairment.

Insights 7.6.430.40 a. IFRS does not contain specific quantitative thresholds for 'significant' or 'prolonged'. The Group established and disclosed the criteria that it applied to determine whether a decline in a quoted market price was 'significant' or 'prolonged'.

Notes to the consolidated financial statements (continued)

45. Significant accounting policies (continued)

IFRS 7R.21

J. Financial assets and financial liabilities (continued)

vii. Impairment (continued)

Policy applicable before 1 January 2015 (continued)

Objective evidence of impairment (continued)

[IAS 39.61]

In addition, for an investment in an equity security, a significant or prolonged decline[a] in its fair value below its cost was objective evidence of impairment. In general, the Group considered a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'. However, in specific circumstances a smaller decline or a shorter period may have been appropriate.

[IAS 39.63–64]

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

In making an assessment of whether an investment in sovereign debt was impaired, the Group considered the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability 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, of governments and agencies to use those mechanisms. This included an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there was the capacity to fulfil the required criteria.

Individual or collective assessment

An individual measurement of impairment was based on management's best estimate of the present value of the cash flows that were expected to be received. In estimating these cash flows, management made judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset was assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable were independently approved by the Credit Risk function.

The collective allowance for groups of homogeneous loans was established using statistical methods such as roll rate methodology or, for small portfolios with insufficient information, a formula approach based on historical loss rate experience. The roll rate methodology used statistical analysis of historical data on delinquency to estimate the amount of loss. Management applied judgement to ensure that the estimate of loss arrived at on the basis of historical information was appropriately adjusted to reflect the economic conditions and product mix at the reporting date. Roll rates and loss rates were regularly benchmarked against actual loss experience.

The IBNR allowance covered credit losses inherent in portfolios of loans and advances, and held-to-maturity investment securities with similar credit risk characteristics when there was objective evidence to suggest that they contained impaired items but the individual impaired items could not yet be identified.

45. Significant accounting policies (continued)

IFRS 7R.21

J. Financial assets and financial liabilities (continued)

vii. Impairment (continued)

Policy applicable before 1 January 2015 (continued)

Individual or collective assessment (continued)

In assessing the need for collective loss allowance, management considered factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions were made to define how inherent losses were modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depended on the model assumptions and parameters used in determining the collective allowance.

Loans that were subject to a collective IBNR provision were not considered impaired.

[IAS 39.63]

Measurement of impairment

Impairment losses on assets measured at amortised cost were 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. Impairment losses on available-for-sale assets were calculated as the difference between the carrying amount and the fair value.

Reversal of impairment

[IAS 39.65]

- *For assets measured at amortised cost:* If an event occurring after the impairment was recognised caused the amount of impairment loss to decrease, then the decrease in impairment loss was reversed through profit or loss.

[IAS 39.69–70]

- *For available-for-sale debt security:* If, in a subsequent period, the fair value of an impaired debt security increased and the increase could be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss; otherwise, any increase in fair value was recognised through OCI.

Any subsequent recovery in the fair value of an impaired available-for-sale equity security was always recognised in OCI.

IFRS 7.B5(d), [IAS 39.65]

Presentation

Impairment losses were recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired assets continued to be recognised through the unwinding of the discount.

[IAS 39.67–68]

Impairment losses on available-for-sale investment securities were recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that was reclassified from equity to profit or loss was the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment attributable to the application of the effective interest method were reflected as a component of interest income.

IFRS 7.B5(d), [IAS 39.63]

Write-off

The Group wrote off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when Group Credit determined that there was no realistic prospect of recovery.

Notes to the consolidated financial statements (continued)

45. Significant accounting policies (continued)

IFRS 7R.21

J. Financial assets and financial liabilities (continued)

viii. Designation at fair value through profit or loss

IFRS 7R.21, B5(a), B5(aa), 7.21, B5(a)

Financial assets

At initial recognition, the Group has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise rise.

Before 1 January 2015, the Group also designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.

Financial liabilities

The Group has designated certain financial liabilities as at FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Note 18 sets out the amount of each class of financial asset or financial liability that has been designated as at FVTPL. A description of the basis for each designation is set out in the note for the relevant asset or liability class.

[IAS 7.46]

K. Cash and cash equivalents

'Cash and cash equivalents' include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition 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 7R.21

L. Trading assets and liabilities

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

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss.

IFRS 7R.21

M. Derivatives held for risk management purposes[a] 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.

a. In this guide, 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.

Notes to the consolidated financial statements (continued)

45. Significant accounting policies (continued)

IFRS 7R.21

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

The Group designates certain derivatives held for risk management as well as certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships.[a] 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 inception of the hedge relationship and on an ongoing basis, of 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%. The Group makes an assessment for a cash flow hedge of a forecast transaction, of 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.

These hedging relationships are discussed below.

i. Fair value hedges

[IAS 39.89]

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 profit or loss and OCI as the hedged item).

[IAS 39.91–92]

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. However, if the derivative is novated to a CCP by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered expired or terminated.

Any adjustment up to the point of discontinuation 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, 97]

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 that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI 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 profit or loss and OCI.

[IAS 39.101]

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. However, if the derivative is novated to a CCP by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered expired or terminated.

[IFRS 9.7.2.21] a. In this guide, we have assumed that the Group has elected as an accounting policy choice under IFRS 9 to continue to apply the hedge accounting requirements under IAS 39. However, entities may decide instead to apply the new hedge accounting model under IFRS 9.

Notes to the consolidated financial statements (continued)

45. Significant accounting policies (continued)

IFRS 7R.21

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

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 OCI and presented in the translation reserve within equity. Any ineffective portion of the changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment on disposal of the foreign operation.

iv. Other non-trading derivatives

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

v. Embedded derivatives[a]

[IFRS 9.4.3.2–4.3.3]

Policy applicable from 1 January 2015

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 an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;
- 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.

[IAS 39.10–11]

Policy applicable before 1 January 2015

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounted for an embedded derivative separately from the host contract when:

- the host contract was not itself carried at FVTPL;
- the terms of the embedded derivative would have met the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative were not closely related to the economic characteristics and risks of the host contract.

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

Insights 7.8.200, 7.2.390, 7A.10.310, 7A.2.380

a. IFRS 9 and IAS 39 do not specify where a separated embedded derivative component is presented in the statement of financial position. In this guide, 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. However, other presentations are possible.

Notes to the consolidated financial statements (continued)

45. Significant accounting policies (continued)

IFRS 7R.21

N. Loans and advances

Policy applicable from 1 January 2015

'Loans and advances' captions in the statement of financial position include:

- loans and advances measured at amortised cost (see J(ii)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- loans and advances mandatorily measured at FVTPL or designated as at FVTPL (see J(ii)); these are measured at fair value with changes recognised immediately in profit or loss; and
- finance lease receivables (see (H)).

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.

[IAS 39.9]

Policy applicable before 1 January 2015

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

Loans and advances to banks were classified as loans and receivables. Loans and advances to customers included:

- those classified as loans and receivables;
- those designated as at FVTPL; and
- finance lease receivables.

[IAS 39.43, 46]

Loans and advances were 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 chose to designate the loans and advances as measured at FVTPL as described in (J)(viii), they were measured at fair value with face value changes recognised immediately in profit or loss.

Loans and advances also included finance lease receivables in which the Group was the lessor (see (H)).

When the Group purchased a financial asset and simultaneously entered 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 was accounted for as a loan or advance, and the underlying asset was not recognised in the Group's financial statements.

Notes to the consolidated financial statements (continued)

45. Significant accounting policies (continued)

IFRS 7R.21

O. Investment securities

Policy applicable from 1 January 2015

The 'investment securities' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost (see J(ii)); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL (see J(ii)); these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

[IFRS 9.5.7.10–5.7.11] For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

[IFRS 9.5.7.5] The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

[IFRS 9.B5.7.1] Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss (see J(ii)) unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.[a]

IFRS 7.21
[IAS 39.9, 43, 45–46]

Policy applicable before 1 January 2015

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

[IFRS 9.5.B5.7.1, BC5.26] a. In this guide, the Group has elected to transfer cumulative gains and losses recognised in OCI to retained earnings on disposal of an investment in an equity instrument. However, IFRS 9 does not contain specific requirements on such a transfer, and so other approaches are possible.

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Notes to the consolidated financial statements (continued)

45. Significant accounting policies (continued)

IFRS 7R.21

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 FVTPL or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses (see (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. 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 that are 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 as at fair value, with fair value changes recognised immediately in profit or loss as described in (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 be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

[IAS 39.55]

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 (G)). Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss (see (B)(i)). Impairment losses are recognised in profit or loss (see (J)(vii)).

[IAS 39.55]

Other fair value changes, other than impairment losses (see (J)(vii)), are recognised in OCI and presented in the fair value reserve within 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 would otherwise 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.

P. Property and equipment

IAS 16.73(a)

i. Recognition and measurement

[IAS 16.30]

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

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

[IAS 16.45]

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

[IAS 16.71]

Any gain or loss on disposal of an item of property and equipment is recognised within other income in profit or loss.

Notes to the consolidated financial statements (continued)

45. Significant accounting policies (continued)

P. Property and equipment (continued)

ii. Subsequent costs

[IAS 16.7, 12–13]

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 16.53, 58, 60], IAS 16.73(b)

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

IAS 16.73(c)

The estimated useful lives of significant items of property and equipment are as follows:

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

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

[IAS 40.7, 33, 35]

Q. Investment property

IAS 40.75(a)

Investment property is initially measured at cost and subsequently at fair value, with any change therein recognised in profit or loss within other income.

[IAS 40.69]

Any gain or loss on disposal of 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.

[IAS 40.60]

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 38.107–108]

Goodwill that arises on the acquisition of subsidiaries 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 that the product is technically feasible, 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 any accumulated impairment losses.

[IAS 38.18, 20]

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 on which 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.

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Notes to the consolidated financial statements (continued)

45. Significant accounting policies (continued)

S. Impairment of non-financial assets

[IAS 36.9–10]

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

[IAS 36.6, 80]

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

[IAS 36.6, 18, 30]

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, 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.

[IAS 36.59]

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

[IAS 36.102]

The Group's corporate assets do not generate separate cash inflows and are used 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 CGUs to which the corporate assets are allocated.

[IAS 36.104]

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

[IAS 36.117, 122, 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 7R.21

T. 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 (sale-and-repurchase agreement), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Group's financial statements.

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

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 FVTPL (see (J)(viii)).

IFRS 7R.11(c), [IFRS 9.5.7.7, B5.7.5–B5.7.6]

From 1 January 2015, when the Group designates a financial liability as at FVTPL, the amount of change in the fair value of the liability that is attributable to changes in its credit risk is presented in OCI as a liability credit reserve. On initial recognition of the financial liability, the Group assesses whether presenting the amount of change in the fair value of the liability that is attributable to credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. This assessment is made by using a regression analysis to compare:

- the expected changes in the fair value of the liability related to changes in the credit risk; with
- the impact on profit or loss of expected changes in fair value of the related instruments.

Notes to the consolidated financial statements (continued)

45. Significant accounting policies (continued)

T. Deposits, debt securities issued and subordinated liabilities (continued)

IFRS 7R.21

Amounts presented in the liability credit reserve are not subsequently transferred to profit or loss. When these instruments are derecognised, the related cumulative amount in the liability credit reserve is transferred to retained earnings.

U. Provisions

[IAS 37.14, 45, 47, IFRIC 1.8]

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 the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

[IAS 37.72]

Restructuring 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.

[IAS 37.66, 68]

Onerous contracts A provision for onerous contracts 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 (S)).

Bank levies A provision for bank levies is recognised when the condition that triggers the payment of the levy is met. If a levy obligation is subject to a minimum activity threshold so that the obligating event is reaching a minimum activity, then a provision is recognised when that minimum activity threshold is reached.

V. Financial guarantees and loan commitments

IFRS 7R.21, [IAS 39.9, BC15, IFRS 9 Appendix A, BCZ2.2]

'Financial guarantees' are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is 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 39.2(h), 47(c)–(d)], IFRS 9.2.1(g), 4.2.1(c)–(d)]

Financial guarantees issued 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. Subsequently, they are measured as follows:

- *from 1 January 2015:* at the higher of this amortised amount and the amount of loss allowance (see J(vii)); and
- *before 1 January 2015:* at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

The Group has issued no loan commitment that are measured at FVTPL.

For other loan commitments:

- *from 1 January 2015:* the Group recognises loss allowance (see J(vii));
- *before 1 January 2015:* the Group recognises a provision in accordance with IAS 37 if the contract was considered to be onerous.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

W. Employee benefits

i. Defined contribution plans

[IAS 19.28, 51]

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as personnel expenses in profit or loss. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Notes to the consolidated financial statements (continued)

45. Significant accounting policies (continued)

W. Employee benefits (continued)

ii. Defined benefit plans

[IAS 19.57, 83]

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 the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

[IAS 19.63–64, 67, IFRIC 14.23–24]

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to 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. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

[IAS 19.122, 127–130]

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in personnel expenses in profit or loss.

[IAS 19.103, 109–110]

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

iii. Other long-term employee benefits

[IAS 19.155–156]

The Group's net obligation in respect of long-term employee benefits 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. Remeasurements are recognised in profit or loss in the period in which they arise.

iv. Termination benefits

[IAS 19.165]

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be wholly settled within 12 months of the reporting date, then they are discounted.

v. Short-term employee benefits

[IAS 19.11]

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid 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 2.14–15, 19–21, 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 in which 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.

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Notes to the consolidated financial statements (continued)

45. Significant accounting policies (continued)

W. Employee benefits (continued)

vi. Share-based payment transactions (continued)

[IFRS 2.30, 32]

The fair value of the amount payable to employees in respect of SARs that are settled in cash is recognised as an expense with a corresponding increase in liabilities over the period in which 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 SARs. Any changes in the liability are recognised as personnel expenses in profit or loss.

IFRS 7R.21

X. Share capital and reserves

i. Perpetual bonds

[IAS 12.58, 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 recognised in equity. Related income tax is accounted for in accordance with IAS 12.

ii. Share issue costs

[IAS 32.35]

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

Y. Earnings per share

[IAS 33.10, 31]

The Group presents basic and diluted EPS data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is 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 that is 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.

Z. Segment reporting

[IFRS 8.25]

Segment results that are reported to the Group's CEO (being the CODM) include items that are 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 Bank's headquarters), head office expenses and tax assets and liabilities.

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Notes to the consolidated financial statements (continued)

46. Standards issued but not yet adopted[a]

IAS 8.30–31

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2015; however, the Group has not applied the following new or amended standards in preparing these consolidated financial statements.

New or amended standards	Summary of the requirements	Possible impact on consolidated financial statements
IFRS 15 *Revenue from Contracts with Customers*	IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

The following new or amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

- *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11).*
- *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).*
- *Equity Method in Separate Financial Statements (Amendments to IAS 27).*
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).*
- *Annual Improvements to IFRSs 2012–2014 Cycle* – various standards.
- *Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28).*
- *Disclosure Initiative (Amendments to IAS 1).*

IAS 1.31

a. Although new or amended standards that will have no material effect on the financial statements need not be provided, the Group has included them for illustrative purposes only.

Appendix I

Presentation of comprehensive income – Two-statement approach

Consolidated income statement[a]

For the year ended 31 December

	In millions of euro	Note	2015	2014
IFRS 7R.20(b), 7.20(b)	Interest income	*8*	**3,341**	3,528
IFRS 7R.20(b), 7.20(b), IAS 1.82(b)	Interest expense	*8*	**(1,406)**	(1,686)
	Net interest income		**1,935**	1,842
IFRS 7R.20(c)	Fee and commission income	*9*	**854**	759
IFRS 7R.20(c)	Fee and commission expense	*9*	**(179)**	(135)
	Net fee and commission income		**675**	624
IFRS 7R.20(a), 7.20(a)	Net trading income	*10*	**1,434**	1,087
IFRS 7R.20(a), 7.20(a)	Net income from other financial instruments at FVTPL	*11*	**21**	81
IFRS 7R.20(a), 7.20(a)	Other revenue	*12*	**132**	186
IFRS 7R.20A, IAS 1.82(aa)	Net loss arising from derecognition of financial assets measured at amortised cost	*13*	**(9)**	
IAS 1.85	**Revenue**		**4,188**	3,820
	Other income		**18**	10
IFRS 7.20(e), IAS 1.82(ba)	Net impairment loss on financial assets	*5(A)*	**(336)**	(233)
IAS 1.99	Personnel expenses	*14*	**(2,264)**	(1,974)
IAS 17.35(c)	Operating lease expenses		**(338)**	(327)
IAS 1.99, 38.118(d)	Depreciation and amortisation	*25, 26*	**(47)**	(39)
IAS 1.99	Other expenses	*15*	**(397)**	(585)
IAS 1.85	**Profit before tax**		**824**	672
IAS 1.82(d), 12.77	Income tax expense	*17*	**(187)**	(118)
IAS 1.81A(a)	**Profit**		**637**	554
	Profit attributable to			
IAS 1.81B(a)(ii)	Owners of the Bank		**610**	528
IAS 1.81B(a)(i)	Non-controlling interests		**27**	26
	Profit		**637**	554
IAS 33.4	**Earnings per share**			
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 16 to 184 are an integral part of these consolidated financial statements.

IAS 1.10A a. This Appendix illustrates the two-statement approach to the presentation of comprehensive income, consisting of a separate income statement displaying profit or loss, and a second statement displaying the components of OCI.

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Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December

	In millions of euro	2015	2014
IAS 1.10A	**Profit**	**637**	554
	Other comprehensive income		
IAS 1.82A(a)	**Items that will not be reclassified to profit or loss**		
IAS 1.85	Remeasurements of defined benefit liability (asset)	**7**	9
	Movement in fair value reserve (equity instruments):		
IFRS 7R.20(a)(vii)	Net change in fair value	**2**	
IFRS 7R.20(a)(i)	Movement in liability credit reserve	**3**	
IAS 1.91(b)	*Related tax*	**(4)**	(3)
		8	6
IAS 1.82A(b)	**Items that are or may be reclassified subsequently to profit or loss**		
	Movement in translation reserve:		
IAS 21.52(b)	Foreign currency translation differences for foreign operations	**(45)**	17
IAS 21.52(b)	Net gain (loss) on hedges of net investments in foreign operations	**30**	(15)
	Movement in hedging reserve:		
IFRS 7R.24C(b)(i), 7.23(c)	Effective portion of changes in fair value	**(25)**	(21)
IFRS 7R.24C(b)(iv), 7.23(d), IAS 1.92	Net amount transferred to profit or loss	**15**	12
	Movement in fair value reserve (debt instruments):		
IFRS 7R.20(a)(viii)	Net change in fair value	**(166)**	
IFRS 7R.20(a)(viii), IAS 1.92	Net amount transferred to profit or loss	**129**	
	Movement in fair value reserve (available-for-sale financial assets):		
IFRS 7.20(a)(ii)	Net change in fair value		(160)
IFRS 7.20(a)(ii), IAS 1.92	Net amount transferred to profit or loss		125
IAS 1.91(b)	*Related tax*	**16**	15
		(46)	(27)
IAS 1.81A(b)	**Other comprehensive income, net of tax**	**(38)**	(21)
IAS 1.81A(c)	**Total comprehensive income**	**599**	533
	Total comprehensive income attributable to		
IAS 1.81B(b)(ii)	Owners of the Bank	**572**	507
IAS 1.81B(b)(i)	Non-controlling interests	**27**	26
	Total comprehensive income	**599**	533

The notes on pages 16 to 184 are an integral part of these consolidated financial statements.

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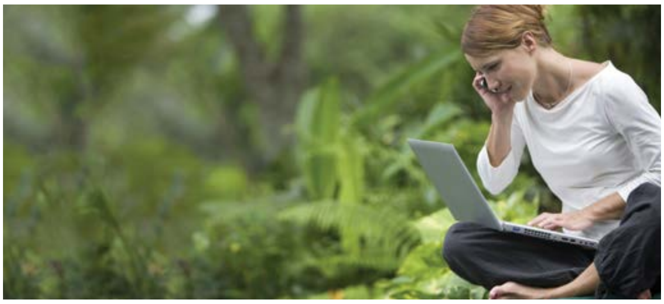

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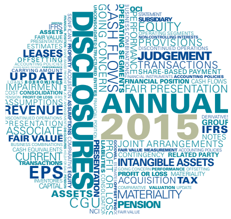

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Major new and forthcoming standards

Revenue

Financial instruments

Leases

Insurance contracts (under development)

Amendments to existing standards

Business combinations and consolidation

Presentation and disclosures

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