Illustrative disclosures for banks

Guide to annual financial statements

IFRS® Standards

December 2021

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About this guide

This guide has been produced by the KPMG International Standards Group (part of KPMG IFRG Limited).

It is intended to help entities to prepare and present financial statements in accordance with IFRS Standards[a] by illustrating one possible format for financial statements for a fictitious banking group involved in a range of general banking activities. This hypothetical reporting entity (the Group) has been applying the Standards for some time – i.e. it is not a first-time adopter. For more information on first-time adoption, see Chapter 6.1 in the 18th Edition 2021/22 of our publication Insights into IFRS.

What's new in 2021?

Our newly effective standards web tool provides a comprehensive list of all of the new standards, distinguishing between those that are effective for an entity with an annual period beginning on 1 January 2021 and those with a later effective date.

Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) (the Phase 2 amendments) issued in August 2020 are effective from 1 January 2021. The Group early adopted the Phase 2 amendments in 2020. Therefore, the Group has no transactions that are affected by standards newly effective in 2021 or its accounting policies are already consistent with the new requirements.

The Group does not have any COVID-19-related rent concessions and therefore the new requirements under *COVID-19-Related Rent Concessions (Amendment to IFRS 16)*, which are effective for annual periods beginning after 1 June 2020, are not illustrated in this guide. For an illustrative example of disclosures on COVID-19-related rent concessions, see Section 5 of our Guide to annual financial statements – COVID-19 supplement (September 2020).

IAS 1.7, Preface 2

a. 'IFRS® Standards' is the term used to indicate the whole body of authoritative literature, and includes:
- IFRS® Standards issued by the International Accounting Standards Board (the Board);
- IAS® Standards issued by the International Accounting Standards Committee (IASC, the Board's predecessor), or revisions thereof issued by the Board;
- interpretations of IFRS Standards and IAS Standards developed by the IFRS Interpretations Committee (IFRIC® Interpretations) and approved for issue by the Board; and
- interpretations of IAS Standards developed by the Standing Interpretations Committee (SIC® Interpretations) and approved for issue by the Board or IASC.

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Standards covered

This guide is based on standards, amendments and interpretations (broadly referred to in this guide as 'standards') that have been issued as at 30 November 2021 and that are required to be applied by an entity with an annual reporting period beginning on 1 January 2021 ('currently effective requirements'). The early adoption of standards that are effective for annual periods beginning after 1 January 2021 ('forthcoming requirements') has not been illustrated.

In this guide, the Group has not adopted the hedge accounting requirements of IFRS 9 *Financial Instruments*, but continues to apply the hedge accounting requirements of IAS 39 *Financial Instruments: Recognition and Measurement*.

This guide is not intended to be seen as a complete and exhaustive summary of all disclosure requirements under IFRS Standards. 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 2021).

In addition, the standards and their interpretation change over time. Accordingly, this guide should not be used as a substitute for referring to their requirements and other relevant interpretative guidance.

Preparers should also consider applicable legal and regulatory requirements. This guide does not consider the requirements of any particular jurisdiction – e.g. IFRS Standards do not require the preparation of separate financial statements for the parent entity but laws in certain jurisdictions may require preparation of separate financial statements. This guide illustrates only consolidated financial statements and does not illustrate separate financial statements.

Climate change and financial reporting

All banks are facing climate-related risks and opportunities and are making strategic decisions in response – including around their transition to a low-carbon economy. These climate-related risks and strategic decisions could impact their financial statements – and KPIs. For an illustration of climate change-related disclosures see:

- Note 43(F), which describes how the Group manages climate change-related risks arising from financial instruments;
- Note 46(J)(ii) for an example of accounting policies on SPPI assessment for environmental, social and governance (ESG) features; and
- Note 46(M) for an example of an ESG feature embedded in an issued instrument.

For additional illustrative disclosures on climate change, see our Guide to annual financial statements – Illustrative disclosures (September 2021).

Banks should also consider any relevant regulatory guidance on the climate change impacts in the financial statements. For example, in its recent statement the European Securities and Markets Authority (ESMA) announced that climate-related matters is one of the common enforcement priorities for 2021. For more information, see our web article.

Our Climate change financial reporting resource centre provides FAQs to help entities identify the potential financial statement impacts for their business.

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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 Standards. In other cases, it recommends disclosure of new information.

Many regulators continue to focus on disclosures in financial statements. For example, ESMA has published its public statement on European common enforcement priorities for 2021. This statement identifies specific considerations relevant for the banking sector in 2021.

Three regulators in the UK (the Financial Conduct Authority, the Financial Reporting Council and the Prudential Regulatory Authority) jointly established a UK Taskforce on Disclosures about Expected Credit Losses (DECL taskforce) that issued Recommendations on a Comprehensive Set of IFRS 9 Expected Credit Loss Disclosures in November 2018, amended in December 2019. A third report is currently in preparation and will probably be issued in early 2022. The recommendations have been developed primarily for large UK banks but may be of relevance to other banks and similar financial institutions.

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 guides to financial statements and specifically focuses on compliance with IFRS Standards. Although it is not exhaustive, this guide illustrates the disclosures required for one hypothetical bank or a similar financial institution, merely for illustrative purposes and, as such, largely without regard to materiality. The information contained herein is of a general nature and is not intended to address the circumstances of any particular entity.

The preparation and presentation of financial statements require the preparer to exercise judgement – e.g. in terms of the choice of accounting policies, the ordering of notes to the financial statements, how the disclosures should be tailored to reflect the reporting entity's specific circumstances, and the relevance of disclosures considering the needs of the users.

Materiality

Materiality is relevant to the presentation and disclosure of the items in the financial statements. Preparers need to consider whether the financial statements include all of the information that is relevant to understanding an entity's financial position at the reporting date and its financial performance during the reporting period.

Preparers also need to take care not to reduce the understandability of their financial statements by obscuring material information with immaterial information or by aggregating material items that are different by nature or

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function. Individual disclosures that are not material to the financial statements do not have to be presented – even if they are a minimum requirement of a standard. Preparers need to consider the appropriate level of disclosure based on materiality for the reporting period.

Specific guidance on materiality and its application to the financial statements is included in paragraphs 29–31 of IAS 1 *Presentation of Financial Statements*. Preparers may also consider Practice Statement 2 *Making Materiality Judgements*, which provides guidance on applying materiality in the preparation of financial statements.

Remember the bigger picture

Financial reporting is not just about technical compliance, but also effective communication. Investors continue to ask for a step-up in the quality of business reporting, so preparers should be careful not to become buried in compliance to the exclusion of relevance. In preparing their financial statements, entities need to focus on improving their communication by reporting financial information in a meaningful way.

Entities may also consider innovating their financial statement presentation and disclosure in the broader context of better business reporting. For more information, see our Better business reporting website.

What's not illustrated

This guide does not illustrate the following.

- **Potential impacts of COVID-19** on the annual financial statements of the Group.

  The COVID-19 coronavirus pandemic continues to impact banks in different ways. Whereas some governments are starting to ease restrictions, others continue to enforce lockdown measures. Either way, for many banks the impact of the pandemic will continue to affect the measurement and recognition of their assets and liabilities, income and expenses. Investors and regulators continue to pay specific attention to this topic.

  Our COVID-19 supplement (September 2020) provides additional illustrative disclosures that entities may need to provide on accounting issues arising from the COVID-19 coronavirus pandemic.

  Also see our COVID-19 financial reporting resource centre for additional relevant guidance on the financial reporting impact of the pandemic.

  In addition, we note throughout this guide additional disclosures that a bank may consider in relation to the impact of COVID-19 in areas that are likely to be most affected. However, this list is not exhaustive, and a bank may have other areas of disclosures that may be impacted.

- **Potential impacts of the UK's exit from the EU (Brexit)** on the annual financial statements of the Group.

  The UK left the EU on 31 January 2020, with an implementation period that ended on 31 December 2020. Some UK and EU entities have made changes to the way they do business as a result – and some details of the new relationships are still being ironed out.

  To the extent that a bank has any exposure to the changes and any remaining uncertainties associated with Brexit, it should assess the impact of those on its annual financial statements and provide relevant entity-specific disclosures.

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References and abbreviations

References are included in the left-hand margin of this guide. 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 18th Edition 2021/22 of our publication Insights into IFRS.

The following markings in the left-hand margins indicate the following.

Disclosures that are applicable only to entities in the scope of IFRS 8 *Operating Segments* and IAS 33 *Earnings per Share*.

Major changes since the 2020 edition of this guide.

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Grey boxes note additional disclosures that a bank may consider in relation to the impact of COVID-19.

COVID-19 considerations

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

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
IBOR	Inter-bank offered rate
NCI	Non-controlling interests
Notes	Notes to the financial statements
OCI	Other comprehensive income
SPPI	Solely payments of principal and interest

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[*Name of bank*]

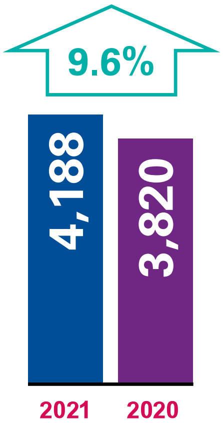
Consolidated financial statements

31 December 2021

Financial highlights

REVENUE

(million euro)

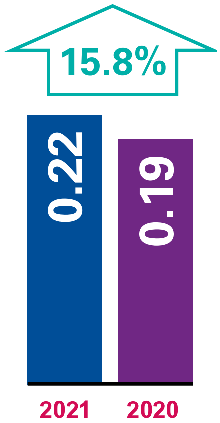


PROFIT BEFORE TAX

(million euro)

BASIC EARNINGS PER SHARE

(euro)

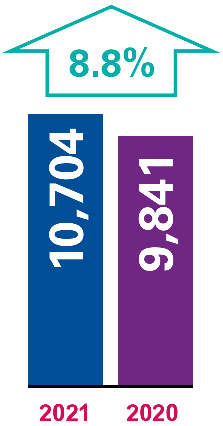


DIVIDENDS PER ORDINARY SHARE

(euro)

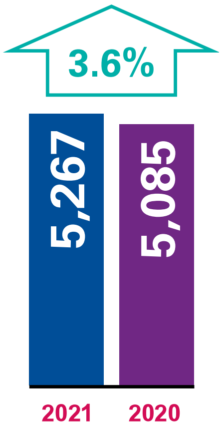
REGULATORY CAPITAL

(million euro)



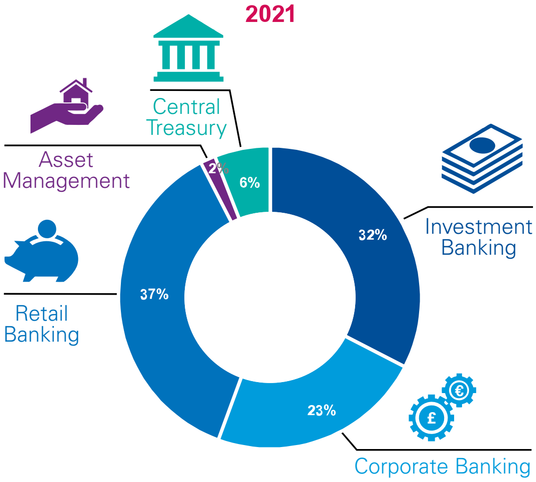
CET 1 CAPITAL

(million euro)



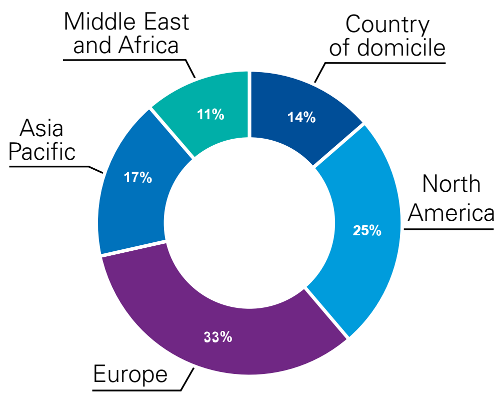
REVENUE BY SEGMENT

2021



REVENUE BY REGION

2021



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Consolidated statement of financial position[a, b]

	In millions of euro	Note	31 December 2021	31 December 2020
IAS 1.10(a), 10(ea), 29, 38–38A, 40A–40B, 54–55, 113				
	Assets			
IAS 1.54(i)	Cash and cash equivalents	20	**2,969**	3,037
IAS 1.54(d)	Non-pledged trading assets	21	**16,122**	15,249
IAS 1.54(d), IFRS 9.3.2.23(a)	Pledged trading assets	21	**540**	519
IAS 1.54(d)	Derivative assets held for risk management	22	**858**	726
IAS 1.54(d)	Loans and advances to banks	23	**5,555**	4,683
IAS 1.54(d)	Loans and advances to customers	24	**62,732**	56,712
IAS 1.54(d)	Investment securities	25	**6,302**	5,356
IAS 1.54(n)	Current tax assets		**48**	53
IAS 1.54(a)	Property and equipment[c]	26	**629**	672
IAS 1.54(c)	Intangible assets	27	**275**	259
IAS 1.54(o)	Deferred tax assets	18	**320**	297
	Other assets	28	**1,107**	829
	Total assets		**97,457**	88,392

The notes on pages 20 to 231 are an integral part of these consolidated financial statements.

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Consolidated statement of financial position (continued)

IAS 1.10(a), 10(ea), 29, 38–38A, 40A–40B, 54–55, 113

	In millions of euro	*Note*	31 December 2021	31 December 2020
	Liabilities			
IAS 1.54(m)	Trading liabilities	*21*	**7,026**	6,052
IAS 1.54(m)	Derivative liabilities held for risk management	*22*	**828**	789
IAS 1.54(m)	Deposits from banks	*29*	**11,678**	10,230
IAS 1.54(m)	Deposits from customers	*30*	**53,646**	48,904
IAS 1.54(m)	Debt securities in issue	*31*	**11,227**	10,248
IAS 1.54(m)	Subordinated liabilities	*32*	**5,642**	4,985
IAS 1.54(l)	Provisions	*33*	**128**	114
IAS 1.54(o)	Deferred tax liabilities	*18*	**107**	106
	Other liabilities[d]	*34*	**838**	818
	Total liabilities		**91,120**	82,246
	Equity			
IAS 1.54(r)	Share capital and share premium	*35(A)*	**2,227**	2,195
IAS 1.54(r)	Other equity instruments	*35(B)*	**500**	500
IAS 1.54(r)	Reserves		**138**	199
IAS 1.54(r)	Retained earnings		**3,335**	3,135
IAS 1.54(r)	**Total equity, excluding non-controlling interest**		**6,200**	6,029
IAS 1.54(q)	**Non-controlling interests**	*36(D)*	**137**	117
	Total equity		**6,337**	6,146
	Total liabilities and equity		**97,457**	88,392

The notes on pages 20 to 231 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.

IFRS 16.47(a) **c.** The Group has presented right-of-use assets within ‘property and equipment’ – i.e. the same line item in which it presents underlying assets of the same nature that it owns. Alternatively, an entity may choose to present right-of-use assets separately in the statement of financial position.

IFRS 16.47(b) **d.** The Group has presented lease liabilities within ‘other liabilities’. Alternatively, an entity (a lessee) may choose to present lease liabilities separately from other liabilities in the statement of financial position.

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

IAS 1.10(b), 10A, 29, 38–38A, 81A, 97, 113

For the year ended 31 December

Reference	*In millions of euro*	*Note*	2021	2020
IFRS 7.20(b), IAS 1.82(a)	Interest income calculated using the effective interest method[b]	*9*	**3,319**	3,509
	Other interest income	*9*	**22**	19
IFRS 7.20(b), IAS 1.82(b)	Interest expense	*9*	**(1,409)**	(1,414)
	Net interest income		**1,932**	2,114
IFRS 7.20(c)	Fee and commission income	*10*	**854**	759
IFRS 7.20(c)	Fee and commission expense	*10*	**(179)**	(135)
	Net fee and commission income		**675**	624
IFRS 7.20(a)(i)	Net trading income	*11*	**1,434**	987
IFRS 7.20(a)(i)	Net income from other financial instruments at FVTPL	*12*	**77**	27
IFRS 7.20(a)(viii)	Other revenue	*13*	**79**	68
IFRS 7.20A, IAS 1.82(aa)	Net loss arising from derecognition of financial assets measured at amortised cost	*14*	**(9)**	-
IAS 1.82(a), 85	**Revenue**[c]		**4,188**	3,820
	Other income		**21**	84
IAS 1.82(ba)	Impairment losses on financial instruments	*6(A)*	**(616)**	(448)
IAS 1.99	Personnel expenses	*15*	**(2,529)**	(2,301)
IAS 1.99, 38.118(d)	Depreciation and amortisation	*26, 27*	**(120)**	(113)
IAS 1.99	Other expenses	*16*	**(398)**	(585)
IAS 1.85	**Profit before tax**		**546**	457
IAS 1.82(d), 12.77	Income tax expense	*18*	**(123)**	(79)
IAS 1.81A(a)	**Profit for the period**		**423**	378

The notes on pages 20 to 231 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), Insights 7.10.70. 15–20

b. The IFRS Interpretations Committee discussed the application of the requirement to present separately a line item for interest revenue calculated using the effective interest method and noted that it applies only to those financial assets that are subsequently measured at amortised cost or FVOCI (subject to the effect of any qualifying hedging relationship applying the hedge accounting requirements).

However, the Committee did not consider whether an entity could present other interest amounts in another revenue line in the statement of profit or loss and OCI. It appears that an entity may present interest income from other financial assets in another revenue line item if it arises in the course of the entity's ordinary activities.

The Group presents interest income on financial assets that are subsequently measured at amortised cost or FVOCI as part of revenue because it arises in the course of the Group's ordinary activities.

c. 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.

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

For the year ended 31 December

Reference	*In millions of euro*	*Note*	2021	2020
	Profit for the period		**423**	378
	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)	*15*	**7**	9
IFRS 7.20(a)(vii)	Equity investments at FVOCI – net change in fair value		**2**	2
IFRS 7.20(a)(i)	Movement in liability credit reserve	*31*	**3**	1
IAS 1.91(b)	*Related tax*[d]		**(4)**	(4)
			8	8
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 operations – foreign currency translation differences		**(45)**	(35)
IAS 21.52(b)	Net gain on hedges of net investments in foreign operations		**30**	31
	Movement in hedging reserve:			
IFRS 7.24C(b)(i)	Cash flow hedges – effective portion of changes in fair value		**(43)**	(22)
IFRS 7.24C(b)(iv), IAS 1.92	Cash flow hedges – reclassified to profit or loss[e]		**6**	12
	Movement in fair value reserve (FVOCI debt instruments):			
IFRS 7.20(a)(viii)	Debt investments at FVOCI – net change in fair value		**(166)**	(160)
IFRS 7.20(a)(viii), IAS 1.92	Debt investments at FVOCI – reclassified to profit or loss[e]		**129**	125
IAS 1.91(b)	*Related tax*[d]		**25**	15
			(64)	(34)
IAS 1.81A(b)	**Other comprehensive income, net of tax**		**(56)**	(26)
IAS 1.81A(c)	**Total comprehensive income**		**367**	352
	Profit attributable to			
IAS 1.81B(a)(ii)	Holders of ordinary shares of the Bank		**383**	340
	Other equity holders		**20**	20
IAS 1.81B(a)(i)	Non-controlling interests		**20**	18
			423	378
	Total comprehensive income attributable to			
IAS 1.81B(b)(ii)	Holders of ordinary shares of the Bank		**327**	314
	Other equity holders		**20**	20
IAS 1.81B(b)(i)	Non-controlling interests	*36(D)*	**20**	18
			367	352
IAS 33.4	**Earnings per share**			
IAS 33.66	Basic earnings per share (euro)	*17*	**0.22**	0.19
IAS 33.66	Diluted earnings per share (euro)	*17*	**0.22**	0.19

The notes on pages 20 to 231 are an integral part of these consolidated financial statements.

IAS 1.90–91 — d. The Group has elected to present individual components of OCI before related tax and present separately the aggregated amount of tax relating to items that will not be reclassified to profit or loss and an aggregated amount of tax relating to items that are or may be subsequently reclassified. It has provided disclosures related to tax on each component of OCI in Note 18(B). Alternatively, an entity may present individual components of OCI net of related tax in the statement.

IAS 1.94 — e. The Group has elected to present reclassification adjustments in the statement of profit or loss and OCI. Alternatively, an entity may disclose these adjustments in the notes.

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Consolidated statement of changes in equity

IAS 1.10(c), 29, 108, 113, IFRS 7.24E

For the year ended 31 December 2021

Reference	*In millions of euro*	Share capital	Share premium
		Attributable to owners of the Bank	
	Balance at 1 January 2021	**1,756**	**439**
	Total comprehensive income		
IAS 1.106(d)(i)	Profit for the period	-	-
IAS 1.106(d)(ii), 106A	**Other comprehensive income**		
IAS 1.85	Remeasurements of defined benefit liability (asset)	-	-
IFRS 7.20(a)(vii)	Fair value reserve (FVOCI equity instruments):		
	Equity investments at FVOCI – net change in fair value	-	-
IFRS 7.20(a)(i)	Liability credit reserve	-	-
	Translation reserve:		
IAS 21.52(b)	Foreign operations – foreign translation differences	-	-
IAS 21.52(b)	Net gain on hedges of net investment in foreign operations	-	-
	Hedging reserve:		
IFRS 7.24C(b)(iv)	Cash-flow hedges – effective portion of changes in fair value	-	-
IFRS 7.24C(b)(iv), IAS 1.92	Cash-flow hedges – reclassified to profit or loss	-	-
IFRS 7.20(a)(viii)	Fair value reserve (FVOCI debt instruments):		
	Debt investments at FVOCI – net change in fair value	-	-
IFRS 7.20(a)(viii), IAS 1.92	Debt investments at FVOCI – reclassified to profit or loss	-	-
IAS 1.91(b)	Tax on other comprehensive income	-	-
	Total other comprehensive income	-	-
IAS 1.106(a)	**Total comprehensive income**	-	-
	Transactions with equity holders of the Bank		
IAS 1.106(d)(iii)	**Contributions and distributions**		
	Equity-settled share-based payment[a]	-	-
	Share options exercised	3	29
	Dividends and coupons paid to equity holders	-	-
	Total contributions and distributions	**3**	**29**
	Balance at 31 December 2021	**1,759**	**468**

The notes on pages 20 to 231 are an integral part of these consolidated financial statements.

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Attributable to owners of the Bank								
Other equity instruments	**Translation reserve**	**Hedging reserve**	**Fair value reserve**	**Liability credit reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
500	77	(85)	208	(1)	3,135	6,029	117	6,146
20	-	-	-	-	383	403	20	423
-	-	-	-	-	7	7	-	7
-	-	-	2	-	-	2	-	2
-	-	-	-	3	-	3	-	3
-	(45)	-	-	-	-	(45)	-	(45)
-	30	-	-	-	-	30	-	30
-	-	(43)	-	-	-	(43)	-	(43)
-	-	6	-	-	-	6	-	6
-	-	-	(166)	-	-	(166)	-	(166)
-	-	-	129	-	-	129	-	129
-	-	12	12	(1)	(2)	21	-	21
-	(15)	(25)	(23)	2	5	(56)	-	(56)
20	(15)	(25)	(23)	2	388	347	20	367
-	-	-	-	-	75	75	-	75
-	-	-	-	-	-	32	-	32
(20)	-	-	-	-	(263)	(283)	-	(283)
(20)	-	-	-	-	(188)	(176)	-	(176)
500	62	(110)	185	1	3,335	6,200	137	6,337

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 changes in equity (continued)

IAS 1.10(c), 29, 38, 38A, 108, 113

For the year ended 31 December 2020

Reference	*In millions of euro*	Attributable to owners of the Bank: Share capital	Share premium
	Balance at 1 January 2020	1,756	439
	Total comprehensive income		
IAS 1.106(d)(i)	Profit for the period	-	-
IAS 1.106(d)(ii), 106A	**Other comprehensive income**		
IAS 1.85	Remeasurements of defined benefit liability (asset)	-	-
	Fair value reserve (FVOCI equity instruments):		
	Equity investments at FVOCI – net change in fair value	-	-
	Liability credit reserve	-	-
	Translation reserve:		
IAS 21.52(b)	Foreign operations – foreign translation differences	-	-
IAS 21.52(b)	Net loss on hedge of net investment in foreign operations	-	-
	Hedging reserve:		
IFRS 7.24C(b)(iv)	Cash-flow hedges – effective portion of changes in fair value	-	-
IFRS 7.24C(b)(iv), IAS 1.92	Cash-flow hedges – reclassified to profit or loss	-	-
IFRS 7.20(a)(viii)	Fair value reserve (FVOCI debt instruments):		
	Debt investments at FVOCI – net change in fair value	-	-
IFRS 7.20(a)(viii), IAS 1.92	Debt investments at FVOCI – reclassified to profit or loss	-	-
IAS 1.91(b)	Tax on other comprehensive income	-	-
	Total other comprehensive income	-	-
IAS 1.106(a)	**Total comprehensive income**	-	-
	Transactions with equity holders of the Bank		
IAS 1.106(d)(iii)	**Contributions and distributions**		
	Equity-settled share-based payment[a]	-	-
	Dividends and coupons paid to equity holders	-	-
	Total contributions and distributions	-	-
	Balance at 31 December 2020	1,756	439

The notes on pages 20 to 231 are an integral part of these consolidated financial statements.

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Attributable to owners of the Bank								
Other equity instruments	**Translation reserve**	**Hedging reserve**	**Fair value reserve**	**Liability credit reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
500	81	(78)	230	(2)	3,027	5,953	99	6,052
20	-	-	-	-	340	360	18	378
-	-	-	-	-	9	9	-	9
-	-	-	2	-	-	2	-	2
-	-	-		1	-	1	-	1
-	(35)	-	-	-	-	(35)	-	(35)
-	31	-	-	-	-	31	-	31
-	-	(22)	-	-	-	(22)		(22)
-	-	12	-	-	-	12	-	12
-	-	-	(160)	-	-	(160)	-	(160)
-	-	-	125	-	-	125	-	125
-	-	3	11	-	(3)	11	-	11
-	(4)	(7)	(22)	1	6	(26)	-	(26)
20	(4)	(7)	(22)	1	346	334	18	352
-	-	-	-	-	25	25	-	25
(20)	-	-	-	-	(263)	(283)	-	(283)
(20)	-	-	-	-	(238)	(258)	-	(258)
500	77	(85)	208	(1)	3,135	6,029	117	6,146

Insights 4.5.900.30

a. Generally, IFRS 2 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), 29, 38, 38A, 113

For the year ended 31 December

Reference	*In millions of euro*	*Note*	2021	2020
IAS 7.18(b)	**Cash flows from operating activities[b]**			
	Profit for the period[c]		**423**	378
	Adjustments for:			
	– Depreciation and amortisation	26, 27	**120**	113
	– Impairment loss on investment securities	6(A)	**22**	19
	– Impairment loss on loans and advances	6(A)	**594**	429
	– Net interest income	9	**(1,932)**	(2,114)
	– Net gain on investment securities at FVTPL	12	**(50)**	(36)
	– Net loss (gain) on loans and advances at FVTPL	12	**(153)**	55
	– Net loss on debt securities issued at FVTPL	12	**30**	185
	– Net loss on sale of investment securities measured at FVOCI	13	**129**	125
	– Net loss arising from derecognition of financial assets measured at amortised cost	14	**9**	-
	– Dividends on equity securities at FVOCI	13	**(2)**	(8)
	– Equity-settled share-based payment transactions	15	**75**	25
	– Tax expense	18	**123**	79
			(612)	(750)
	Changes in:			
	– Trading assets	21	**(894)**	(993)
	– Derivative assets held for risk management	22(A)	**(132)**	(104)
	– Loans and advances to banks	23	**(872)**	(389)
	– Loans and advances to customers	24	**(6,329)**	(6,275)
	– Other assets	28	**(278)**	(175)
	– Trading liabilities	21	**974**	885
	– Derivative liabilities held for risk management	22	**39**	35
	– Deposits from banks	29	**1,448**	1,071
	– Deposits from customers	30	**4,742**	2,245
	– Other liabilities and provisions[d]		**317**	75
			(1,597)	(4,375)
IAS 7.31, 33	Interest received[e]		**3,034**	5,262
IAS 7.31, 33	Dividends received[e]		**13**	8
IAS 7.31, 33	Interest paid[d, e]		**(1,407)**	(1,372)
IAS 7.35	Income taxes paid		**(119)**	(60)
IAS 7.10	**Net cash used in operating activities**		**(76)**	(537)
IAS 7.21	**Cash flows from investing activities[b]**			
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	26	**(88)**	(63)
IAS 7.16(b)	Proceeds from the sale of property and equipment	26	**36**	18
IAS 7.16(a)	Acquisition of intangible assets	27	**(40)**	(33)
IAS 7.10	**Net cash used in investing activities**		**(1,208)**	(281)

The notes on pages 20 to 231 are an integral part of these consolidated financial statements.

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Consolidated statement of cash flows (continued)

IAS 1.10(d), 29, 38, 38A, 113

For the year ended 31 December

In millions of euro		*Note*	2021	2020
IAS 7.21	**Cash flows from financing activities**			
IAS 7.17(c)	Proceeds from issue of debt securities		**1,018**	762
IAS 7.17(d)	Repayment of debt securities		**(96)**	(99)
IAS 7.17(e)	Payment of lease liabilities[d]		**(78)**	(80)
IAS 7.17(c)	Proceeds from issue of subordinated liabilities		**667**	651
IAS 7.17(a)	Proceeds from exercise of share options	*35*	**32**	-
IAS 7.31, 34	Dividends and coupons paid to equity holders[e]	*35*	**(283)**	(283)
IAS 7.10	**Net cash from financing activities**		**1,260**	951
	Net (decrease) increase in cash and cash equivalents		**(24)**	133
	Cash and cash equivalents at 1 January	*20*	**3,037**	2,850
IAS 7.28	Effect of exchange rate fluctuations on cash and cash equivalents held		**(44)**	54
	Cash and cash equivalents at 31 December	*20*	**2,969**	3,037

The notes on pages 20 to 231 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. 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 2021).

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 7.18, 20, A, Insights 2.3.30.20

c. 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.

IFRS 16.50, IAS 7.17(e)

d. The Group has classified:
- cash payments for the principal portion of lease payments as financing activities;
- cash payments for the interest portion as operating activities consistent with the presentation of interest payments chosen by the Group (see footnote (e) below); and
- short-term lease payments and payments for leases of low-value assets as operating activities.

IAS 7.31, Insights 2.3.50.10–20

e. The Standards require cash flows from interest and dividends received and paid to be disclosed separately. In our view, such disclosure is required in the statement of cash flows, rather than in the notes. In the absence of specific guidance in IFRS Standards, an entity chooses an accounting policy, to be applied consistently, for classifying interest and dividends paid as either operating or financing activities, and interest and dividends received as either operating or investing activities. The Group has elected to classify cash flows from interest paid, interest received and dividends received as operating activities, and cash flows from dividends paid as financing activities. Interest paid includes the interest portion of the lease liabilities.

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IAS 1.10(e)

Notes to the consolidated financial statements[a]

1. Reporting entity

IAS 1.51(a)–(b), 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 8).

2. Basis of accounting

IAS 1.16, 112(a), 10.17

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

Details of the Group's accounting policies, including changes thereto, are included in Note 46 and Note 5.

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[b]

COVID-19 considerations

Paragraph 125 of IAS 1 requires disclosure about the assumptions that a company makes about the future and other sources of estimation uncertainty at the reporting date that have a significant risk of resulting in a material adjustment within the next financial year. COVID-19 is likely to significantly impact such assumptions. For example, it may result in increased estimation uncertainty and changes to estimation techniques and assumptions for measuring ECL, measuring fair values of financial instruments, impairment testing of CGUs containing goodwill or recognising deferred tax assets.

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.

- Note 6(A)(iii): establishing the criteria for determining whether credit risk on a financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of ECL and selection and approval of models used to measure ECL.
- Note 46(A)(ii): determination of control over investees.
- Notes 46(J)(ii) and 19: 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 SPPI on the principal amount outstanding.

IAS 1.113–114

a. Notes are presented, to the extent practicable, in a systematic order and are cross-referred to/from items in the primary statements. In determining a systematic manner of presentation, an entity considers the effect on the understandability and comparability of the financial statements. The Group has applied judgement in presenting related information together in a manner that it considers to be most relevant to an understanding of its financial performance and financial position. The order presented is only illustrative and entities need to tailor the organisation of the notes to fit their specific circumstances.

b. The UK left the EU on 31 January 2020, with an implementation period that ended on 31 December 2020. Some UK and EU entities have made changes to the way they do business as a result – and some details of the new relationships are still being ironed out. To the extent that an entity has any exposure to the changes and any remaining uncertainties associated with Brexit, it needs to assess the impact of those on its financial reporting and provide an update of relevant entity-specific disclosures. Such disclosures are not illustrated in this guide.

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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 at the reporting date that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year is included in the following notes:

– Notes 6(A)(iii) and 46(J)(vii): impairment of financial instruments: determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information.

– Note 7(D)(ii): measurement of the fair value of financial instruments with significant unobservable inputs.

– Note 15(B)(iv): measurement of defined benefit obligations: key actuarial assumptions.

– Note 18(F)–(G): recognition of deferred tax assets: availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be utilised.

– Note 27(B): impairment testing for CGUs containing goodwill: key assumptions underlying recoverable amounts.

– Note 39: recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

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Notes to the consolidated financial statements (continued)

IAS 8.28

5. Changes in significant accounting policies[a]

Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) (the Phase 2 amendments) became effective on 1 January 2021. As a result of its decision to early adopt the Phase 2 amendments from 1 January 2020, the Group's accounting policies are already consistent with the new requirements.

The Group has no other transactions that are affected by newly effective requirements.[b]

[IAS 8.28] a. The description of the nature and effects of the changes in accounting policies presented is only an example that reflects the business of the Group, and may not be representative of the nature and effects of the changes for other entities. It is given for illustrative purposes largely without regard to materiality.

IAS 1.38 b. Comparative information is generally required in respect of the preceding period for all amounts reported in the current period's financial statements and, if it is relevant to understanding the current period's financial statements, also for narrative and descriptive information. However, when entities adopt new accounting standards without restating comparative information, the disclosure requirements of the new standards do not normally apply to the comparative period because the comparative information reflects the requirements of the superseded standards.

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Notes to the consolidated financial statements (continued)

IFRS 7.31

6. Financial risk review[a]

IFRS 7.33, 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 43.

IFRS 7.33, 35M

A. Credit risk

IFRS 7.35F–35L

COVID-19 considerations

IFRS 7 *Financial Instruments: Disclosures* requires disclosure of the nature and extent of risks arising from financial instruments and how the company manages those risks. A bank may have introduced changes to the way it does business, which may in turn impact the credit risk that arises from the transactions that it enters into and the way it manages those risks. For example, it may have changed the terms and conditions of the loans that it originates or its debt collection processes, or have received government guarantees in respect of its credit exposures.

Therefore, the bank may need to explain the significant impacts of the COVID-19 pandemic on the credit risks arising from financial instruments and how it manages those risks. It will need to use judgement to determine the specific disclosures that are both relevant to its business and necessary to meet these disclosure objectives. The types of analysis disclosed previously may need to be adjusted or supplemented to clearly convey the impacts arising from COVID-19 – e.g. the quantitative and qualitative information that allows evaluation of the amounts arising from ECL.

IFRS 7.34

a. The financial risk disclosures presented are only illustrative and reflect the facts and circumstances of the Group. In particular, IFRS 7 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.

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Notes to the consolidated financial statements (continued)

IFRS 7.31

6. Financial risk review (continued)

IFRS 7.33, 35M

A. Credit risk (continued)

COVID-19 considerations (continued)

Examples of specific disclosures include the effect of the COVID-19 pandemic on the following.

– Information about a bank's credit risk management practices and how they relate to the recognition and measurement of ECL. A bank may have changed its risk management practices in response to COVID-19 – e.g. by extending debt relief to borrowers or by following specific guidance issued by governments or regulators.

– Quantitative and qualitative information that allows evaluation of the amounts arising from ECL. The types of analysis disclosed previously may need to be adjusted or supplemented to clearly convey impacts arising from COVID-19.

– Information on the assumptions that the bank has made about the future and other major sources of estimation uncertainty at the reporting date that have a significant risk of resulting in a material adjustment within the next financial year.

– The methods, assumptions and information used to measure ECL – e.g. a bank may need to explain how it has incorporated updated current and forward-looking information into measuring ECL, in particular:

  - how it has included updated economic forecasts in response to COVID-19 into the ECL calculation;
  - how it has updated the weighting of any upside, downside and base case economic scenarios and whether it has used additional scenarios to better reflect the impact of the pandemic;
  - how quickly it believes there may be a return to longer-term 'normal' economic trends;
  - how it has incorporated the provision of government support to borrowers that might aid recovery of outstanding balances, including assumptions relating to the impact on staging;
  - how it has stratified borrowers into segments to perform any assessments on a collective basis;
  - how it has dealt with the challenge of ECL models that were not designed for the current economic shocks;
  - reasons for overlays and adjustments to ECL models, including the amounts and how they have been calculated; and
  - any changes in how it has applied its definition of default.

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Notes to the consolidated financial statements (continued)

IFRS 7.31

6. Financial risk review (continued)

IFRS 7.33, 35M

A. Credit risk (continued)

COVID-19 considerations (continued)

– How management determined whether the credit risk of a financial instrument has increased significantly since initial recognition. The bank's methods and indicators used for assessment of significant increase in credit risk (SICR) may have changed in response to COVID-19 – for example:

  - additional collective assessments may have been performed or financial instruments may have been grouped differently. A bank may need to disclose decisions made about segmenting portfolios by relevant shared credit risk characteristics;
  - if a bank is not able to group financial instruments based on shared credit risk characteristics and it has recognised lifetime ECL on a portion or proportion of the financial assets for which credit risk is deemed to have increased significantly, then the bank may need to disclose how it has determined the (pro)portion in each case;
  - a bank may have rebutted the presumption that there has been a SICR when a loan is more than 30 days past due. The rebuttal of the presumption and the reason for it should be disclosed;
  - a bank may need to explain how it has incorporated updated forward-looking information into assessing SICR;
  - a bank may previously have disclosed an approach that all payment holidays and similar reliefs were a qualitative indicator that automatically required an exposure to be transferred to Stage 2 (or Stage 3), which may no longer be appropriate and if so the disclosure may need to be updated; and
  - how a bank has distinguished between cases in which a payment holiday provides relief from short-term liquidity constraints impacting the borrower that do not amount to a SICR considering the entire life of the instrument and cases in which there is a significant increase in the risk of default over the entire remaining life of the instrument (e.g. because of longer-term liquidity or solvency problems).

IFRS 7.33

For the definition of credit risk and information on how credit risk is mitigated by the Group, see Note 43(B).

i. Credit quality analysis

IFRS 7.35M, 36(a)

The following tables set out information about the credit quality of financial assets measured at amortised cost, lease receivables and FVOCI debt investments without taking into account collateral or other credit enhancement. 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.[a]

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in Note 46(J)(vii).

IFRS 7.35

a. 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.

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IFRS 7.31

6. Financial risk review (continued)

IFRS 7.33, 35M

A. Credit risk (continued)

i. Credit quality analysis (continued)

IFRS 7.34(a)

In millions of euro	12-month PD ranges	2021 Stage 1	2021 Stage 2	2021 Stage 3	2021 Purchased credit-impaired	2021 Total
Loans and advances to banks at amortised cost						
Grades 1–6: Strong	**0–0.59**	**4,396**	**908**	**-**	**-**	**5,304**
Grades 7–9: Satisfactory	**0.60–11.34**		**198**	**-**	**-**	**198**
Grade 10: Higher risk	**11.35–99.99**	**-**	**58**	**-**	**-**	**58**
Grades 11–12: Credit-impaired	**100.00**	**-**	**-**	**24**	**-**	**24**
Gross carrying amount		**4,396**	**1,164**	**24**	**-**	**5,584**
Loss allowance		**(6)**	**(14)**	**(9)**	**-**	**(29)**
Carrying amount		**4,390**	**1,150**	**15**	**-**	**5,555**
Loans and advances to customers at amortised cost[a]						
Grades 1–6: Strong	**0–0.59**	**35,410**	**6,312**	**-**	**-**	**41,722**
Grades 7–9: Satisfactory	**0.60–11.34**	**9,482**	**3,181**	**-**	**-**	**12,663**
Grade 10: Higher risk	**11.35–99.99**	**-**	**3,462**	**-**	**-**	**3,462**
Grades 11–12: Credit-impaired	**100.00**	**-**	**-**	**1,734**	**150**	**1,884**
Gross carrying amount		**44,892**	**12,955**	**1,734**	**150**	**59,731**
Loss allowance		**(545)**	**(627)**	**(718)**	**(17)**	**(1,907)**
Carrying amount		**44,347**	**12,328**	**1,016**	**133**	**57,824**

IFRS 7.34(a)

In millions of euro	12-month PD ranges	2020 Stage 1	2020 Stage 2	2020 Stage 3	2020 Purchased credit-impaired	2020 Total
Loans and advances to banks at amortised cost						
Grades 1–6: Strong	0–0.59	4,317	375	-	-	4,692
Grades 7–9: Satisfactory	0.60–11.34	-	-	-	-	-
Grade 10: Higher risk	11.35–99.99	-	-	-	-	-
Grades 11–12: Credit-impaired	100.00	-	-	20	-	20
Gross carrying amount		4,317	375	20	-	4,712
Loss allowance		(9)	(13)	(7)	-	(29)
Carrying amount		4,308	362	13	-	4,683
Loans and advances to customers at amortised cost[a]						
Grades 1–6: Strong	0–0.59	39,985	4,500	-	-	44,485
Grades 7–9: Satisfactory	0.60–11.34	2,600	3,806	-	-	6,406
Grade 10: Higher risk	11.35–99.99	-	1,579	-	-	1,579
Grades 11–12: Credit-impaired	100.00	-	-	1,821	30	1,851
Gross carrying amount		42,585	9,885	1,821	30	54,321
Loss allowance		(309)	(582)	(685)	(17)	(1,593)
Carrying amount		42,276	9,303	1,136	13	52,728

a. These illustrative disclosures have been provided only for the total amount of loans and advances to customers measured at amortised cost. However, in practice more granular disclosure will be appropriate to satisfy this disclosure objective – e.g. separately for different types of wholesale and retail exposures, reflecting the nature of the bank's business.

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Notes to the consolidated financial statements (continued)

IFRS 7.31

6. Financial risk review (continued)

IFRS 7.33, 35M

A. Credit risk (continued)

i. Credit quality analysis (continued)

	2021					
In millions of euro	**12-month PD ranges**	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased credit-impaired**	**Total**
Lease receivables						
Grades 1–6: Strong	**0–0.59**	**205**	**484**	**-**	**-**	**689**
Grades 7–9: Satisfactory	**0.60–11.34**	**-**	**82**	**-**	**-**	**82**
Grade 10: Higher risk	**11.35–99.99**	**-**	**78**	**-**	**-**	**78**
Grades 11–12: Credit-impaired	**100.00**	**-**	**-**	**90**	**-**	**90**
Balance before loss allowance		**205**	**644**	**90**	**-**	**939**
Loss allowance		**-**	**(9)**	**(8)**	**-**	**(17)**
Carrying amount		**205**	**635**	**82**	**-**	**922**

	2020					
In millions of euro	**12-month PD ranges**	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased credit-impaired**	**Total**
Lease receivables						
Grades 1–6: Strong	0–0.59	155	400	-	-	555
Grades 7–9: Satisfactory	0.60–11.34	-	98	-	-	98
Grade 10: Higher risk	11.35–99.99	-	112	-	-	112
Grades 11–12: Credit-impaired	100.00	-	-	96	-	96
Balance before loss allowance		155	610	96	-	861
Loss allowance		(1)	(5)	(16)	-	(22)
Carrying amount		154	605	80	-	839

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6. Financial risk review (continued)

IFRS 7.33, 35M

A. Credit risk (continued)

i. Credit quality analysis (continued)

	2021				
In millions of euro	12-month PD ranges	Stage 1	Stage 2	Stage 3	Total
Debt investment securities at amortised cost					
Grades 1–6: Strong	0–0.59	416	-	-	416
Loss allowance		(6)	-	-	(6)
Carrying amount		410	-	-	410
Debt investment securities at FVOCI					
Grades 1–6: Strong	0–0.59	962	116	-	1,078
Grades 7–9: Satisfactory	0.60–11.34	25	95	-	120
Grade 10: Higher risk	11.35–99.99	-	60	-	60
Grades 11–12: Credit-impaired	100.00	-	-	82	82
Gross carrying amount		987	271	82	1,340
Loss allowance		(6)	(5)	(38)	(49)
Carrying amount – fair value		1,027	296	40	1,363
Loan commitments					
Grades 1–6: Strong	0–0.59	1,063	138	-	1,201
Loss allowance		(3)	(2)	-	(5)
Financial guarantee contracts					
Grades 1–6: Strong	0–0.59	630	91	-	721
Grades 7–9: Satisfactory	0.60–11.34	-	15	-	15
Grade 10: Higher risk	11.35–99.99	-	-	-	-
Grades 11–12: Credit-impaired	100.00	-	-	4	4
Amount guaranteed		630	106	4	740
Loss allowance		(4)	(1)	(1)	(6)

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IFRS 7.33, 35M

A. Credit risk (continued)

i. Credit quality analysis (continued)

In millions of euro	12-month PD ranges	2020 Stage 1	2020 Stage 2	2020 Stage 3	2020 Total
Debt investment securities at amortised cost					
Grades 1–6: Strong	0–0.59	105	-	-	105
Loss allowance		(4)	-	-	(4)
Carrying amount		101	-	-	101
Debt investment securities at FVOCI					
Grades 1–6: Strong	0–0.59	1,321	148	-	1,469
Grades 7–9: Satisfactory	0.60–11.34	21	91	-	112
Grade 10: Higher risk	11.35–99.99	-	-	-	-
Grades 11–12: Credit-impaired	100.00	-	-	119	119
Gross carrying amount		1,342	239	119	1,700
Loss allowance		(5)	(5)	(30)	(40)
Carrying amount – fair value		1,383	258	85	1,726
Loan commitments					
Grades 1–6: Strong	0–0.59	897	117	-	1,014
Loss allowance		(2)	(2)	-	(4)
Financial guarantee contracts					
Grades 1–6: Strong	0–0.59	564	21	-	585
Grades 7–9: Satisfactory	0.60–11.34	-	16	-	16
Grade 10: Higher risk	11.35–99.99	-	-	-	-
Grades 11–12: Credit-impaired	100.00	-	-	-	-
Amount guaranteed		564	37	-	601
Loss allowance		(2)	-	-	(2)

IFRS 7.34(a)

The following table sets out information about the overdue status of loans and advances to customers in Stages 1, 2 and 3.[a]

Loans and advances to customers at amortised cost – overdue status

In millions of euro	2021 Stage 1	2021 Stage 2	2021 Stage 3	2021 Total
Current	**42,910**	**5,830**	**55**	**48,795**
Overdue < 30 days	**1,982**	**3,239**	**273**	**5,494**
Overdue > 30 days	**-**	**3,886**	**1,406**	**5,292**

In millions of euro	2020 Stage 1	2020 Stage 2	2020 Stage 3	2020 Total
Current	40,906	4,448	102	45,456
Overdue < 30 days	1,679	2,471	505	4,655
Overdue > 30 days	-	2,966	1,214	4,180

IFRS 7.31, 33, 35B(a), 35B(c), 35D

a. These disclosures are not explicitly required by IFRS Standards. However, the Group has concluded that disclosure of this information is helpful to enable users of its financial statements to assess the Group's credit risk exposure and understand the significant credit risk concentrations. These illustrative disclosures have been provided only for the total amount of loans and advances to customers measured at amortised cost. However, in practice more granular disclosure will be appropriate to satisfy this disclosure objective – e.g. separately for different types of wholesale and retail exposures, reflecting the nature of the bank's business.

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IFRS 7.33, 35M

A. Credit risk (continued)

i. Credit quality analysis (continued)

IFRS 7.34(a), 35B(c), 35D, 36(a)

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

In millions of euro	12-month PD ranges	2021	2020
Loans and advances to customers			
Grades 1–6: Strong	**0–0.59**	**3,188**	2,516
Grades 7–9: Satisfactory	**0.60–11.34**	**399**	331
Grade 10: Higher risk	**11.35–99.99**	**199**	161
Grades 11–12: Credit-impaired	**100.00**	**200**	137
Total carrying amount		**3,986**	3,145
Debt investment securities			
Grades 1–6: Strong	**0–0.59**	**2,541**	2,243
Grades 7–9: Satisfactory	**0.60–11.34**	**935**	687
Grade 10: Higher Risk	**11.35–99.99**	**172**	103
Grades 11–12: Credit-impaired	**100.00**	**386**	69
Total carrying amount		**4,034**	3,102

IFRS 7.36(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(a)

In millions of euro	*Note*	2021	2020
Government bonds and treasury bills			
Rated AAA	*21*	**213**	1,567
Rated AA- to AA+	*21*	**4,320**	3,256
Rated A- to A+	*21*	**5,316**	4,821
Rated BBB+ and below	*21*	**372**	198
		10,221	9,842
Corporate bonds			
Rated AA- to AA+	*21*	**2,500**	3,130
Rated A- to A+	*21*	**1,437**	814
Rated BBB+ and below	*21*	**554**	126
		4,491	4,070
Asset-backed securities			
Rated AA- to AA+	*21*	**340**	372
Rated A- to A+	*21*	**119**	46
Rated BBB+ and below	*21*	**57**	45
		516	463

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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 6(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
2021								
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)**
2020								
Derivative assets	12,064	1,683	982	248	2,543	387	8,539	1,048
Derivative liabilities	10,452	(1,161)	636	(111)	2,153	(230)	7,663	(820)

Cash and cash equivalents

IFRS 7.34(a), 35M, 36

The Group held cash and cash equivalents of €2,969 million at 31 December 2021 (2020: €3,037 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). The Group has concluded that disclosure of this information enhances the user's understanding of the Group's credit risk exposures and so these disclosures have been included.*

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A. Credit risk (continued)

ii. Collateral held and other credit enhancements

IFRS 7.35K(b), 36(b), B8G

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

In millions of euro	*Note*	Percentage of exposure that is subject to collateral requirements 31 December 2021	31 December 2020	Principal type of collateral held
Trading derivative assets[a]	*21*	**97**	98	Cash
Derivative assets held for risk management[a]	*22*	**100**	100	Cash
Loans and advances to banks	*23*			
Reverse sale-and-repurchase agreements[a]		**100**	100	Marketable securities
Securities borrowing[a]		**100**	100	Marketable securities
Loans and advances to retail customers	*24*			
Mortgage lending		**100**	100	Residential property
Personal loans		**-**	-	None
Credit cards		**-**	-	None
Loans and advances to corporate customers	*24*			
Finance leases		**100**	100	Property and equipment
Corporate loans		**91**	92	Commercial property, floating charges over corporate assets
Reverse sale-and-repurchase agreements		**100**	100	Marketable securities
Investment debt securities	*25*	**-**	-	None

IFRS 7.35K(b), 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 7.13E, 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. Margin is also posted daily in respect of derivatives transacted on exchanges and with CCPs. Certain derivatives are 'settled-to-market' daily, whereby the daily variation margin is a partial settlement of the outstanding derivative positions and the fair values of the derivatives are reduced accordingly.

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 7.13A–13F, 35K, 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 6(A)(v). 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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A. Credit risk (continued)

ii. Collateral held and other credit enhancements (continued)

IFRS 7.35K(b), 36(b)

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

Quantification of the collateral arrangements relating to derivatives, repurchase and reverse repurchase agreements and securities borrowing and lending is set out in Note 6(A)(v).

IFRS 7.35K(b), 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 2021	31 December 2020
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	24	**14,856**	13,629

IFRS 7.35K(c)

Credit-impaired loans

In millions of euro	31 December 2021	31 December 2020
Less than 50%	**380**	330
51–70%	**530**	480
More than 70%	**200**	165
Total	**1,110**	975

IFRS 7.35K(b)

Commitments to advance residential mortgage loans

In millions of euro	31 December 2021	31 December 2020
LTV ratio		
Less than 50%	**211**	153
51–70%	**242**	227
71–90%	**100**	88
91–100%	**48**	46
More than 100%	**-**	-
Total	**601**	514

IFRS 7.35K, 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 43(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.

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A. Credit risk (continued)

ii. Collateral held and other credit enhancements (continued)

IFRS 7.35K, 36(b)

Loans and advances to corporate customers (continued)

Generally, the Group updates the valuation of property held against exposures to corporate customers' collateral on a monthly basis using industry indices. However, a more formal valuation is performed, usually quarterly, when:

- loans are advanced to finance specific projects such as real estate or power plants;
- the loan is put on a watch list and it is monitored more closely; or
- the loan is credit-impaired and the valuation provides input into determining the management credit risk actions.

IFRS 7.35K(c)

The table below sets out the carrying amount and the value of identifiable collateral (mainly commercial property) held against loans and advances to corporate customers measured at amortised cost, other than reverse sale-and-repurchase agreements. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

	2021		2020	
In millions of euro	**Carrying amount**	**Collateral**	**Carrying amount**	**Collateral**
Stages 1 and 2	**34,675**	**27,654**	30,869	25,785
Stage 3	**718**	**675**	1,122	1,057

Investment securities designated as at FVTPL

IFRS 7.9(a)–(b)

At 31 December 2021, the maximum exposure to credit risk of the investment securities designated as at FVTPL is their carrying amount of €2,879 million (2020: €2,071 million). The Group has mitigated the credit risk exposure on some, but not all, of these investment securities by purchasing credit risk protection in the form of credit derivatives. At 31 December 2021, these derivative contracts provided notional principal protection of €967 million (2020: €1,088 million).

IFRS 7.9(c)–(d)

The Group has recognised the following changes in fair value of investment securities designated as at FVTPL and the credit derivatives purchased as protection for some of these investment securities.

In millions of euro	**During the year 2021**	**Cumulatively 2021**	**During the year 2020**	**Cumulatively 2020**
Investment securities at FVTPL: change in fair value attributable to credit risk	**(84)**	**(96)**	(76)	(84)
Credit derivative contracts: full fair value change	**32**	**10**	28	12

IFRS 7.11(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 holding the financial asset.

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.

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A. Credit risk (continued)

ii. Collateral held and other credit enhancements (continued)

Assets obtained by taking possession of collateral

IFRS 7.38

Details of financial and non-financial assets obtained by the Group during the year by taking possession of collateral held as security against loans and advances and held at the year end are shown below.

In millions of euro	**2021**	**2020**
Property	**13**	10
Debt securities	**107**	116
Other	**7**	6

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 46(J)(vii).

IFRS 7.35F(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 appropriate for changes in prepayment expectations).

The Group uses three criteria for determining whether there has been a significant increase in credit risk:

- a quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due, except for [*disclosure of the type of exposures*], for which a backstop of 15 days past due is applied.

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 grade 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 ECL. Disclosures that an entity makes will reflect the way in which it has implemented the requirements of IFRS 9 as well as the judgements that it makes regarding the application of IFRS 7. These illustrative disclosures 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. In its statement on European common enforcement priorities for 2021 annual financial reports, ESMA identified ECL disclosures of credit institutions as an area of focus.

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A. Credit risk (continued)

iii. Amounts arising from ECL (continued)

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

IFRS 7.35F(a), 35G

Significant increase in credit risk (continued)

Credit risk grades (continued)

Each exposure is allocated to a credit risk grade on 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

The table below provides an indicative mapping of how the Group's internal credit risk grades relate to PD and, for the wholesale portfolio, to the external credit ratings of [*Rating Agency X*]. The weighted-average PD is calculated based on the carrying amounts of the assets in each range.

Wholesale

The wholesale portfolio of the Group is comprised of loans and advances to banks, public sector entities, sovereigns, corporates and other businesses.

Grading	12-month weighted-average PD	External rating
Grades 1–6: Strong	0.382	AAA to AA-
Grades 7–9: Satisfactory	5.901	A+ to BBB–
Grade 10: Higher risk	35.960	BB+ to C
Grades 11–12: Credit-impaired	100.000	Default

Retail

The retail portfolios are comprised of mortgage lending, personal loans and credit cards.

Grading	12-month weighted-average PD[a]
Grades 1–6: Strong	0.266
Grades 7–9: Satisfactory	4.050
Grade 10: Higher risk	37.648
Grades 11–12: Credit-impaired	100.000

a. This information has been provided in aggregate for different types of retail portfolios. However, it will usually be more appropriate to provide this separately for different portfolios – e.g. separately for mortgages and unsecured loans.

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iii. Amounts arising from ECL (continued)

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

IFRS 7.35F(a), 35G

Significant increase in credit risk (continued)

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.

[*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.*]

Determining whether credit risk has increased significantly

The Group assesses whether credit risk has increased significantly since initial recognition at each reporting date.

As a general indicator, 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 [*X*]% of the corresponding amount estimated on initial recognition; or
- the absolute change in annualised lifetime PD since initial recognition is greater than [*X*] basis points (bp).

In addition, irrespective of the relative increase since initial recognition, the credit risk of an exposure is deemed not to have increased significantly if the change in annualised lifetime PD since initial recognition is [*X*] bp or less.[a]

[*Disclosure of quantitative information about what increase in lifetime PD the bank considers significant for each type of product/portfolio.*]

[*Disclosure of relevant qualitative indicators, including different criteria used for different portfolios – e.g. retail mortgages, credit cards, commercial real estate etc.*]

Credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Group's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgement and relevant historical experiences.

IFRS 7.35F(a)(i) a. Each bank has to determine what quantitative measures are appropriate in the context of the nature of its credit exposures.

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iii. Amounts arising from ECL (continued)

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

IFRS 7.35F(a), 35G

Significant increase in credit risk (continued)

Determining whether credit risk has increased significantly (continued)

The Group identifies key drivers behind changes in credit risk for portfolios. Generally, a significant increase in credit risk is assessed based on the estimation of PDs and consideration of qualitative factors, each of which are designed to reflect forward-looking information, on an individual instrument basis as described above. However, if the Group identifies a key driver that is not considered in the individual assessment on a timely basis, then the Group will evaluate whether there is reasonable and supportable information that enables it to make an additional assessment on a collective basis with respect to all or some of a portfolio. This may lead to the Group concluding that a segment or proportion of a portfolio has undergone a significant increase in credit risk.

In Region [*X*], the Group has a portfolio of retail mortgage loans where some borrowers are employed in local coal mines. In view of the government strategy to encourage a move to greener technologies, the Group anticipates a significant decline in demand for coal, leading to the closure of several coal mines. The risk of default occurring on mortgage loans to borrowers who are employed by the coal mines is determined to have increased significantly, even if those customers are not past due and there is no other evidence of significant increase in credit risk on an individual loan basis. The Group treats those mortgage loan as a separate segment and recognises a loss allowance at an amount equal to lifetime ECL. However, any newly originated mortgages to borrowers who rely on the coal mines for employment in this region would have a loss allowance equal to 12-month ECL because they would not have experienced significant increase in credit risk since initial recognition.

[*Disclosure of information for portfolios where collective approach to identifying significant increase in credit risk has been adopted, including where the key credit risk drivers can be monitored for a segment of a portfolio, and where the entity performs a collective assessment for a proportion of the portfolio.*]

IFRS 7.35F(a)(ii)

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]

Management overlays may be applied to the model outputs if consistent with the objective of identifying a significant increase in credit risk.

IFRS 7.35F(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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6. Financial risk review (continued)

IFRS 7.33, 35M

A. Credit risk (continued)

iii. Amounts arising from ECL (continued)

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

IFRS 7.35F(a), 35G

Significant increase in credit risk (continued)

Determining whether credit risk has increased significantly (continued)

Insights 7.8.60.110

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured at 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Group determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When the contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms. [*Disclosure of what probation periods the entity applies.*]

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;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

IFRS 7.35F(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);
- the borrower is more than 90 days past due 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; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

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.

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A. Credit risk (continued)

iii. Amounts arising from ECL (continued)

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

IFRS 7.35F(b), B8A

Definition of default (continued)

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)).

The Group expects to implement certain changes to the definition of default that result from new rules being introduced by the Group's lead regulator [*name of regulator*]. Once the revised definition is used for internal risk management purposes, the Group plans to use it also for the purpose of measuring ECL and identifying assets as having undergone a significant increase in credit risk or being credit-impaired. The Group expects to implement the new definition during the year ending 31 December 2022 and to account for this as a change in estimate. Implementation may lead to an increase in the amounts of financial instruments allocated to Stages 2 and 3. The Group is not able to quantify the effect that this change will have on the amount of ECL recognised in the financial statements at present but, on the basis of the work carried out to date, the Group does not expect that the effect will be material.[a]

IFRS 7.35B(b), 35G(b)–(c)

Incorporation of forward-looking information

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Group formulates three economic scenarios: a base case, which is the central scenario, developed internally based on consensus forecasts, and two less likely scenarios, one upside and one downside scenario. The central scenario is aligned with information used by the Group for other purposes such as strategic planning and budgeting. External information considered 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 forecasts.

[*Explanation of how scenarios are selected and their weightings determined, and of changes in significant assumptions during the reporting period.*]

The scenario probability weightings applied in measuring ECL are as follows.

	2021			2020		
At 31 December	**Upside**	**Central**	**Downside**	**Upside**	**Central**	**Downside**
Scenario probability weighting	**10%**	**80%**	**10%**	20%	60%	20%

Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of the upside and downside representative scenarios. A comprehensive review is performed at least annually on the design of the scenarios by a panel of experts that advises the Group's senior management.

a. An entity assesses what information it should disclose about expected changes to the definition of default to comply with the requirements of paragraph 125 of IAS 1. The disclosures made in this guide are for the purposes of illustration only and may not be appropriate for different fact patterns.

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A. Credit risk (continued)

iii. Amounts arising from ECL (continued)

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

IFRS 7.35B(b), 35G(b)–(c)

Incorporation of forward-looking information (continued)

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 key drivers for credit risk for wholesale portfolios are: GDP growth, unemployment rates and interest rates. For exposures to specific industries and/or regions, the key drivers also include relevant commodity and/or real estate prices. The key drivers of credit risk for retail portfolios include: GDP growth, unemployment rates, house prices and interest rates.

The Group estimates each key driver for credit risk over the active forecast period of three years. This is followed by a period of mean reversion of between two and four years, depending on the product and geographical market. [*Explanation of specific factors the entity has considered to extrapolate its projections from available detailed information for periods far into the future. Entities may consider presenting graphs to show how the key drivers are expected to change over the active and mean reversion periods.*]

The table below lists the macroeconomic assumptions used in the base, upside and downside scenarios over the five-year forecast period.[a] The assumptions represent the absolute percentage for interest rates and unemployment rates and year-on-year percentage change for GDP and housing prices.

At 31 December 2021	GDP change	Housing prices change	Interest rates	Unemployment rate
Central economic assumptions				
5-year average	**3.00%**	**2.10%**	**3.25%**	**6.25%**
Peak*	**3.75%**	**2.60%**	**3.75%**	**7.25%**
Upside economic assumptions				
5-year average	**3.55%**	**2.85%**	**4.00%**	**4.00%**
Peak*	**3.90%**	**3.05%**	**4.50%**	**4.80%**
Downside economic assumptions				
5-year average	**2.25%**	**0.90%**	**5.50%**	**9.00%**
Trough*	**1.85%**	**0.25%**	**3.25%**	**10.00%**

At 31 December 2020	GDP change	Housing prices change	Interest rates	Unemployment rate
Central economic assumptions				
5-year average	3.25%	2.00%	3.00%	6.00%
Peak*	3.75%	2.75%	3.50%	6.75%
Upside economic assumptions				
5-year average	3.75%	3.00%	3.50%	4.00%
Peak*	3.95%	3.15%	4.25%	4.75%
Downside economic assumptions				
5-year average	2.60%	1.25%	5.75%	9.25%
Trough*	1.75%	0.50%	3.75%	10.00%

* The peak (for upside scenarios) and trough (for downside scenarios) represent the cumulative change from the reporting date for GDP and housing prices. For interest rates and unemployment rate, the peak and trough represent the highest or lowest rate after the reporting date.

a. The information on assumptions used may have to be disclosed by region/country, if an entity operates in different regions/countries and different assumptions are appropriate for those regions/countries.

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A. Credit risk (continued)

iii. Amounts arising from ECL (continued)

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

IFRS 7.35B(b), 35G(b)–(c)

IFRS 7.35B(b)

Incorporation of forward-looking information (continued)

The Group has revised its economic forecasts used as an input into ECL as at 31 December 2021 down from 2020 levels due to a slight increase in unemployment over the last two quarters of 2021.

Our central and upside scenario models assume that economic growth peaks by Q3 2023 and maintain approximately flat levels of growth until declining in Q1 2025, when the trough levels occur for all economic assumptions in the central and upside scenarios.

For the central scenario, GDP growth continues at a moderate pace for the next two years due to strong domestic consumer demand and wage growth offset by volatile international relations driving projected trade imbalances. GDP will remain stable in Years 3 to 5. The [*name the monetary authority*] is expected to gradually increase interest rates over the next two years as inflation gradually rises, thus allowing the [*name the monetary authority*] to maintain a stable interest rate environment in Years 3 to 5. Housing prices remain steady, with slight increases over the next two years followed by an increase in Years 3 to 5 as the interest rate environment stabilises. Unemployment falls slightly in Years 2 to 4, partially attributable to strong consumer demand.

The upside scenario represents a robust economy powered by low unemployment and a moderate interest rate environment that drives healthy levels of consumption and investment. Housing prices lag behind GDP growth even though there will be year-on-year increases through to Q3 2023.

The downside scenario represents an economic downturn in Q1 2022 as unemployment rises to 10% and GDP growth declines to approximately 1.85%, partially attributable to international instability and domestic political turmoil. During this time, it is expected that the [*name the monetary authority*] will lower interest rates to increase the money supply and encourage lending as housing prices fall.

[*Disclosure of uncertain events that are relevant to the risk of default occurring but for which, 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 any other information that has been excluded from the determination of ECL.*]

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.

IAS 1.125

Sensitivity of ECL to future economic conditions[a]

The ECL are sensitive to judgements and assumptions made regarding formulation of forward-looking scenarios and how such scenarios are incorporated into the calculations. Management performs a sensitivity analysis on the ECL recognised on material classes of its assets.

IAS 1.125

a. Paragraph 125 of IAS 1 requires disclosures of information about assumptions that an entity makes about the future and other sources of estimation uncertainty at the reporting date that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Paragraph 129 of IAS 1 gives an example of this disclosure: "the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculations, including reasons for the sensitivity". Entities should consider what information they are able to provide to meet these requirements, reflecting the fact that for a bank, the extent and complexity of judgement involved in measuring ECL and the estimation uncertainty associated with it makes it one of the most significant accounting estimates in preparing financial statements. A bank should consider what information that is provided internally to key management personnel could be used to meet the requirements of paragraph 125 of IAS 1. Entities should disclose any limitations relevant to understanding the disclosures provided.

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A. Credit risk (continued)

iii. Amounts arising from ECL (continued)

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

IAS 1.125

Sensitivity of ECL to future economic conditions (continued)

The table below shows the loss allowance on loans and advances to corporate and retail customers assuming each forward-looking scenario (e.g. central, upside and downside) were weighted 100% instead of applying scenario probability weights across the three scenarios. For ease of comparison, the table also includes the probability-weighted amounts that are reflected in the financial statements. The amounts are inclusive of post-model adjustments, as appropriate to each scenario.

	2021				2020			
As at 31 December	Upside	Central	Downside	Probability-weighted	Upside	Central	Downside	Probability-weighted
Gross exposure (in millions of euros)								
Corporate	**38,290**	**38,290**	**38,290**	**38,290**	34,787	34,787	34,787	34,787
Retail	**21,441**	**21,441**	**21,441**	**21,441**	19,534	19,534	19,534	19,534
Loss allowance (in millions of euros)								
Corporate	**502**	**565**	**659**	**628**	504	550	628	568
Retail	**1,023**	**1,151**	**1,343**	**1,279**	930	1,010	1,145	1,025
Proportion of assets in Stage 2								
Corporate	**7%**	**9%**	**14%**	**10%**	5%	7%	9%	8%
Retail	**12%**	**14%**	**18%**	**16%**	12%	14%	17%	15%

[*Disclosure of qualitative information explaining the quantitative data. Disclosure of any limitation of the technique used to disclose sensitivity information.*]

Modified financial assets

IFRS 7.21

COVID-19 considerations

Existing contractual arrangements may be modified as a result of government assistance programmes. Banks may need to update their accounting policies to explain how they account for such changes and how they have applied judgement in assessing whether a modification is determined to be substantial.

Banks may need to disclose qualitative and quantitative information on support measures implemented by the bank – e.g. the carrying amount of affected loans, related new lending volumes, actual and planned volume of modifications, modification losses and policies for granting support, including interest rates and qualifying criteria.

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 46(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 on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

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A. Credit risk (continued)

iii. Amounts arising from ECL (continued)

IFRS 7.35F(f), B5(g), B8B

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

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 Credit 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 46(J)(vii)). 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 it falls within the 12-month PD ranges for the asset to be considered Stage 1.

IFRS 7.35G(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); and
- exposure at default (EAD).

ECL for exposures in Stage 1 are calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL are calculated by multiplying the lifetime PD by LGD and EAD.

The methodology for estimating PDs is discussed above under the heading 'Generating the term structure of PD'.

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 lending collateralised by property, 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 and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. 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.

IAS 1.125

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 7.35G(a)

Measurement of ECL (continued)

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, 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 credit 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.

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. [*Disclosure of what periods/ranges were actually used during the current and previous year.*]

IFRS 7.35F(c)

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

- instrument type;
- credit risk grade;
- 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

Post-model adjustments[a]

Post-model adjustments (PMAs) are short-term adjustments to the ECL balance as part of the year-end reporting process to reflect late updates to market data, known model deficiencies and expert credit judgement.

IFRS 7.35G(a)

a. These disclosures are not explicitly required by IFRS Standards. However, the Group has concluded that disclosure of this information is helpful to enable users of its financial statements to understand the estimation techniques that the Group has used to measure ECL. the European common enforcement priorities for 2021 annual financial reports published by ESMA on 29 October 2021 identifies disclosures in respect of management overlays in measurement of ECL as an area of focus for its review.

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Post-model adjustments (continued)

The Group has internal governance frameworks and controls in place to assess the appropriateness of all PMAs. The aim of the Group is to incorporate these PMAs into the ECL models, where possible, as part of the periodic recalibration and model assessment procedures.

[*Description of the reasons for the key PMAs made, including types of exposures, geographical areas and amounts.*]

Total PMAs as at 31 December 2021 increased the loss allowance by €[*x*] million (2020: €[*x*] million) for the wholesale business and by €[*x*] million (2020: €[*x*] million) for the retail business.

Loss allowance

IFRS 7.35H

The following tables[a] show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. The basis for determining transfers due to changes in credit risk is set out in our accounting policy; see Note 46(J)(vii).

	2021			
In millions of euro	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to banks at amortised cost				
Balance at 1 January	**9**	**13**	**7**	**29**
Transfer to Stage 1	**-**	**-**	**-**	**-**
Transfer to Stage 2	**(2)**	**2**	**-**	**-**
Transfer to Stage 3	**-**	**(3)**	**3**	**-**
Net remeasurement of loss allowance	**4**	**10**	**8**	**22**
New financial assets originated or purchased	**4**	**-**	**-**	**4**
Financial assets that have been derecognised	**(1)**	**(4)**	**(2)**	**(7)**
Write-offs	**-**	**-**	**(1)**	**(1)**
Unwind of discount	**-**	**-**	**2**	**2**
Foreign exchange and other movements	**(8)**	**(4)**	**(8)**	**(20)**
Balance at 31 December	**6**	**14**	**9**	**29**

	2020			
In millions of euro	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to banks at amortised cost				
Balance at 1 January	2	4	4	10
Transfer to Stage 1	1	(1)	-	-
Transfer to Stage 2	-	1	(1)	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	6	3	4	13
New financial assets originated or purchased	3	6	-	9
Financial assets that have been derecognised	-	-	-	-
Write-offs	-	-	-	-
Unwind of discount	-	-	1	1
Foreign exchange and other movements	(3)	-	(1)	(4)
Balance at 31 December	9	13	7	29

IAS 1.125

a. Paragraph 35H of IFRS 7 requires reconciliation of the loss allowance by class of financial instrument. This guide illustrates this disclosure separately for retail and wholesale portfolios. However, depending on the nature of exposures, in practice more granular disclosures are likely to be appropriate – e.g. separate reconciliation for retail mortgages, unsecured lending or credit cards.

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IFRS 7.33, 35M

A. Credit risk (continued)

iii. Amounts arising from ECL (continued)

Loss allowance (continued)

In millions of euro	2021 Stage 1	Stage 2	Stage 3	Purchased credit-impaired	Total
Loans and advances to customers at amortised cost*					
Balance at 1 January	**309**	**582**	**685**	**17**	**1,593**
Transfer to Stage 1	**124**	**(124)**	**-**	**-**	**-**
Transfer to Stage 2	**(15)**	**62**	**(47)**	**-**	**-**
Transfer to Stage 3	**(2)**	**(62)**	**64**	**-**	**-**
Net remeasurement of loss allowance	**87**	**221**	**178**	**-**	**486**
New financial assets originated or purchased	**82**	**20**	**-**	**-**	**102**
Financial assets that have been derecognised	**(12)**	**(20)**	**(23)**	**-**	**(55)**
Write-offs	**-**	**-**	**(76)**	**-**	**(76)**
Unwind of discount	**-**	**-**	**20**	**4**	**24**
Foreign exchange and other movements	**(28)**	**(52)**	**(83)**	**(4)**	**(167)**
Balance at 31 December	**545**	**627**	**718**	**17**	**1,907**

In millions of euro	2020 Stage 1	Stage 2	Stage 3	Purchased credit-impaired	Total
Loans and advances to customers at amortised cost*					
Balance at 1 January	188	402	511	17	1,118
Transfer to Stage 1	1	(1)	-	-	-
Transfer to Stage 2	-	47	(47)	-	-
Transfer to Stage 3	-	(35)	35	-	-
Net remeasurement of loss allowance	57	156	153	-	366
New financial assets originated or purchased	68	-	-	-	68
Financial assets that have been derecognised	(6)	(16)	(10)	-	(32)
Write-offs	-	-	(8)	-	(8)
Unwind of discount	-	-	20	3	23
Foreign exchange and other movements	1	29	31	(3)	58
Balance at 31 December	309	582	685	17	1,593

* 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.

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A. Credit risk (continued)

iii. Amounts arising from ECL (continued)

Loss allowance (continued)

In millions of euro	2021 Stage 1	Stage 2	Stage 3	Purchased credit-impaired	Total
Loans and advances to customers at amortised cost – retail*					
Balance at 1 January	**157**	**392**	**466**	**10**	**1,025**
Transfer to Stage 1	**84**	**(84)**	**-**	**-**	**-**
Transfer to Stage 2	**(13)**	**13**	**-**	**-**	**-**
Transfer to Stage 3	**(2)**	**(49)**	**51**	**-**	**-**
Net remeasurement of loss allowance	**59**	**163**	**130**	**1**	**353**
New financial assets originated or purchased	**44**	**20**	**-**	**-**	**64**
Financial assets that have been derecognised	**(4)**	**(2)**	**(3)**	**-**	**(9)**
Write-offs	**-**	**-**	**(38)**	**-**	**(38)**
Unwind of discount	**-**	**-**	**10**	**2**	**12**
Foreign exchange and other movements	**(15)**	**(40)**	**(71)**	**(2)**	**(128)**
Balance at 31 December	**310**	**413**	**545**	**11**	**1,279**

In millions of euro	2020 Stage 1	Stage 2	Stage 3	Purchased credit-impaired	Total
Loans and advances to customers at amortised cost – retail*					
Balance at 1 January	75	278	302	9	664
Transfer to Stage 1	1	(1)	-	-	-
Transfer to Stage 2	-	23	(23)	-	-
Transfer to Stage 3	-	(19)	19	-	-
Net remeasurement of loss allowance	39	99	106	1	245
New financial assets originated or purchased	43	-	-	-	43
Financial assets that have been derecognised	(1)	(10)	(5)	-	(16)
Write-offs	-	-	(4)	-	(4)
Unwind of discount	-	-	10	2	12
Foreign exchange and other movements	-	22	61	(2)	81
Balance at 31 December	157	392	466	10	1,025

* 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.

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Notes to the consolidated financial statements (continued)

IFRS 7.31

6. Financial risk review (continued)

IFRS 7.33, 35M

A. Credit risk (continued)

iii. Amounts arising from ECL (continued)

Loss allowance (continued)

	2021				
In millions of euro	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased credit-impaired**	**Total**
Loans and advances to customers at amortised cost – corporate customers					
Balance at 1 January	**152**	**190**	**219**	**7**	**568**
Transfer to Stage 1	**40**	**(40)**	**-**	**-**	**-**
Transfer to Stage 2	**(2)**	**49**	**(47)**	**-**	**-**
Transfer to Stage 3	**-**	**(13)**	**13**	**-**	**-**
Net remeasurement of loss allowance	**28**	**58**	**48**	**(1)**	**133**
New financial assets originated or purchased	**38**	**-**	**-**	**-**	**38**
Financial assets that have been derecognised	**(8)**	**(18)**	**(20)**	**-**	**(46)**
Write-offs	**-**	**-**	**(38)**	**-**	**(38)**
Unwind of discount	**-**	**-**	**10**	**2**	**12**
Foreign exchange and other movements	**(13)**	**(12)**	**(12)**	**(2)**	**(39)**
Balance at 31 December	**235**	**214**	**173**	**6**	**628**

	2020				
In millions of euro	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased credit-impaired**	**Total**
Loans and advances to customers at amortised cost – corporate customers					
Balance at 1 January	113	124	209	8	454
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	24	(24)	-	-
Transfer to Stage 3	-	(16)	16	-	-
Net remeasurement of loss allowance	18	57	47	(1)	121
New financial assets originated or purchased	25	-	-	-	25
Financial assets that have been derecognised	(5)	(6)	(5)	-	(16)
Write-offs	-	-	(4)	-	(4)
Unwind of discount	-	-	10	1	11
Foreign exchange and other movements	1	7	(30)	(1)	(23)
Balance at 31 December	152	190	219	7	568

[Disclosure of loss allowance reconciliation for loan commitments, financial guarantee contracts and for each class within retail and corporate lending, as appropriate.]

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6. Financial risk review (continued)

IFRS 7.33, 35M

A. Credit risk (continued)

iii. Amounts arising from ECL (continued)

Loss allowance (continued)

In millions of euro	2021 Stage 1	Stage 2	Stage 3	Total
Debt investment securities at FVOCI				
Balance at 1 January	**5**	**5**	**30**	**40**
Transfer to Stage 1	**1**	**(1)**	**-**	**-**
Transfer to Stage 2	**(6)**	**7**	**(1)**	**-**
Transfer to Stage 3	**-**	**(5)**	**5**	**-**
Net remeasurement of loss allowance	**3**	**2**	**11**	**16**
New financial assets originated or purchased	**3**	**-**	**-**	**3**
Financial assets that have been derecognised	**-**	**-**	**(2)**	**(2)**
Write-offs	**-**	**-**	**(9)**	**(9)**
Unwind of discount	**1**	**(2)**	**5**	**4**
Foreign exchange and other movements	**(1)**	**(1)**	**(1)**	**(3)**
Balance at 31 December	**6**	**5**	**38**	**49**

In millions of euro	2020 Stage 1	Stage 2	Stage 3	Total
Debt investment securities at FVOCI				
Balance at 1 January	2	2	14	18
Transfer to Stage 1	1	(1)	-	-
Transfer to Stage 2	(1)	1	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	3	1	10	14
New financial assets originated or purchased	2	2	4	8
Financial assets that have been derecognised	-	-	-	-
Write-offs	-	-	-	-
Unwind of discount	-	1	2	3
Foreign exchange and other movements	(2)	(1)	-	(3)
Balance at 31 December	5	5	30	40

The loss allowance on debt investment securities at FVOCI is not recognised in the statement of financial position because the carrying amount of such securities is their fair value.

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Notes to the consolidated financial statements (continued)

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6. Financial risk review (continued)

IFRS 7.33, 35M

A. Credit risk (continued)

iii. Amounts arising from ECL (continued)

Loss allowance (continued)

In millions of euro	2021 Total	2020 Total
Debt investment securities at amortised cost		
Balance at 1 January	**4**	4
Net remeasurement of loss allowance	**1**	-
New financial assets originated or purchased	**1**	-
Foreign exchange and other movements	**-**	-
Balance at 31 December	**6**	4
Cash and cash equivalents		
Balance at 1 January	**1**	1
Net remeasurement of loss allowance	**-**	-
Net decrease in cash and cash equivalents	**-**	-
Foreign exchange and other movements	**-**	-
Balance at 31 December	**1**	1
Loan commitments and financial guarantee contracts (IFRS 7.B8E)		
Balance at 1 January	**6**	6
Net remeasurement of loss allowance	**(2)**	-
New loan commitments and financial guarantees issued	**4**	-
Foreign exchange and other movements	**3**	-
Balance at 31 December	**11**	6

	2021			
In millions of euro	Stage 1	Stage 2	Stage 3	Total
Finance lease receivables				
Balance at 1 January	**1**	**5**	**16**	**22**
Net remeasurement of loss allowance	**-**	**-**	**(2)**	**(2)**
New financial assets originated or purchased	**1**	**-**	**-**	**1**
Unwind of discount	**-**	**-**	**1**	**1**
Foreign exchange and other movements	**(2)**	**4**	**(7)**	**(5)**
Balance at 31 December	**-**	**9**	**8**	**17**

	2020			
In millions of euro	Stage 1	Stage 2	Stage 3	Total
Finance lease receivables				
Balance at 1 January	-	5	11	16
Net remeasurement of loss allowance	1	-	3	4
New financial assets originated or purchased	-	-	-	-
Unwind of discount	-	-	1	1
Foreign exchange and other movements	-	-	1	1
Balance at 31 December	1	5	16	22

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6. Financial risk review (continued)

IFRS 7.33, 35M

A. Credit risk (continued)

iii. Amounts arising from ECL (continued)

Loss allowance (continued)

The following table provides a reconciliation between:

- amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instrument; and
- the 'impairment losses on financial instruments' line item in the consolidated statement of profit or loss and other comprehensive income.

In millions of euro

Net remeasurement of loss allowance
New financial assets originated or purchased
Recoveries of amounts previously written off[a]
Non-integral financial guarantee contracts[b]
Impairment losses on financial instrument recognised in profit or loss

In millions of euro

Net remeasurement of loss allowance
New financial assets originated or purchased
Recoveries of amounts previously written off
Non-integral financial guarantee contracts
Impairment losses on financial instrument recognised in profit or loss

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2021

Loans and advances to banks at amortised cost	Loans and advances to customers at amortised cost	Debt investment securities at FVOCI	Debt investment securities at amortised cost	Cash and cash equivalents	Loan commitments and financial guarantee contracts	Financial lease receivable	Total
22	**486**	**16**	**1**	**-**	**(2)**	**(2)**	**521**
4	**102**	**3**	**1**	**-**	**4**	**1**	**115**
26	**588**	**19**	**2**	**-**	**2**	**(1)**	**636**
-	**(18)**	**(1)**	**(1)**	**-**	**-**	**-**	**(20)**
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**
26	**570**	**18**	**1**	**-**	**2**	**(1)**	**616**

2020

Loans and advances to banks at amortised cost	Loans and advances to customers at amortised cost	Debt investment securities at FVOCI	Debt investment securities at amortised cost	Cash and cash equivalents	Loan commitments and financial guarantee contracts	Financial lease receivable	Total
13	366	14	-	-	-	4	397
9	68	8	-	-	-	-	85
22	434	22	-	-	-	4	482
(3)	(3)	(18)	(10)	-	-	-	(34)
-	-	-	-	-	-	-	-
19	431	4	(10)	-	-	4	448

Insights 7.8.430.130, 7.10.80.30

a. There is no guidance in IFRS 9 on the presentation of recoveries of amounts previously written off in a specific line item in the statement of profit or loss and OCI. It appears that an entity may (but is not required to) present such recoveries in the line item 'impairment losses'. The Group has elected to present recoveries in the 'impairment losses on financial instruments' line.

Insights 7.1.143.10

b. It appears that an entity should choose an accounting policy, to be applied consistently, to present gains or losses on a compensation right in profit or loss either:

– in the line item 'impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with IFRS 9'; or

– in another appropriate line item.

The Group has elected the first option and therefore these gains and losses are included in the above table. See Note 46(J)(vii).

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6. Financial risk review (continued)

IFRS 7.33, 35M

A. Credit risk (continued)

iii. Amounts arising from ECL (continued)

Loss allowance (continued)

IFRS 7.35I, 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.

	2021		
	Impact: increase (decrease)		
	Stage 1	**Stage 2**	**Stage 3**
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**	**-**	**-**
Sale of a €500 million residential mortgage portfolio at Blue Banking Plc	**(7)**	**(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 that resulted in acquisition of new customers	**3**	**-**	**-**

	2020		
	Impact: increase (decrease)		
	Stage 1	**Stage 2**	**Stage 3**
Loans and advances to customers at amortised cost			
Increase in lending to small and medium-sized entities as part of the Group's strategic growth initiative	19	-	-
Debt investment securities at FVOCI			
The write-off of a portfolio of securities following a widespread credit downgrade in [*Industry X*]	-	-	(6)
Loan commitments and financial guarantee contracts			
Increase in retail credit card loan commitments due to strategic growth initiative that resulted in acquisition of new customers	2	1	-

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Notes to the consolidated financial statements (continued)

IFRS 7.31

6. Financial risk review (continued)

IFRS 7.33, 35M

A. Credit risk (continued)

iii. Amounts arising from ECL (continued)

Credit-impaired financial assets

See accounting policy in Note 46(J)(vii).

Credit-impaired loans and advances are graded 11 to 12 in the Group's internal credit risk grading system (see Note 43(B)).

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

In millions of euro	2021	2020
Credit-impaired loans and advances to customers at 1 January	**1,149**	1,762
Change in ECL allowance	**(245)**	(199)
Classified as credit-impaired during the year	**794**	240
Transferred to not-credit-impaired during the year	**(321)**	(512)
Net repayments	**(57)**	(87)
Recoveries of amounts previously written off	**18**	3
Disposals	**(243)**	(150)
Interest income	**47**	80
Other movements	**7**	12
Credit-impaired loans and advances to customers at 31 December	**1,149**	1,149

IFRS 7.35L

The contractual amount outstanding on financial assets that were written off during the year ended 31 December 2020 and that are still subject to enforcement activity is €23 million (2020: €20 million).

Modified financial assets

IFRS 7.35J

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	2021	2020
Financial assets modified during the period		
Amortised cost before modification	**450**	367
Net modification loss	**(17)**	(14)
Financial assets modified since initial recognition		
Gross carrying amount of financial assets previously modified for which loss allowance has changed during the period to an amount equal to 12-month ECL from lifetime	**14**	11

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.*

The Group has concluded 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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6. Financial risk review (continued)

IFRS 7.33, 35M

A. Credit risk (continued)

iv. Concentrations of credit risk

IFRS 7.34(c), B8

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.

In millions of euro	***Note***
Carrying amount	*23, 24, 25*
Amount committed/guaranteed	
Concentration by sector (*IFRS 7.34(c), B8*)	
Corporate:	
Real estate	
Transport	
Funds	
Other	
Government	
Banks	
Retail:	
Mortgages	
Unsecured lending	
Concentration by location (*IFRS 7.34(c), B8*)	
North America	
Europe	
Asia Pacific	
Middle East and Africa	

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. [*Entities may consider presenting further disclosures regarding concentration by sector and location when this information is helpful to enable users of their financial statements to assess the credit risk exposure and understand the significant credit risk concentrations.*]

v. Offsetting financial assets and financial liabilities

IFRS 7.13A

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.

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Loans and advances to banks		Loans and advances to customers		Investment debt securities		Loan commitments and financial guarantees issued	
2021	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
5,555	4,683	**62,732**	56,712	**5,807**	4,929	**38**	28
-	-	**-**	-	**-**	-	**1,941**	1,615
-	-	**43,589**	37,894	**4,885**	4,133	**1,288**	1,071
-	-	***18,346***	*16,018*	***2,399***	*2,128*	***1,234***	*1,039*
-	-	***12,724***	*10,525*	***2,421***	*1,843*	***54***	*32*
-	-	***9,331***	*8,737*	**-**	-	**-**	-
-	-	***3,188***	*2,614*	***65***	*162*	**-**	-
-	-	**-**	-	**824**	709	**-**	-
5,555	4,683	**-**	-	**-**	-	**-**	-
-	-	**19,143**	18,818	**98**	87	**653**	544
-	-	***13,239***	*13,361*	***98***	*87*	***630***	*524*
-	-	***5,904***	*5,457*	**-**	-	***23***	*20*
5,555	4,683	**62,732**	56,712	**5,807**	4,929	**1,941**	1,615
1,118	944	**15,397**	11,837	**2,374**	2,246	**80**	67
3,122	2,635	**35,516**	32,545	**2,443**	1,847	**1,803**	1,499
722	664	**6,118**	7,356	**528**	446	**40**	33
593	440	**5,701**	4,974	**462**	390	**18**	16
5,555	4,683	**62,732**	56,712	**5,807**	4,929	**1,941**	1,615

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IFRS 7.31

6. Financial risk review (continued)

IFRS 7.33, 35M

A. Credit risk (continued)

v. Offsetting financial assets and financial liabilities (continued)

IFRS 7.B40–B41

The 'similar agreements' include derivative clearing agreements, global master repurchase agreements and global master securities lending agreements. 'Similar financial instruments' include derivatives, 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 7.13C

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

31 December 2021 *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)**	**Related amounts not offset in the statement of financial position** **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	**8,314**	**-**	**8,314**	**(8,314)**	**-**	**-**
Loans and advances to customers	**112**	**(98)**	**14**	**-**	**-**	**14**
Total	**10,262**	**(98)**	**10,164**	**(8,748)**	**(1,396)**	**20**

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Notes to the consolidated financial statements (continued)

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6. Financial risk review (continued)

IFRS 7.33, 35M

A. Credit risk (continued)

v. Offsetting financial assets and financial liabilities (continued)

IFRS 7.13C

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

31 December 2021 *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	**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 2020 *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)**	**Related amounts not offset in the statement of financial position: 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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6. Financial risk review (continued)

IFRS 7.33, 35M

A. Credit risk (continued)

v. Offsetting financial assets and financial liabilities (continued)

IFRS 7.13C

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

31 December 2020 *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.

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Notes to the consolidated financial statements (continued)

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6. Financial risk review (continued)

IFRS 7.33, 35M

A. Credit risk (continued)

v. Offsetting financial assets and financial liabilities (continued)

IFRS 7.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 2021 *In millions of euro*	**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***
Types of financial assets					
Derivatives – trading assets	**978**	Non-pledged trading assets	**16,122**	**15,144**	*21*
Derivatives held for risk management	**858**	Derivative assets held for risk management	**858**	**-**	*22*
Loans and advances to customers	**14**	Loans and advances to customers	**62,732**	**56,400**	*24*
Reverse sale-and-repurchase, securities borrowing and similar agreements	**6,318** **1,996**	Loans and advances to banks	**5,555**	**3,559**	*23*

31 December 2021 *In millions of euro*	**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***
Types of financial liabilities					
Derivatives – trading liabilities	**408**	Trading liabilities	**7,026**	**6,618**	*21*
Derivatives held for risk management	**828**	Derivative liabilities held for risk management	**828**	**-**	*22*
Sale-and-repurchase, securities lending and similar agreements	**387**	Deposits from banks	**11,678**	**11,291**	*29*
Customer deposits	**-**	Deposits from customers	**53,646**	**53,646**	*30*

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Notes to the consolidated financial statements (continued)

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6. Financial risk review (continued)

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A. Credit risk (continued)

v. 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 2020 *In millions of euro*	**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***
Types of financial assets					
Derivatives – trading assets	957	Non-pledged trading assets	15,249	14,292	*21*
Derivatives held for risk management	726	Derivative assets held for risk management	726	-	*22*
Loans and advances to customers	12	Loans and advances to customers	56,712	50,566	*24*
Reverse sale-and-repurchase, securities borrowing and similar agreements	6,134 1,278	Loans and advances to banks	4,683	3,405	*23*

31 December 2020 *In millions of euro*	**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***
Types of financial liabilities					
Derivatives – trading liabilities	372	Trading liabilities	6,052	5,680	*21*
Derivatives held for risk management	789	Derivative liabilities held for risk management	789	-	*22*
Sale-and-repurchase, securities lending and similar agreements	412	Deposits from banks	10,230	9,818	*29*
Customer deposits	-	Deposits from customers	48,904	48,904	*30*

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6. Financial risk review (continued)

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B. Liquidity risk[a]

COVID-19 considerations

IFRS 7 requires disclosure of quantitative data about liquidity risk arising from financial instruments. A bank needs to explain how it is managing this risk, including any changes from the previous period and any concentrations of liquidity risk. Disclosures addressing the IFRS 7 requirements may need to be expanded, with added focus on the bank's response to the impact of COVID-19.

For the definition of liquidity risk and information on how liquidity risk is managed by the Group, see Note 43(C).

i. Exposure to liquidity risk

IFRS 7.34(a)

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers and short-term funding. 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. 'Deposits from customers and short-term funding' includes deposits from banks, customers, 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 7.34(a), 39(c)

	2021	2020
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 7.34(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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6. Financial risk review (continued)

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B. Liquidity risk (continued)

IFRS 7.39(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 7.B11

31 December 2021 *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 7.39(a))								
Trading liabilities	*21*	**6,618**	**(6,882)**	**(5,625)**	**(926)**	**(331)**	**-**	**-**
Deposits from banks	*29*	**11,678**	**(12,713)**	**(10,683)**	**(1,496)**	**(534)**	**-**	**-**
Deposits from customers	*30*	**53,646**	**(55,340)**	**(39,318)**	**(741)**	**(3,540)**	**(11,741)**	**-**
Debt securities issued	*31*	**11,227**	**(12,881)**	**-**	**-**	**(201)**	**(12,680)**	**-**
Subordinated liabilities	*32*	**5,642**	**(6,660)**	**-**	**-**	**-**	**(5,499)**	**(1,161)**
Other financial liabilities – lease liabilities (IFRS 16.58)	*34*	**367**	**(404)**	**(11)**	**(23)**	**(101)**	**(269)**	**-**
Issued financial guarantee contracts (IFRS 7.B11C(c))	*33*	**32**	**(740)**	**-**	**-**	**(740)**	**-**	**-**
Issued loan commitments (IFRS 7.B11D(e))	*33*	**6**	**(1,201)**	**(1,201)**	**-**	**-**	**-**	**-**
		89,216	**(96,821)**	**(56,838)**	**(3,186)**	**(5,447)**	**(30,189)**	**(1,161)**
Derivative liabilities (IFRS 7.39(b), B11B)								
Trading:	*21*	**408**	**-**	**-**	**-**	**-**	**-**	**-**
Outflow		**-**	**(3,217)**	**(398)**	**(1,895)**	**(856)**	**(68)**	**-**
Inflow		**-**	**2,789**	**138**	**1,799**	**823**	**29**	**-**
Risk management:	*22*	**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	*20*	**2,969**	**2,969**	**2,537**	**432**	**-**	**-**	**-**
Pledged trading assets	*21*	**540**	**550**	**390**	**125**	**35**	**-**	**-**
Non-pledged trading assets	*21*	**15,144**	**15,300**	**13,540**	**1,460**	**270**	**30**	**-**
Loans and advances to banks	*23*	**5,555**	**5,620**	**4,480**	**450**	**690**	**-**	**-**
Loans and advances to customers	*24*	**62,732**	**76,829**	**10,180**	**5,256**	**14,280**	**25,000**	**22,113**
Investment securities	*25*	**6,302**	**6,790**	**2,713**	**234**	**932**	**2,643**	**268**
		93,242	**108,058**	**33,840**	**7,957**	**16,207**	**27,673**	**22,381**
Derivative assets								
Trading:	*21*	**978**	**-**	**-**	**-**	**-**	**-**	**-**
Inflow		**-**	**6,345**	**654**	**3,890**	**1,723**	**78**	**-**
Outflow		**-**	**(5,279)**	**(250)**	**(3,321)**	**(1,643)**	**(65)**	**-**
Risk management:	*22*	**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 7.39, B11, B11E, Insights 7.10.650.80, 7I.8.370.80

a. The Group 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 Group 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.*

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

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6. Financial risk review (continued)

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B. Liquidity risk (continued)

IFRS 7.39(a)–(b)

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

IFRS 7.B11

IFRS 7.39(a) (Non-derivative liabilities); *IFRS 16.58* (Other financial liabilities – lease liabilities); *IFRS 7.B11C(c)* (Issued financial guarantee contracts); *IFRS 7.B11D(e)* (Issued loan commitments); *IFRS 7.39(b), B11B* (Derivative liabilities)

31 December 2020 *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								
Trading liabilities	*21*	5,680	(6,127)	(5,068)	(780)	(279)	-	-
Deposits from banks	*29*	10,230	(11,324)	(9,516)	(1,332)	(476)	-	-
Deposits from customers	*30*	48,904	(50,292)	(36,758)	(713)	(3,443)	(9,378)	-
Debt securities issued	*31*	10,248	(11,785)	-	-	-	(11,785)	-
Subordinated liabilities	*32*	4,985	(5,898)	-	-	-	(4,782)	(1,116)
Other financial liabilities – lease liabilities	*34*	441	(485)	(18)	(27)	(95)	(260)	(85)
Issued financial guarantee contracts	*33*	26	(601)	-	-	(601)	-	-
Issued loan commitments	*33*	4	(1,014)	(1,014)	-	-	-	-
		80,518	(87,526)	(52,374)	(2,852)	(4,894)	(26,205)	(1,201)
Derivative liabilities								
Trading:	*21*	372	-	-	-	-	-	-
Outflow		-	(2,425)	(381)	(1,151)	(835)	(58)	-
Inflow		-	2,053	122	1,103	789	39	-
Risk management:	*22*	789	-	-	-	-	-	-
Outflow		-	(7,941)	(313)	(1,041)	(1,423)	(5,125)	(39)
Inflow		-	7,152	336	972	1,341	4,483	20
		1,161	(1,161)	(236)	(117)	(128)	(661)	(19)
Financial asset by type								
Non-derivative assets								
Cash and cash equivalents	*20*	3,037	3,037	2,649	388	-	-	-
Pledged trading assets	*21*	519	528	375	121	32	-	-
Non-pledged trading assets	*21*	14,292	14,450	13,410	750	265	25	-
Loans and advances to banks	*23*	4,683	4,753	3,721	443	589	-	-
Loans and advances to customers	*24*	56,712	70,119	9,701	4,976	12,890	22,450	20,102
Investment securities	*25*	5,356	5,823	2,045	212	679	2,633	254
		84,599	98,710	31,901	6,890	14,455	25,108	20,356
Derivative assets								
Trading:	*21*	957	-	-	-	-	-	-
Inflow		-	6,334	678	3,811	1,756	89	-
Outflow		-	(5,258)	(270)	(3,254)	(1,670)	(64)	-
Risk management:	*22*	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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B. Liquidity risk (continued)

IFRS 7.39(a)–(b)

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

IFRS 7.39, 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.

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6. Financial risk review (continued)

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B. Liquidity risk (continued)

IFRS 7.39(a)–(b)

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

IAS 1.61(a)

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

In millions of euro	*Note*	2021	2020
Financial assets			
Loans and advances to customers	*24*	**23,813**	21,928
Investment securities	*25*	**3,634**	2,656
Financial liabilities			
Deposits from customers	*30*	**12,838**	13,115
Debt securities issued	*31*	**979**	18
Subordinated liabilities	*32*	**-**	178
Other financial liabilities – lease liabilities	*41*	**95**	100

IAS 1.61(b)

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*	2021	2020
Financial assets			
Loans and advances to customers	*24*	**34,215**	31,002
Investment securities	*25*	**2,668**	2,700
Financial liabilities			
Deposits from customers	*30*	**40,808**	35,789
Debt securities issued	*31*	**10,248**	10,230
Subordinated liabilities	*32*	**5,642**	4,807
Other financial liabilities – lease liabilities	*41*	**272**	341

iii. Liquidity reserves

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').

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

IFRS 7.34(a), 39(c)

Liquidity reserves

In millions of euro	2021 Carrying amount	2021 Fair value	2020 Carrying amount	2020 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	**2,595**	**2,595**	2,725	2,725
Unencumbered debt securities issued by sovereigns	**6,734**	**6,740**	6,597	6,600
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	**25,501**	**26,259**	23,551	23,915

* 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. The Group has concluded that including this information will enhance users' understanding of how the Group manages its liquidity risk.*

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B. Liquidity risk (continued)

IFRS 7.39(a)–(b)

iv. Financial assets available to support future funding

IFRS 7.34(a)

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

		Encumbered		Unencumbered		
In millions of euro	Note	Pledged as collateral	Other*	Available as collateral	Other**	Total
31 December 2021						
Cash and cash equivalents	*20*	**-**	**-**	**2,595**	**374**	**2,969**
Trading assets	*21*	**540**	**60**	**14,553**	**1,509**	**16,662**
Derivative assets held for risk management	*22*	**-**	**-**	**-**	**858**	**858**
Loans and advances	*23, 24*	**2,015**	**-**	**15,343**	**50,929**	**68,287**
Investment securities	*25*	**-**	**30**	**5,915**	**357**	**6,302**
Non-financial assets		**-**	**-**	**-**	**514**	**514**
Total assets (IFRS 7.14(a))		**2,555**	**90**	**38,406**	**54,541**	**95,592**
31 December 2020						
Cash and cash equivalents	*20*	-	-	2,725	312	3,037
Trading assets	*21*	519	54	13,838	1,357	15,768
Derivative assets held for risk management	*22*	-	-	-	726	726
Loans and advances	*23, 24*	1,730	-	13,253	46,412	61,395
Investment securities	*25*	-	26	5,009	321	5,356
Non-financial assets		-	-	-	340	340
Total assets (IFRS 7.14(a))		2,249	80	34,825	49,468	86,622

* 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 7.14(a)

The total financial assets recognised in the statement of financial position that had been pledged as collateral for liabilities at 31 December 2021 and 2020 is shown in the preceding table.

IFRS 7.14(b)

Financial assets are pledged as collateral as part of sales and repurchases, securities borrowing and securitisation transactions under terms that are usual and customary for such activities. 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 7.15(a)

At 31 December 2021, 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 (2020: €7,308 million).

IFRS 7.15(b)–(c)

At 31 December 2021, the fair value of financial assets accepted as collateral that had been sold or repledged was €5,661 million (2020: €5,205 million). The Group is obliged to return equivalent securities.

At 31 December 2021, 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 (2020: €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. The Group has concluded 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.*

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6. Financial risk review (continued)

IFRS 7.33

C. Market risk[a]

COVID-19 considerations

IFRS 7 requires disclosure of quantitative data about market risk arising from financial instruments. A bank needs to explain how it is managing this risk, including any changes from the previous period and any concentrations of market risk. Disclosures addressing the IFRS 7 requirements may need to be expanded, with added focus on the bank's response to the impact of COVID-19. For example, the reasonably possible ranges previously used in the sensitivity analysis disclosures may need to be adjusted to reflect the different economic conditions.

For the definition of market risk and information on how the Group manages the market risks of trading and non-trading portfolios, see Note 43(D).

IFRS 7.34(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	
In millions of euro	**Note**	**Carrying amount**	**Trading portfolios**	**Non-trading portfolios**
31 December 2021				
Assets subject to market risk				
Cash and cash equivalents	*20*	**2,969**	**-**	**2,969**
Trading assets	*21*	**16,662**	**16,662**	**-**
Derivatives held for risk management	*22*	**858**	**-**	**858**
Loans and advances to banks	*23*	**5,555**	**-**	**5,555**
Loans and advances to customers	*24*	**62,732**	**3,986**	**58,746**
Investment securities	*25*	**6,302**	**4,502**	**1,800**
Liabilities subject to market risk				
Trading liabilities	*21*	**7,026**	**7,026**	**-**
Derivatives held for risk management	*22*	**828**	**-**	**828**
Deposits	*29, 30*	**65,324**	**-**	**65,324**
Debt securities	*31*	**11,227**	**1,250**	**9,977**
Subordinated liabilities	*32*	**5,642**	**-**	**5,642**
31 December 2020				
Assets subject to market risk				
Cash and cash equivalents	*20*	3,037	-	3,037
Trading assets	*21*	15,768	15,768	-
Derivatives held for risk management	*22*	726	-	726
Loans and advances to banks	*23*	4,683	-	4,683
Loans and advances to customers	*24*	56,712	3,145	53,567
Investment securities	*25*	5,356	3,504	1,852
Liabilities subject to market risk				
Trading liabilities	*21*	6,052	6,052	-
Derivatives held for risk management	*22*	789	-	789
Deposits	*29, 30*	59,134	-	59,134
Debt securities	*31*	10,248	2,208	8,040
Subordinated liabilities	*32*	4,985	-	4,985

IFRS 7.34, 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. The Group has concluded 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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6. Financial risk review (continued)

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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 7.41

In millions of euro	At 31 December	Average	Maximum	Minimum
2021				
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**
2020				
Foreign currency risk	9.28	8.40	12.05	4.64
Interest rate risk	20.43	18.05	26.52	13.72
Credit spread risk	6.08	5.11	8.83	3.50
Other price risk	3.32	2.89	4.56	2.07
Covariance	(2.24)	(2.08)	-	-
Overall	36.87	32.37	47.64	26.68

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Notes to the consolidated financial statements (continued)

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6. Financial risk review (continued)

IFRS 7.33

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. The interest rate repricing gap table analyses the full-term structure of interest rate mismatches within the Group's balance sheet based on either (i) the next repricing date or the maturity date if floating rate or (ii) the maturity date if fixed rate.

IFRS 7.34(a)

In millions of euro	***Note***	**Carrying amount**	**Less than 3 months**	**3–6 months**	**6–12 months**	**1–5 years**	**More than 5 years**
31 December 2021							
Cash and cash equivalents	*20*	**2,969**	**2,969**	**-**	**-**	**-**	**-**
Loans and advances to banks	*23*	**5,555**	**4,903**	**652**	**-**	**-**	**-**
Loans and advances to customers	*24*	**58,745**	**21,957**	**8,349**	**3,259**	**21,533**	**3,647**
Investment securities	*25*	**1,800**	**177**	**442**	**720**	**360**	**101**
		69,069	**30,006**	**9,443**	**3,979**	**21,893**	**3,748**
Deposits from banks	*29*	**(11,678)**	**(11,202)**	**(476)**	**-**	**-**	**-**
Deposits from customers	*30*	**(53,646)**	**(39,715)**	**(1,584)**	**(1,636)**	**(10,711)**	**-**
Debt securities issued	*31*	**(9,977)**	**(5,143)**	**-**	**(184)**	**(4,650)**	**-**
Subordinated liabilities	*32*	**(5,642)**	**-**	**(4,782)**	**-**	**-**	**(860)**
		(80,943)	**(56,060)**	**(6,842)**	**(1,820)**	**(15,361)**	**(860)**
Effect of derivatives held for risk management		**-**	**3,620**	**1,576**	**-**	**(5,196)**	**-**
		(11,874)	**(22,434)**	**4,177**	**2,159**	**1,336**	**2,888**
31 December 2020							
Cash and cash equivalents	*20*	3,037	3,037	-	-	-	-
Loans and advances to banks	*23*	4,683	4,135	548	-	-	-
Loans and advances to customers	*24*	53,567	19,844	7,671	2,913	19,867	3,272
Investment securities	*25*	1,852	162	406	666	517	101
		63,139	27,178	8,625	3,579	20,384	3,373
Deposits from banks	*29*	(10,230)	(9,778)	(452)	-	-	-
Deposits from customers	*30*	(48,904)	(38,735)	(1,493)	(1,065)	(7,611)	-
Debt securities issued	*31*	(8,040)	(4,473)	-	(178)	(3,389)	-
Subordinated liabilities	*32*	(4,985)	-	(4,158)	-	-	(827)
		(72,159)	(52,986)	(6,103)	(1,243)	(11,000)	(827)
Effect of derivatives held for risk management		-	3,225	1,240	-	(4,465)	-
		(9,020)	(22,583)	3,762	2,336	4,919	2,546

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 100bp 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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6. Financial risk review (continued)

IFRS 7.33

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 7.40(a)

In millions of euro	100bp parallel increase	100bp parallel decrease	50bp parallel increase	50bp parallel decrease
Sensitivity of projected net interest income				
2021				
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**
2020				
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				
2021				
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**
2020				
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 and other non-trading financial assets mandatorily measured at FVTPL reported in profit or loss;
- *fair value reserve:* increases or decreases in the fair values of financial assets at FVOCI 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 22.

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6. Financial risk review (continued)

IFRS 7.33

C. Market risk (continued)

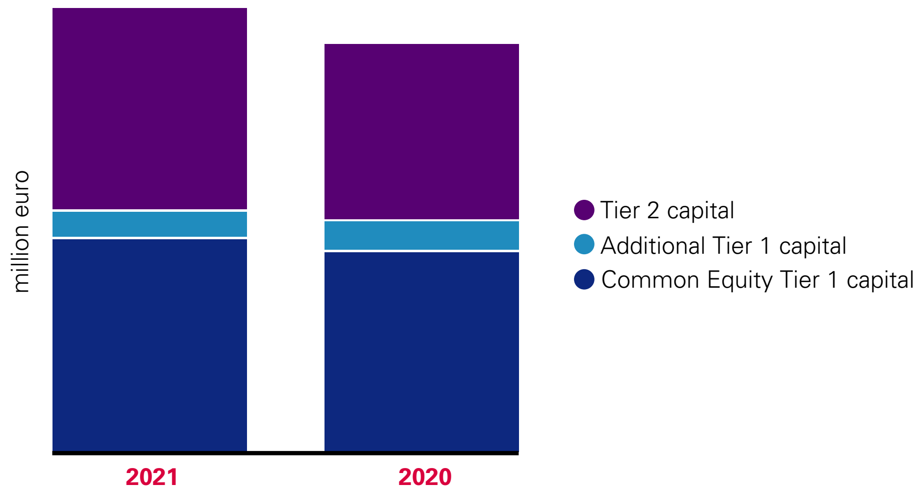
iii. Exposure to currency risks – Non-trading portfolios

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

	Net investments	
In millions	**2021**	**2020**
Functional currency of foreign operation		
GBP	**984**	782
USD	**680**	675

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 [*lead regulator*] has issued guidelines on transition requirements for the implementation of IFRS 9. The guidelines allow a choice of two approaches to the recognition of the impact of adoption of the impairment requirements of the standard on regulatory capital:

– phasing in the full impact over a five-year period; or

– recognising the full impact on the day of adoption.

The Group has adopted the second approach.

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 1.134–136

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.

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6. Financial risk review (continued)

D. Capital management (continued)

i. Regulatory capital (continued)

IAS 1.135(a)(i)

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

- Common Equity Tier 1 capital, which includes ordinary share capital, related share premiums, retained earnings, reserves and NCI after adjustment for dividends proposed after the year end 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.
- Additional Tier 1 capital[b], which includes instruments classified as equity under IFRS Standards (see Note 35(A)).
- Tier 2 capital, which includes qualifying subordinated liabilities and any excess of accounting ECL over regulatory expected losses.

In millions of euro	**Note**	**2021**	**2020**
Common Equity Tier 1 capital			
Ordinary share capital	*35*	**1,759**	1,756
Share premium		**468**	439
Retained earnings		**3,335**	3,135
Dividends proposed after year end		**(263)**	(263)
Translation reserve		**62**	77
Other reserves		**76**	122
NCI (amount allowed in consolidated Common Equity Tier 1)		**137**	117
Deductions:			
Intangible assets	*27*	**(275)**	(259)
Deferred tax other than temporary timing differences		**(22)**	(31)
Fair value gains, net of deferred tax, arising from own credit spreads		**(2)**	(1)
Other regulatory adjustments under Basel III		**(8)**	(7)
Total Common Equity Tier 1 capital		**5,267**	5,085
Additional Tier 1 capital			
Instruments classified as equity under IFRS Standards	*35*	**500**	500
Total Tier 1 capital		**5,767**	5,585
Tier 2 capital			
Qualifying subordinated liabilities	*32*	**4,782**	4,158
Excess of accounting ECL over regulatory expected losses		**155**	98
Total Tier 2 capital		**4,937**	4,256
Total regulatory capital		**10,704**	9,841

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.

a. *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.*

b. The regulatory capital of a bank is subject to definitions imposed by local regulatory authorities in each country. Disclosures of regulatory capital in this guide are for illustrative purposes only.

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Notes to the consolidated financial statements (continued)

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6. Financial risk review (continued)

D. Capital management (continued)

i. Regulatory capital (continued)

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 individual capital adequacy assessment process (ICAAP).

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 these 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 by Group Risk and Group Credit independently of those responsible for the operation 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.

E. Interest rate benchmark reform

IFRS 7.24I, J
IFRS 7.24J(a)

i. Overview

A fundamental reform of major interest rate benchmarks is being undertaken globally, replacing some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Group has significant exposure to certain IBORs on its financial instruments that are being reformed as part of these market-wide initiatives.

The main risks to which the Group has been exposed as a result of IBOR reform are operational. For example, the renegotiation of loan contracts through bilateral negotiation with customers, updating of contractual terms, updating of systems that use IBOR curves and revision of operational controls related to the reform and regulatory risks. Financial risk is predominantly limited to interest rate risk.

The Group established a cross-functional IBOR Committee to manage its transition to alternative rates. The objectives of the IBOR Committee include evaluating the extent to which loans advanced, loan commitments, liabilities and derivatives reference IBOR cash flows, whether such contracts need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties. The IBOR Committee reports to the Executive Committee quarterly and collaborates with other business functions as needed. It provides periodic reports to ALCO and Central Treasury to support the management of interest rate risk and works closely with the Group Operational Risk Committee to identify operational and regulatory risks arising from IBOR reform.

For contracts indexed to an IBOR that mature after the expected cessation of the IBOR rate, the IBOR Committee has established policies to amend the contractual terms. These amendments include the addition of fallback clauses or replacement of the IBOR rate with an alternative benchmark rate. The Group has signed up to fallback mechanisms for centrally cleared derivatives and aimed to transfer exposures to the new benchmark rate ahead of the activation date of the fallback provisions.

The Group has been applying a policy to require that retail products, such as its residential mortgage portfolio, are amended in a uniform way, and bespoke products, such as loans and advances to corporates, are amended in bilateral negotiations with the counterparties.

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6. Financial risk review (continued)

E. Interest rate benchmark reform (continued)

IFRS 7.24I, J

i. Overview (continued)

The Group's Executive Committee approved a policy requiring that, with effect from 1 October 2019, all newly originated floating-rate loans and advances to customers incorporate fallback provisions for when an IBOR ceases to exist. The fallback provisions provide for a transition to the applicable alternative benchmark rate, which vary depending on the jurisdiction.

The Group monitors the progress of transition from IBORs to new benchmark rates by reviewing the total amounts of contracts that have yet to transition to an alternative benchmark rate and the amounts of such contracts that include an appropriate fallback clause. The Group considers that a contract is not yet transitioned to an alternative benchmark rate (and referred to as an 'unreformed contract') when interest under the contract is indexed to a benchmark rate that is still subject to IBOR reform, even if it includes a fallback clause that deals with the cessation of the existing IBOR.

IFRS 7.24I(b)

As at 31 December 2021, the IBOR reform in respect of currencies to which the Group has exposure has been largely completed. The table below sets out the IBOR rates that the Group had exposure to, the new benchmark rates to which these exposures have or are being transitioned, and the status of the transition.

			Status as at 31 December	
Currency	**Benchmark before reform**	**Benchmark after reform**	**2021**	**2020**
GBP	GBP LIBOR	SONIA	Completed	In progress
USD	USD LIBOR	SOFR	In progress (see below)	In progress
EURO	EONIA	€STR	Completed	In progress
EURO	EURIBOR	EURIBOR reformed	Completed	Completed

In March 2021, the Financial Conduct Authority (FCA), as the regulator of ICE (the authorised administrator of LIBOR), announced that after 31 December 2021 LIBOR settings for sterling, euro and the one-week and two-month US dollar settings will either cease to be provided or no longer be representative. The remaining US dollar settings will either cease to be provided or no longer be representative after 30 June 2023.

IFRS 7.24I, 24J(a)

ii. Non-derivative financial assets and loan commitments

During 2020 and 2021, the Group had the following principal IBOR exposures in respect of non-derivative financial assets and loan commitments subject to the reform:

- floating-rate loans and advances to customers: Euribor throughout its operations, GBP LIBOR primarily at Blue Banking Plc and USD LIBOR at Blue Banking (North America);
- loan commitments indexed to Euribor, GBP LIBOR and USD LIBOR held throughout its operations; and
- floating-rate trading assets and investment securities indexed to Euribor, GBP LIBOR and USD LIBOR and EONIA held throughout its operations.

As at 31 December 2021, the Group:

- amended existing contracts indexed to IBOR to incorporate new benchmark rates for contracts originally indexed to GBP LIBOR and EONIA; and
- inserted fallback provisions into all remaining US dollar LIBOR indexed exposures other than those defined as tough legacy contracts (see below).

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E. Interest rate benchmark reform (continued)

IFRS 7.24I, 24J(a)

ii. Non-derivative financial assets and loan commitments (continued)

'Tough legacy contracts' (TLCs) are those contracts that for various reasons the Group is unable to reform either by directly changing the IBOR rate or by inserting a fallback clause. For the purposes of practical continuance of such contracts after the relevant IBOR ceases to become representative, the FCA has been granted the power under UK law to direct a change in the calculation methodology of LIBOR and to extend its publication for a limited time. This 'synthetic' LIBOR will be used by the Group for these TLCs. The Group has €9m USD LIBOR residential mortgage loans, €1m USD LIBOR personal loans and €93m USD LIBOR corporate loans that it considers to be TLCs as at 31 December 2021.

IFRS 7.24I(b), 24J(b)(i)

The following tables show the total amounts of unreformed non-derivative financial assets and loan commitments and those with appropriate fallback language at 1 January 2020, 31 December 2020 and 31 December 2021. The amounts of trading assets and investment securities are shown at their carrying amounts and the amounts of loans and advances to customers are shown at their gross carrying amounts. The amounts of loan commitments are shown at their committed amounts.[a]

	GBP LIBOR		USD LIBOR		EONIA	
Amounts in millions of euro	Total amount of unreformed contracts	Amount with appropriate fallback clause	Total amount of unreformed contracts	Amount with appropriate fallback clause	Total amount of unreformed contracts	Amount with appropriate fallback clause
31 December 2021						
Loans and advances to retail customers						
Residential mortgage loans	-	N/A	819	810	-	N/A
Personal loans	-	N/A	201	200	-	N/A
	-	N/A	1,020	1,010	-	N/A
Corporate loans	-	N/A	2,416	2,323	-	N/A
Trading assets	-	N/A	299	299	-	N/A
Investment securities	-	N/A	200	200	-	N/A
Loan commitments	-	N/A	176	176	-	N/A

IFRS 7.24J(b)

a. IFRS 7 requires companies to disclose quantitative information about financial instruments that have yet to transition to an alternative benchmark rate as at the reporting date showing separately non-derivative financial assets, non-derivative financial liabilities and derivatives. The standard is not specific about what quantitative information should be disclosed. The Group has presented the amounts of contracts that have yet to transition to an alternative benchmark rate and the amounts of contracts that include appropriate fallback clauses at the start and the end of the year. The Group considers that this would be an appropriate quantitative disclosure about the progress of the Group in completing the transition to alternative benchmark rates. However, other presentations are possible.

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E. Interest rate benchmark reform (continued)

IFRS 7.24I(b), 24J(b)(i)

ii. Non-derivative financial assets and loan commitments (continued)

	GBP LIBOR		USD LIBOR		EONIA	
Amounts in millions of euro	Total amount of unreformed contracts	Amount with appropriate fallback clause	Total amount of unreformed contracts	Amount with appropriate fallback clause	Total amount of unreformed contracts	Amount with appropriate fallback clause
31 December 2020						
Loans and advances to retail customers						
Residential mortgage loans	873	532	2,347	751	-	-
Personal loans	181	107	381	175	-	-
	1,054	639	2,728	926	-	-
Corporate loans	2,549	1,580	5,281	2,610	-	-
Trading assets	504	272	675	289	94	49
Investment securities	278	161	429	209	205	91
Loan commitments	317	144	413	139	-	-
1 January 2020						
Loans and advances to retail customers						
Residential mortgage loans	913	284	2,929	644	-	-
Personal loans	263	103	401	105	-	-
	1,176	387	3,330	749	-	-
Corporate loans	2,945	942	5,828	1,224	-	-
Trading assets	514	175	679	81	96	29
Investment securities	289	112	484	87	287	99
Loan commitments	359	125	428	68	-	-

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6. Financial risk review (continued)

E. Interest rate benchmark reform (continued)

IFRS 7.24I, 24J(a)

iii. Non-derivative financial liabilities

IFRS 7.24I(b), 24J(b)(ii)

The following tables show the total amounts of unreformed non-derivative financial liabilities and amounts that include appropriate fallback language at 1 January 2020, 31 December 2020 and 31 December 2021. The amounts shown in the table are the carrying amounts.

	GBP LIBOR		USD LIBOR		EONIA	
Amounts in millions of euro	**Total amount of unreformed contracts**	**Amount with appropriate fallback clause**	**Total amount of unreformed contracts**	**Amount with appropriate fallback clause**	**Total amount of unreformed contracts**	**Amount with appropriate fallback clause**
31 December 2021						
Debt securities in issue	-	N/A	-	N/A	-	N/A
Subordinated liabilities	-	N/A	-	N/A	-	N/A
	-	N/A	-	N/A	-	N/A
31 December 2020						
Debt securities in issue	-	-	-	-	334	140
Subordinated liabilities	1,162	-	555	-	21	9
	1,162	-	555	-	355	149
1 January 2020						
Debt securities in issue	-	-	-	-	311	93
Subordinated liabilities	1,193	-	571	-	24	8
	1,193	-	571	-	335	101

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6. Financial risk review (continued)

E. Interest rate benchmark reform (continued)

IFRS 7.24I(a)

iv. Derivatives and hedge accounting

The Group holds derivatives for trading and risk management purposes (see Notes 21 and 22). Some derivatives held for risk management purposes are designated in hedging relationships. The interest rate and cross-currency swaps have floating legs that are indexed to various IBORs. The Group's derivative instruments are governed by ISDA's 2006 definitions.

IFRS 7.24I(b), 24J(b)(iii)

The following tables show the total amounts of unreformed derivative instruments and amounts that include appropriate fallback language at 1 January 2020, 31 December 2020 and 31 December 2021. For cross-currency swaps, the Group used the notional amount of the receive leg of the swap. The Group expects both legs of cross-currency swaps to be reformed simultaneously.

	GBP LIBOR		USD LIBOR		EONIA	
Amount in millions of euro	Total amount of unreformed contracts	Amount with appropriate fallback clause	Total amount of unreformed contracts	Amount with appropriate fallback clause	Total amount of unreformed contracts	Amount with appropriate fallback clause
31 December 2021						
Trading derivative assets						
Interest rate swaps	-	N/A	218	218	-	N/A
Cross-currency swaps	-	N/A	765	765	-	N/A
	-	N/A	911	911	-	N/A
Trading derivative liabilities						
Interest rate swaps	-	N/A	318	318	-	N/A
Cross-currency swaps	-	N/A	662	662	-	N/A
	-	N/A	980	980	-	N/A
Derivatives held for risk management						
Interest rate swaps	-	N/A	-	N/A	-	N/A
Cross-currency swaps	-	N/A	-	N/A	-	N/A
	-	N/A	-	N/A	-	N/A

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6. Financial risk review (continued)

E. Interest rate benchmark reform (continued)

IFRS 7.24I(b), 24J(b)(iii)

iv. Derivatives and hedge accounting (continued)

Amount in millions of euro	GBP LIBOR Total amount of unreformed contracts	GBP LIBOR Amount with appropriate fallback clause	USD LIBOR Total amount of unreformed contracts	USD LIBOR Amount with appropriate fallback clause	EONIA Total amount of unreformed contracts	EONIA Amount with appropriate fallback clause
31 December 2020						
Trading derivative assets						
Interest rate swaps	418	134	325	110	-	-
Cross-currency swaps	724	246	847	262	-	-
	1,142	380	1,172	372	-	-
Trading derivative liabilities						
Interest rate swaps	392	86	315	110	-	-
Cross-currency swaps	868	365	923	268	-	-
	1,260	451	1,238	378	-	-
Derivatives held for risk management						
Interest rate swaps	45	17	55	19	100	10
Cross-currency swaps	1,162	372	555	200	-	-
	1,207	389	610	219	100	10
1 January 2020						
Trading derivative assets						
Interest rate swaps	334	-	299	-	-	-
Cross-currency swaps	812	-	870	-	-	-
	1,146	-	1,169	-	-	-
Trading derivative liabilities						
Interest rate swaps	380	-	301	-	-	-
Cross-currency swaps	851	-	937	-	-	-
	1,231	-	1,238	-	-	-
Derivatives held for risk management						
Interest rate swaps	47	-	55	-	100	-
Cross-currency swaps	1,612	-	571	-	-	-
	1,659	-	626	-	100	-

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7. Fair values of financial instruments

IFRS 13.93(e)(iv), 93(h), IAS 1.125, 129

COVID-19 considerations

The COVID-19 coronavirus pandemic has significantly affected financial markets and may impact valuation techniques used by banks and classification of financial instruments in the fair value hierarchy.

Given the impact of the increase in economic uncertainty on forecasting cash flows and other unobservable inputs used in valuation techniques (e.g. certain risk-adjusted discount rates), companies may need to provide additional sensitivity disclosures – together with disclosure of the key assumptions and judgements made by management – to enable users to understand how fair value has been determined. These disclosures are required under both IFRS 13 *Fair Value Measurement* and IAS 1. IFRS 13 also contains specific disclosure requirements when amounts are transferred into Level 3 of the fair value hierarchy, including sensitivity disclosures.

See accounting policy in Note 46(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 premiums 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.

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Notes to the consolidated financial statements (continued)

7. 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. Management uses judgement to select the most appropriate point in the range.

Asset-backed securities with no active market

During the current year, 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.

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Notes to the consolidated financial statements (continued)

7. 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 Standards. 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, understanding 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 understanding 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.

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Notes to the consolidated financial statements (continued)

7. Fair values of financial instruments (continued)

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

IFRS 13.93(a)–(b)

31 December 2021

In millions of euro	***Note***	**Level 1**	**Level 2**	**Level 3**	**Total**
Pledged trading assets	*21*				
Government bonds		**332**	**-**	**-**	**332**
Other securities		**200**	**8**	**-**	**208**
Total		**532**	**8**	**-**	**540**
Non-pledged trading assets	*21*				
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	*22*				
Interest rate		**12**	**392**	**-**	**404**
Interest rate and foreign exchange		**7**	**143**	**-**	**150**
Foreign exchange		**3**	**147**	**-**	**150**
Other		**4**	**150**	**-**	**154**
Total		**26**	**832**	**-**	**858**
Loans and advances to customers	*24*				
Corporate customers		**-**	**369**	**3,617**	**3,986**
Investment securities	*25*				
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**	**663**	**5,892**
Trading liabilities	*21*				
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	*22*				
Interest rate		**10**	**215**	**-**	**225**
Interest rate and foreign exchange		**12**	**126**	**-**	**138**
Foreign exchange		**23**	**284**	**-**	**307**
Other		**8**	**150**	**-**	**158**
Total		**53**	**775**	**-**	**828**
Debt securities issued	*31*	**1,028**	**222**	**-**	**1,250**

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Notes to the consolidated financial statements (continued)

7. Fair values of financial instruments (continued)

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

IFRS 13.93(a)–(b)

31 December 2020

In millions of euro	*Note*	Level 1	Level 2	Level 3	Total
Pledged trading assets	*21*				
Government bonds		317	-	-	317
Other securities		200	2	-	202
Total		517	2	-	519
Non-pledged trading assets	*21*				
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	*22*				
Interest rate		14	295	-	309
Interest rate and foreign exchange		5	94	-	99
Foreign exchange		17	161	-	178
Other		5	135	-	140
Total		41	685	-	726
Loans and advances to customers	*24*				
Corporate customers		-	283	2,862	3,145
Investment securities	*25*				
Government bonds		574	173	-	747
Corporate bonds		2,704	489	-	3,193
Asset-backed securities		63	32	707	802
Equities		402	-	25	427
Retained interests in securitisations		-	-	87	87
Total		3,743	694	819	5,256
Trading liabilities	*21*				
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

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Notes to the consolidated financial statements (continued)

7. Fair values of financial instruments (continued)

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

31 December 2020 *In millions of euro*	***Note***	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative liabilities held for risk management	*22*				
Interest rate		10	182	-	192
Interest rate and foreign exchange		17	252	-	269
Foreign exchange		15	166	-	181
Other		7	140	-	147
Total		49	740	-	789
Debt securities issued	*31*	1,486	722	-	2,208

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7. 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	
	2021 *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	386	257	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	27	14	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

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Notes to the consolidated financial statements (continued)

7. 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	
	2020 *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	333	260	3,417	727	97	25	(60)	4,799
	Total gains or losses:								
IFRS 13.93(e)(i)	in profit or loss	30	5	(120)	6	-	8	(4)	(75)
IFRS 13.93(e)(ii)	in OCI	-	-	-	(10)	-	-	-	(10)
IFRS 13.93(e)(iii)	Purchases	80	6	100	10	5	-	-	201
IFRS 13.93(e)(iii)	Issues	-	-	-	-	-	-	(7)	(7)
IFRS 13.93(e)(iii)	Settlements	(1)	(14)	(535)	(17)	(15)	(8)	2	(588)
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	25	(69)	4,255

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7. 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.

		Trading assets		Loans and advances to customers	Investment securities			Trading liabilities	
	2021 *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)(i)	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**
	Other revenue	**-**	**-**	**-**	**-**	**4**	**2**	**-**	**6**
IFRS 13.93(e)(ii)	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**
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	**5**	**1**	**-**	**-**	**-**	**-**	**6**	**12**
	Net income from other financial instruments carried at fair value	**-**	**-**	**(2)**	**(67)**	**-**	**-**	**-**	**(69)**

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Notes to the consolidated financial statements (continued)

7. 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	
	2020 *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)(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)
	Other revenue	-	-	-	3	-	8	-	11
IFRS 13.93(e)(ii)	Total gains and losses recognised in OCI:								
	Fair value reserve (debt instruments) – net change in fair value	-	-	-	(10)	-	-	-	(10)
	Fair value reserve (equity instruments) – net change in fair value	-	-	-	-	-	-	-	-
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

IFRS 13.93(e)(iv)

During the years ended 31 December 2021 and 31 December 2020, 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.

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7. 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, IAS 1.125

The following table sets out information about significant unobservable inputs used at 31 December 2021 and 2020 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.[a]

Type of financial instrument	Fair values at 31 December 2021 *(In millions of euro)*	Valuation technique	Significant unobservable input
Residential mortgage-backed securities	**860** (2020: 1,093)	Discounted cash flow	Probability of default
			Loss severity
			Expected prepayment rate
OTC option-based structured credit derivatives	**100** (2020: 90)	Option model	Correlations between credit spreads
			Annualised volatility of credit spreads
OTC option-based structured non-credit derivatives	**88** (2020: 98)	Option model	Correlations between different underlyings
			Volatility of interest rate
			Volatility of FX rates
			Volatilities of equity indices
Loans and advances and retained interests in securitisations	**3,715** (2020: 2,949)	Discounted cash flow	Risk-adjusted discount rate
Equities	**27** (2020: 25)	Discounted cash flow	Expected net cash flows derived from the entity

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Range of estimates (weighted-average) for unobservable input	Fair value measurement sensitivity to unobservable inputs
8–12% (10%) (2020: 10–14% (12%))	Significant increases in any of these inputs in isolation would result in lower fair values.
40–60% (50%) (2020: 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.
3–6% (4.8%) (2020: 3–8% (5.8%))	
0.35–0.55% (0.47%) (2019: 0.25–0.45% (0.37%))	A significant increase in volatility would result in a higher fair value.
5–60% (20%) (2020: 5–70% (25%))	
0.3–0.6% (0.45%) (2020: 0.4–0.7% (0.55%))	Significant increases in volatilities would result in a higher fair value.
5–30% (15%) (2020: 4–30% (15%))	
10–40% (20%) (2020: 4–30% (15%))	
10–90% (40%) (2020: 10–90% (40%))	
Spread of 5–7% (6%) (2020: 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.
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 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.

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7. 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 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.

	Effect on profit or loss		Effect on OCI	
In millions of euro	Favourable	(Unfavourable)	Favourable	(Unfavourable)
31 December 2021				
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 2020				
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 2021 included a weighted-average probability of default of 10% (with reasonably possible alternative assumptions of 8 and 12%) (2020: 12, 10 and 14% respectively), a loss severity of 50% (with reasonably possible alternative assumptions of 40 and 60%) (2020: 55, 50 and 60% respectively) and an expected prepayment rate of 4.8% (with reasonably possible alternative assumptions of 3 and 6%) (2020: 5.8, 3 and 8%).

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Notes to the consolidated financial statements (continued)

7. 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 2021 was 0.47 (with reasonably possible alternative assumptions of 0.35 and 0.55) (2020: 0.37, 0.25 and 0.45 respectively). The weighted average of the annualised credit spread volatilities used in the models at 31 December 2021 was 20% (with reasonably possible alternative assumptions of 5 and 60%) (2020: 25, 5 and 70% respectively); interest rate volatilities: 15, 5 and 30% respectively (2020: 15, 4 and 30% respectively); FX volatilities: 20, 10 and 40% respectively (2020: 15, 4 and 30% respectively); and equity indices volatilities: 40, 10 and 90% respectively (2020: 40, 10 and 90% 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 2021 was 6% above the risk-free interest rate (with reasonably possible alternative assumptions of 5 and 7%) (2020: 5, 3 and 6% 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 or losses reported above that are attributable to observable and unobservable inputs. However, the losses on asset-backed securities in 2021 are principally dependent on the unobservable inputs described above.[a]

Insights 2.4.535.10 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.

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Notes to the consolidated financial statements (continued)

7. Fair values of financial instruments (continued)

E. Financial instruments not measured at fair value

IFRS 7.25, 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.

In millions of euro	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
31 December 2021					
Assets					
Cash and cash equivalents	**-**	**2,969**	**-**	**2,969**	**2,969**
Loans and advances to banks	**-**	**5,602**	**-**	**5,602**	**5,555**
Loans and advances to customers	**-**	**435**	**60,943**	**61,378**	**58,745**
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**
Loan commitments issued	**-**	**4**	**-**	**4**	**6**
Financial guarantee contracts issued	**-**	**31**	**-**	**31**	**32**
31 December 2020					
Assets					
Cash and cash equivalents	-	3,037	-	3,037	3,037
Loans and advances to banks	-	4,824	-	4,824	4,683
Loans and advances to customers	-	385	56,266	56,651	53,567
Investment securities measured at amortised cost	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
Loan commitments issued	-	2	-	2	4
Financial guarantee contracts issued	-	25	-	25	26

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.

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Notes to the consolidated financial statements (continued)

8. Operating segments[a]

See accounting policy in Note 46(Z).

A. Basis for segmentation

IFRS 8.20–22

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 Standards.

To help understand the segment information presented, an entity discloses information about the measurement basis adopted – e.g. 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 amounts reported in the financial statements.

The Group's internal measures are consistent with IFRS Standards. 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.

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8. 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.

	In millions of euro	Investment Banking	Corporate Banking	Retail Banking	Asset Management	Central Treasury	Total
	2021						
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	**-**	**495**	**121**	**-**	**-**	**616**
IFRS 8.21(b)	Segment profit before tax	**47**	**195**	**172**	**20**	**81**	**515**
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**
	2020						
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	-	224	24	-	-	248
IFRS 8.21(b)	Segment profit before tax	(241)	260	210	22	206	457
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.

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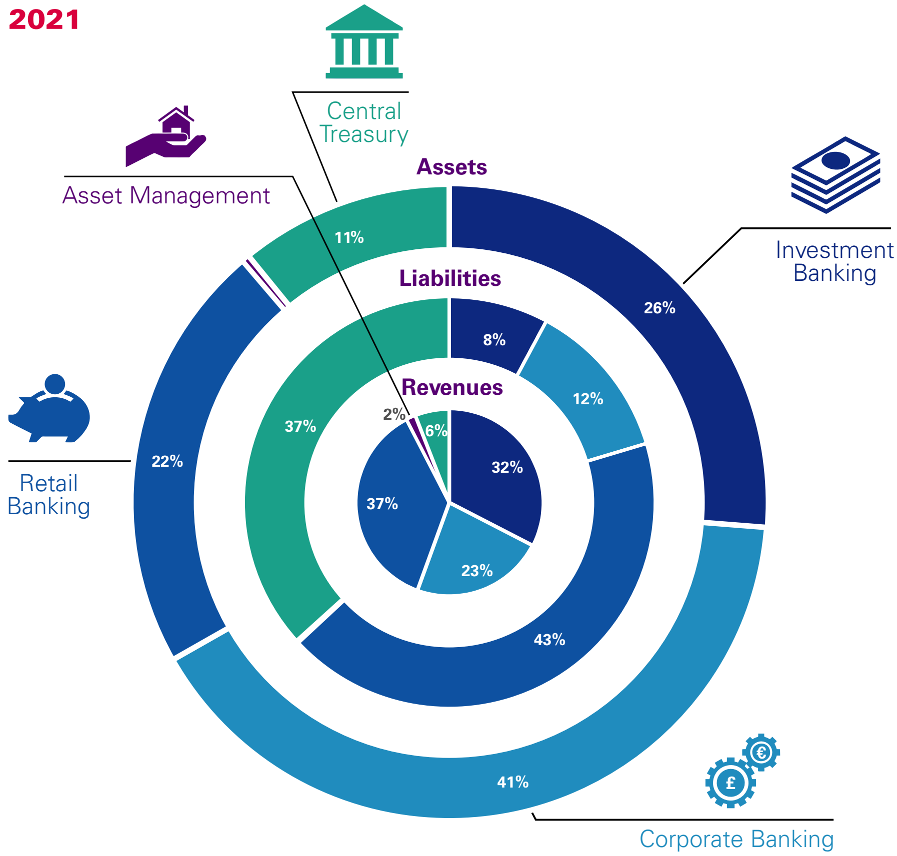
Notes to the consolidated financial statements (continued)

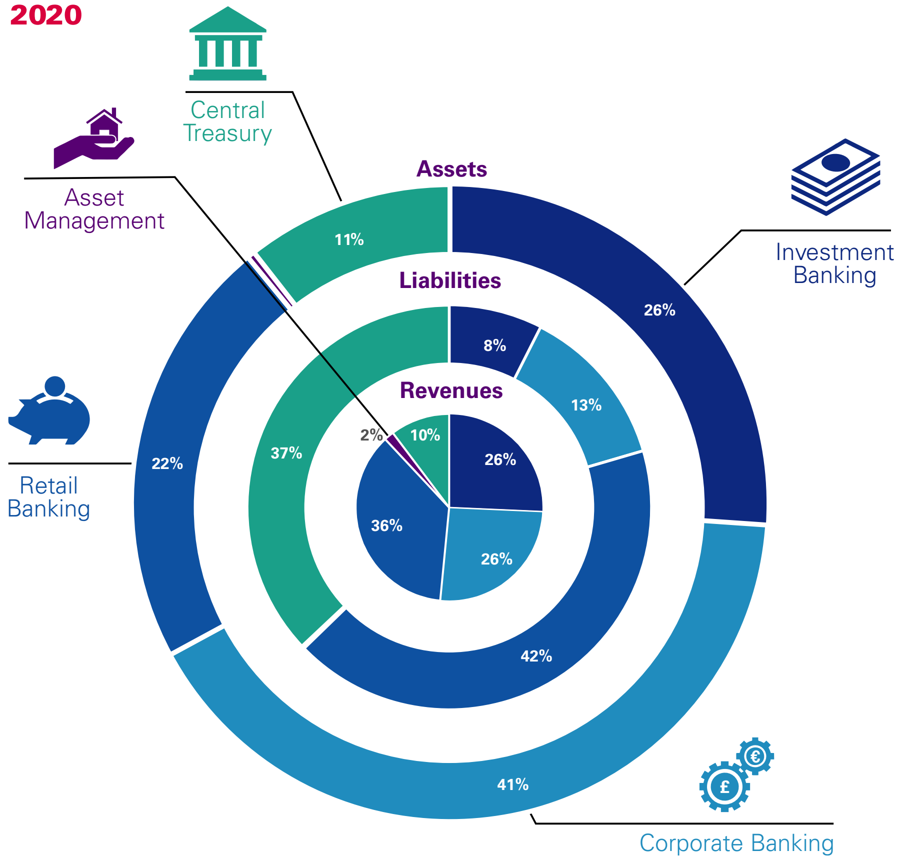
8. Operating segments (continued)

B. Information about reportable segments (continued)

2021



2020



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8. Operating segments (continued)

C. Reconciliations of information on reportable segments to the amounts reported in the financial statements[a]

In millions of euro		2021	2020
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	**515**	457
	Unallocated amounts	**31**	-
	Consolidated profit before tax	**546**	457
IFRS 8.28(c)	**iii. Assets**		
	Total assets for reportable segments	**95,105**	86,745
	Other unallocated amounts	**2,352**	1,647
	Consolidated total assets	**97,457**	88,392
IFRS 8.28(d)	**iv. Liabilities**		
	Total liabilities for reportable segments	**89,870**	81,038
	Other unallocated amounts	**1,250**	1,208
	Consolidated total liabilities	**91,120**	82,246

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.

	In millions of euro	[Country of domicile]	US	UK	Australia	Middle East and Africa	Other countries	Total
	2021							
IFRS 8.33(a)	External revenues	**569**	**1,032**	**1,170**	**715**	**473**	**215**	**4,174**
IFRS 8.33(b)	Non-current assets*	**258**	**141**	**136**	**113**	**32**	**63**	**743**
	2020							
IFRS 8.33(a)	External revenues	488	1,030	1,013	619	456	206	3,812
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 provided additional disclosures on external revenue information in Note 8(B), which has been prepared in accordance with IFRS Standards.

Insights 5.2.220.20 b. In our view, entity-wide disclosures by region – e.g. Europe or Asia – do not meet the requirement to disclose information by individual foreign country (e.g. France, the Netherlands or Singapore) when it is material.

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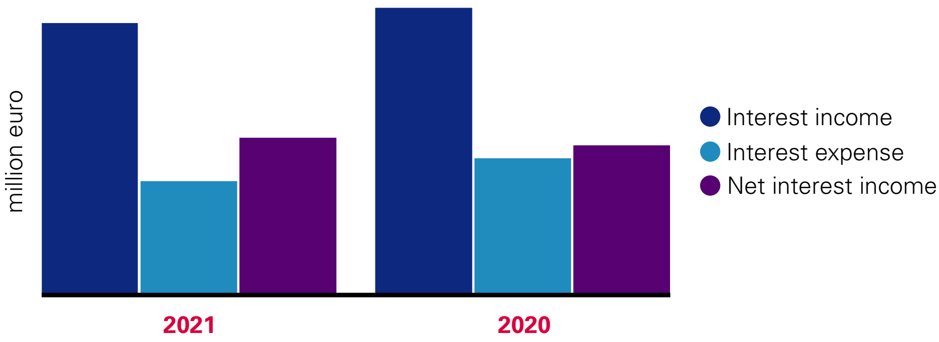
IAS 7.7

9. Net interest income

See accounting policy in Note 46(C).



In millions of euro	*Note*	2021	2020
Interest income			
Cash and cash equivalents		**71**	86
Loans and advances to banks		**282**	247
Loans and advances to customers		**2,756**	3,007
Investment securities at amortised cost		**119**	75
Investment securities at FVOCI		**20**	30
Negative interest on financial liabilities		**15**	-
Derivatives in a qualifying hedging relationship	*46(C)(iii)*	**56**	64
IAS 1.82(a) Total interest income calculated using the effective interest method		**3,319**	3,509
IFRS 16.90(a)(ii) Interest income on lease receivables		**22**	19
Total interest income		**3,341**	3,528
Interest expense			
Deposits from banks		**49**	44
Deposits from customers		**449**	548
Debt securities issued		**343**	316
Subordinated liabilities		**410**	353
Negative interest on financial assets		**20**	-
IFRS 16.49 Interest expense on lease liabilities		**11**	15
Derivatives in a qualifying hedge relationship		**125**	137
Other interest expense		**2**	1
Total interest expense		**1,409**	1,414
Net interest income		**1,932**	2,114

IFRS 7.20(b)

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

In millions of euro	2021	2020
Financial assets measured at amortised cost	**3,208**	3,415
Financial assets measured at FVOCI	**20**	30
Total	**3,228**	3,445
Financial liabilities measured at amortised cost	**1,236**	1,261

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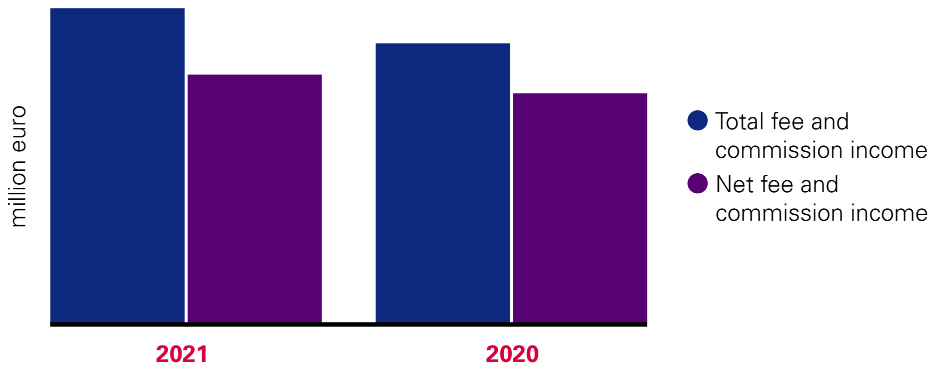
10. Net fee and commission income



A. Disaggregation of fee and commission income

IFRS 15.114–115

In the following table, fee and commission income from contracts with customers in the scope of IFRS 15 is disaggregated by major service lines. The table also includes a reconciliation of the disaggregated fee and commission income with the Group's reportable segments (see Note 8).[a, b, c]

	Reportable segments	
For the year ended 31 December	**Retail Banking**	
In millions of euro	**2021**	**2020**
Major service lines		
Account services	**105**	96
Transactional	**157**	133
Underwriting and syndication	**-**	-
Asset management	**-**	-
Total fee and commission income from contracts with customers	**262**	229
Financial guarantee contracts and loan commitments[d]	**-**	-
Total fee and commission income	**262**	229
Fee and commission expense	**(60)**	(53)
Net fee and commission income as reported in Note 8	**202**	176

IFRS 15.115

IFRS 7.20(c)(i)

The fee and commission presented include income of €651 million (2020: €523 million) and expense of €71 million (2020: €52 million) related to financial assets and financial liabilities not measured at FVTPL. These figures excluded amounts incorporated in determining the effective interest rate on such financial assets and financial liabilities.

IFRS 7.20(c)(ii)

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

IFRS 15.114, B87–B89, IE210–IE211

a. The extent to which an entity's revenue is disaggregated for the purposes of this disclosure depends on the facts and circumstances of the entity's contracts with customers.

In determining the appropriate categories, an entity considers how revenue is disaggregated in:

- disclosures presented outside the financial statements – e.g. earnings releases, annual reports or investor presentations;
- information reviewed by the CODM for evaluating the financial performance of operating segments; and
- other similar information that is used by the entity or users of the entity's financial statements to evaluate performance or make resource allocation decisions.

Examples of categories that might be appropriate in disclosing disaggregated revenue include, but are not limited to, type of service, geographical region, market or type of customer, and type of contract.

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Reportable segments							
Corporate Banking		Investment Banking		Asset Management		Total	
2021	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
78	48	**21**	19	**-**	-	**204**	163
169	190	**82**	73	**5**	4	**413**	400
-	-	**102**	93	**-**	-	**102**	93
-	-	**-**	-	**101**	80	**101**	80
247	238	**205**	185	**106**	84	**820**	736
34	23	**-**	-	**-**	-	**34**	23
281	261	**205**	185	**106**	84	**854**	759
(47)	(34)	**(36)**	(29)	**(36)**	(19)	**(179)**	(135)
234	227	**169**	156	**70**	65	**675**	624

IFRS 15.112, 114, BC340

b. Some entities may not be able to meet the objective in paragraph 114 of IFRS 15 for disaggregating revenue by providing segment revenue information and may need to use more than one type of category. Other entities may meet the objective by using only one type of category. Even if an entity uses consistent categories in the segment note and in the revenue disaggregation note, further disaggregation of revenue may be required because the objective of providing segment information under IFRS 8 is different from the objective of the disaggregation disclosure under IFRS 15 and, unlike IFRS 8, there are no aggregation criteria in IFRS 15.

In addition, banks often provide information about revenue in the segment note on a net basis, whereas the disclosures about revenue under IFRS 15 need to be provided on a gross basis.

Nonetheless, an entity does not need to provide disaggregated revenue disclosures if the information about revenue provided under IFRS 8 meets the requirements of paragraph 114 of IFRS 15 and those revenue disclosures are based on the recognition and measurement requirements in IFRS 15.

IFRS 15.115

c. An entity is required to disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue and revenue information that is disclosed for each reportable segment, if the entity applies IFRS 8.

IFRS 9.4.2.1(c), B2.5(a)

d. Although the fee income from financial guarantee contracts and loan commitments is recognised in accordance with the principles of IFRS 15, the financial guarantee contract is in the scope of IFRS 9 and the fee income from it is not revenue from contracts with customers. The Group presents the fee income from financial guarantees as part of total fee and commission income.

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Notes to the consolidated financial statements (continued)

10. Net fee and commission income (continued)

IFRS 15.116–118

B. Contract balances

The following table provides information about receivables and contract liabilities from contracts with customers.

In millions of euro	*Note*	31 December 2021	31 December 2020
Receivables, which are included in 'other assets'	*28*	**11**	10
Contract liabilities, which are included in 'other liabilities'	*34*	**(3)**	(1)

IFRS 15.120(b)

The contract liabilities primarily relate to the non-refundable up-front fees received from customers on opening an asset management account. This is recognised as revenue over the period for which a customer is expected to continue receiving asset management services. The weighted-average expected period at 31 December 2021 was 8.5 years (2020: 8.5 years).

IFRS 15.119(b), 11, 62(a)

The contracts do not have a minimum stated term. A customer can cancel an asset management contract at any time after contract inception for a surrender charge, which is usually insignificant. Because the customer has discretion over when to terminate the contract, the contract does not have a significant financing component.

IFRS 15.116(b)

The amount of €0.8 million included in contract liabilities at 31 December 2020 has been recognised as revenue for the year ended 31 December 2021 (2020: €0.5 million).

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Notes to the consolidated financial statements (continued)

10. Net fee and commission income (continued)

IFRS 15.119, 123–126, IAS 1.122

C. Performance obligations and revenue recognition policies[a]

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

For the accounting policy for fees and commissions in the scope of IFRS 9, see Note 46(D); and for the accounting policy for onerous contracts, see Note 46(V).

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies under IFRS 15
Retail and corporate banking service	The Group provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions, credit card[b] and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis. The Group sets the rates separately for retail and corporate banking customers in each jurisdiction on an annual basis. Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Group.	Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Investment banking service	The Group's investment banking segment provides various finance-related services, including loan administration and agency services, administration of a loan syndication, execution of client transactions with exchanges and securities underwriting. Fees for ongoing services are charged annually at the end of the calendar year to the customer's account. However, if a customer terminates the contract before 31 December, then on termination it is charged the fee for the services performed to date. Transaction-based fees for administration of a loan syndication, execution of transactions, and securities underwriting are charged when the transaction takes place.	Revenue from administrative agency services is recognised over time as the services are provided. The amounts to be collected from customers on 31 December are recognised as trade receivables. Revenue related to transactions is recognised at the point in time when the transaction takes place.

IAS 1.117(b), 119

a. The Group presents significant accounting policies related to fee and commission income from contracts with customers in the 'net fee and commission income' note, rather than in a separate note with other significant accounting policies because it believes that this is useful to the users of its financial statements (see Note 46). Other approaches to presenting accounting policies may be acceptable.

b. In this guide, the only fees that the Group earns from credit cards are monthly service fees that are charged for operating the account. In practice, credit card arrangements may be more complex and include different types of fees charged for provision of different services – e.g. insurance or customer loyalty programme. An entity needs to perform an analysis of its specific credit card arrangements to identify its performance obligations under the contract with customers and determine the appropriate accounting treatment.

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10. Net fee and commission income (continued)

IFRS 15.119, 123–126, IAS 1.122

C. Performance obligations and revenue recognition policies (continued)

Type of product/ service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies under IFRS 15
Asset management service	The Group provides asset management services. Fees for asset management services are calculated based on a fixed percentage of the value of assets managed and deducted from the customer's account balance on a monthly basis. In addition, the Group charges a non-refundable up-front fee when opening an account.	Revenue from asset management services is recognised over time as the services are provided. Non-refundable up-front fees give rise to material rights for future services and are recognised as revenue over the period for which a customer is expected to continue receiving asset management services.

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Notes to the consolidated financial statements (continued)

11. Net trading income[a]

See accounting policy in Note 46(E).

In millions of euro		**2021**	**2020**
	Fixed income	**1,261**	981
	Equities	**70**	17
	Foreign exchange	**90**	16
	Other	**13**	(27)
IFRS 7.20(a)(i)	Net trading income	**1,434**	987

a. In this guide, net trading income:

- includes the entire profit or loss impact, including interest, for trading assets, liabilities and 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.

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

See accounting policy in Note 46(F).

In millions of euro	2021	2020
IFRS 7.20(a)(i) **Net income from financial instruments mandatorily measured at FVTPL other than those included in 'net trading income' (see Note 11)**		
Derivatives held for risk management excluding the effective portion of derivatives held for hedge accounting purposes:		
Interest rate	**(76)**	11
Credit	**44**	(21)
Equity	**(54)**	42
Foreign exchange	**(10)**	5
Investment securities:		
Corporate bonds	**47**	20
Equities	**59**	25
Asset-backed securities	**12**	(10)
Loans and advances	**153**	(55)
IFRS 7.20(a)(i) **Net income from financial instruments designated as at FVTPL**		
Investment securities:		
Corporate bonds	**123**	165
Equities	**(10)**	(13)
Asset-backed securities	**(181)**	(151)
Loans and advances	**-**	194
Debt securities issued	**(30)**	(185)
	77	27

a. In this guide, net income from other financial instruments at FVTPL includes:
- the entire profit or loss impact including interest of financial assets and financial liabilities designated as at FVTPL on initial recognition;
- the entire profit or loss impact including interest of financial assets mandatorily measured at FVTPL other than those held for trading;
- the realised and unrealised gains and losses on derivatives held for risk management purposes but not forming part of a qualifying hedging relationship; and
- the ineffective portion of derivatives in qualifying hedging relationships.

However, other presentations are possible.

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Notes to the consolidated financial statements (continued)

13. Other revenue[a]

See accounting policies in Notes 46(B)(i), (G), (J)(iii) and (O).

In millions of euro		2021	2020
IFRS 7.20(a)(viii), IAS 1.98(d)	Net loss on sale of debt investment securities measured at FVOCI:		
	Government bonds	**(69)**	(65)
	Corporate bonds	**(60)**	(60)
IFRS 7.11A(d), 20(a)(vii)	Dividends on equity securities measured at FVOCI	**2**	8
IAS 21.52(a)	Net gain from foreign exchange	**174**	154
	Other	**32**	31
		79	68

a. In this guide, the following have been included in other revenue:
- dividends received on equity securities measured at FVOCI;
- gains and losses on sales of debt investment securities measured at FVOCI; and
- net gain or loss from foreign exchange.

However, other presentations are possible.

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

See accounting policies in Note 46(J)(iii).

IFRS 7.20A

During the year ended 31 December 2021, the Group sold certain investment securities measured at amortised cost (2020: nil). 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 7.20A

The carrying amounts of the financial assets sold and the losses arising from the derecognition at 31 December 2021 are set out below.

In millions of euro	Carrying amount of financial assets sold	Losses arising from derecognition
Loans and advances to customers	**18**	**5**
Government bonds	**12**	**1**
Corporate bonds	**8**	**3**
	38	**9**

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Notes to the consolidated financial statements (continued)

15. Personnel expenses

See accounting policy in Note 46(W).

In millions of euro	Sub-note	2021	2020
Wages and salaries		**1,882**	1,752
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**	38
Expenses related to post-employment defined benefit plans	*B*	**40**	41
Expenses related to long-service leave		**8**	8
		2,529	2,301

A. Share-based payment arrangements

i. Description of share-based payment arrangements

At 31 December 2021, the Group had the following share-based payment arrangements.

Share option programmes (equity-settled)

IFRS 2.44–45(a)

On 1 January 2019, the Group established a share option programme that entitles key management personnel and senior employees to purchase shares in the Bank. On 1 January 2021, 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 2019	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 2019	10	3 years' service	10 years
Option grant to senior employees at 1 January 2021	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 2021	10	3 years' service	10 years
Total share options	55		

Share appreciation rights (cash-settled)

IFRS 2.44–45(a)

On 1 January 2018 and 1 January 2021, 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 2018	10	3 years' service	5 years
SARs granted to other employees at 1 January 2021	30	3 years' service	5 years
Total SARs	40		

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15. 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*	2021	2020
IFRS 2.51(b)(i)	Total carrying amount of liabilities for cash-settled arrangements	*34*	**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 2020 was settled in 2021.

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 2021**	**Senior employees 2021**
IFRS 2.47(a)	Fair value at grant date	**€4.5**	**€3.9**
IFRS 2.47(a)(i)	Share price at grant date	**€12.0**	**€12.0**
IFRS 2.47(a)(i)	Exercise price	**€12.0**	**€12.0**
IFRS 2.47(a)(i)	Expected volatility*	**42.5%**	**40.3%**
IFRS 2.47(a)(i)	Expected life (weighted-average)	**8.6 years**	**5.4 years**
IFRS 2.47(a)(i)	Expected dividends*	**3.2%**	**3.2%**
IFRS 2.47(a)(i)	Risk-free interest rate (based on government bonds)*	**1.7%**	**2.1%**

* Annual rates

IFRS 2.47(a)(ii) 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 2021	**Measurement date 31 December 2021**
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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15. 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 2021	Weighted-average exercise price 2021	Number of options 2020	Weighted-average exercise price 2020
IFRS 2.45(b)(i)	Outstanding at 1 January	**13.0**	**€10.5**	18.0	€10.5
IFRS 2.45(b)(iii)	Forfeited during the period	**(2.5)**	**€10.5**	(5.0)	€10.5
IFRS 2.45(b)(iv)	Exercised during the period	**(3.0)**	**€10.5**	-	-
IFRS 2.45(b)(ii)	Granted during the period	**35.0**	**€12.0**	-	-
IFRS 2.45(b)(vi)	Outstanding at 31 December	**42.5**	**€11.7**	13.0	€10.5
IFRS 2.45(b)(vii)	Exercisable at 31 December	**7.5**	**€10.5**	-	-

IFRS 2.45(d) The options outstanding at 31 December 2021 had an exercise price in the range of €10.5 to €12.0 (2020: €9.5) and a weighted-average contractual life of 8.3 years (2020: 8.0 years).

IFRS 2.45(c) The weighted-average share price at the date of exercise for share options exercised in 2021 was €10.5 (2020: 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 40(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.

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Notes to the consolidated financial statements (continued)

15. 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 2022.

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Notes to the consolidated financial statements (continued)

15. 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	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
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	**2021**	**2020**
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.

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15. Personnel expenses (continued)

B. Other employee benefits (continued)

iii. Plan assets

IAS 19.140(a)(i), 142

Plan assets comprise[a] the following.

In millions of euro		2021	2020
IAS 19.142(b)	Equity securities:		
	Consumer markets	**8**	9
	Pharmaceuticals	**6**	6
IAS 19.142(c)	Government bonds	**14**	14
IAS 19.142(e)	Derivatives:		
	Interest rate swaps	**3**	3
	Forward foreign currency contracts	**2**	3
	Longevity swaps	**2**	2
IAS 19.143	Property occupied by the Group	**5**	6
IAS 19.143	Bank's own ordinary shares	**5**	6
		45	49

IAS 19.142

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.

IAS 19.146

At each reporting date, an asset-liability matching 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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15. 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).

	2021	2020
Discount rate	**5.1%**	4.8%
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 longevity 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.

	2021		2020	
	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 2021, the weighted-average duration of the defined benefit obligation was 17.5 years (2020: 17.1 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 2021		31 December 2020	
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.

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IAS 1.97

16. Other expenses

See accounting policy in Note 46(V).

In millions of euro		*Note*	**2021**	**2020**
	General administrative expenses		**290**	316
	Software licensing and other IT costs		**47**	58
IAS 1.97	Bank levy	*33*	**12**	10
IAS 1.98(b)	Branch closure cost provisions	*33*	**5**	69
IAS 1.98(b)	Redundancy provisions	*33*	**2**	33
IAS 40.75(f)(ii)	Direct operating expenses for investment property that generated rental income		**1**	1
	Other		**41**	98
			398	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 bank levy at 31 December 2021 amounted to €12 million (2020: €10 million) and is presented in other expenses in the statement of profit or loss and OCI. At 31 December 2021, a payable of €2 million was included in provisions (2020: €2 million).

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17. Earnings per share

See accounting policy in Note 46(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*	2021	2020
Profit for the year attributable to equity holders of the Bank		**403**	360
Coupons payable on other equity instruments	*35(D)*	**(20)**	(20)
Profit for the year attributable to holders of ordinary shares		**383**	340

IAS 33.70(b)

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

In millions of shares	*Note*	2021	2020
Issued ordinary shares at 1 January	*35*	**1,756.0**	1,756.0
Effect of share options exercised	*35*	**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 holders of ordinary shares (diluted)

In millions of euro	2021	2020
Profit for the period attributable to holders of ordinary shares (diluted)	**383**	340

IAS 33.70(b)

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

In millions of shares	*Note*	2021	2020
Weighted-average number of ordinary shares (basic)	*35*	**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. In our view, the method used to determine the average market value for ordinary shares should be disclosed in the notes.

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Notes to the consolidated financial statements (continued)

18. Income taxes[a]

See accounting policy in Note 46(I).

A. Amounts recognised in profit or loss[b]

	In millions of euro	*Note*	2021	2020
	Current tax expense			
IAS 12.80(a)	Current year		**128**	89
IAS 12.80(b)	Changes in estimates related to prior years		**(4)**	(4)
			124	85
	Deferred tax expense			
IAS 12.80(c)	Origination and reversal of temporary differences		**4**	1
IAS 12.80(d)	Reduction in tax rate		**(1)**	(2)
IAS 12.80(f)	Recognition of previously unrecognised tax losses	*(G)*	**(4)**	(5)
			(1)	(6)
	Total income tax expense		**123**	79

IAS 10.22(h), 12.81(d), 88

In December 2021, a new corporate tax law was enacted in France. Consequently, as of 1 July 2022, the corporate tax rate in France will be reduced from 30 to 29%. This change resulted in a gain of €1 million related to the remeasurement of deferred tax assets and liabilities of the Group's French subsidiary, Bleu Banking S.A., being recognised during the year ended 31 December 2021.

IAS 12.81(d)

In December 2020, numerous changes to the tax law were enacted in South Africa, including a decrease in the corporate tax rate from 35 to 21%. This change resulted in a gain of €2 million related to the remeasurement of deferred tax assets and liabilities of the Group's consolidated South African subsidiary, Blue Banking (Africa) Limited, being recognised during the year ended 31 December 2020.

a. The changes in tax laws and the tax rates disclosed or applied throughout this guide to calculate the tax impact amounts are for illustrative purposes only and do not reflect actual changes in tax laws or corporate tax rates in the respective jurisdictions. In practice, the applicable changes in tax laws need to be considered and tax rates of the respective entities need to be used. All tax impacts in this guide are calculated using the tax rate of 33%.

Insights 3.13.580.20–80

b. The Group has allocated the entire amount of current income tax related to cash contributions to funded post-employment benefit plans to profit or loss because the cash contributions to funded post-employment benefits relate primarily to service costs. In our view, the allocation of the current income tax effect to profit or loss and OCI should reflect the nature of the cash contribution, unless it is impracticable to identify whether the cost to which the funding relates affects profit or loss or OCI. We believe that a number of allocation approaches are acceptable if the nature of the cash contribution is unclear.

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IAS 1.90, 12.81(ab)

Notes to the consolidated financial statements (continued)

18. Income taxes (continued)

B. Amounts recognised in OCI

In millions of euro	2021 Before tax	2021 Tax (expense) benefit	2021 Net of tax	2020 Before tax	2020 Tax (expense) benefit	2020 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
Equity investments at FVOCI – net change in fair value	**2**	**(1)**	**1**	2	(1)	1
Movement in liability credit reserve	**3**	**(1)**	**2**	1	-	1
Items that are or may be reclassified subsequently to profit or loss						
Movement in hedging reserve:						
Effective portion of changes in fair value	**(43)**	**14**	**(29)**	(22)	7	(15)
Net amount reclassified to profit or loss	**6**	**(2)**	**4**	12	(4)	8
Movement in fair value reserve (debt instruments):						
Net change in fair value	**(166)**	**56**	**(110)**	(160)	53	(107)
Net amount reclassified to profit or loss	**129**	**(43)**	**86**	125	(41)	84
Movement in translation reserve:						
Foreign currency translation differences for foreign operations	**(45)**	**-**	**(45)**	(35)	-	(35)
Net gain on hedges of net investments in foreign operations	**30**	**-**	**30**	31	-	31
	(77)	**21**	**(56)**	(37)	11	(26)

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18. Income taxes (continued)

IAS 12.81(c)

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

In millions of euro	2021	2021	2020	2020
Profit before tax		**546**		457
Tax using the Bank's domestic tax rate	**33.0%**	**180**	33.0%	151
Effect of tax rates in foreign jurisdictions*	**(13.6%)**	**(74)**	(13.2%)	(60)
Reduction in tax rates	**(0.2%)**	**(1)**	(0.4%)	(2)
Tax effect of:				
Non-deductible expenses	**7.3%**	**40**	7.9%	36
Tax-exempt income	**(0.7%)**	**(4)**	(4.6%)	(21)
Tax incentives	**(0.5%)**	**(3)**	(1.1%)	(5)
Coupons payable on other equity instruments	**(1.3%)**	**(7)**	(1.5%)	(7)
Current-year losses for which no deferred tax asset is recognised	**0.5%**	**3**	0.2%	1
Recognition of previously unrecognised tax losses (see (G))	**(0.7%)**	**(4)**	(1.1%)	(5)
Recognition of previously unrecognised deductible temporary differences	**(0.5%)**	**(3)**	(1.1%)	(5)
Changes in estimates relating to prior years	**(0.7%)**	**(4)**	(0.9%)	(4)
Total income tax expense	**22.6%**	**123**	17.2%	79

* Tax rates in several foreign jurisdictions decreased and affected the reconciliation of the effective tax rate.

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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Notes to the consolidated financial statements (continued)

18. Income taxes (continued)

IAS 12.81(g)(i)–(ii)

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

COVID-19 considerations

Under IAS 12 *Income Taxes*, a deferred tax asset is recognised for deductible temporary differences and unused tax losses (tax credits) carried forward, to the extent that it is probable that future taxable profits will be available.

To determine whether future taxable profits will be available, a company first considers the availability of qualifying taxable temporary differences, and then the probability of other future taxable profits and tax planning opportunities. In other words, if a company is loss-making, it can still recognise a deferred tax asset if it has sufficient qualifying taxable temporary differences to meet the recognition test.

In the current circumstances, a company's projections of future taxable profits may be affected by:

– changes in forecast cash flows;
– changes in a company's tax strategies;
– substantively enacted changes to the income tax law introduced as part of a government's measures in response to COVID-19: e.g. tax reliefs for certain types of income, additional tax deductions, a reduced tax rate or an extended period to use tax losses carried forward; and
– changes in a company's plans to repatriate or distribute profits of a subsidiary that may result in the recognition of a deferred tax liability (i.e. additional taxable temporary differences).

Some of these changes may reduce future taxable profits, whereas others may potentially increase them. In addition, some of the changes – e.g. government measures in response to COVID-19 – may impact the timing of the reversal of temporary differences.

IAS 12.24, 27–29, 34–36, IU 05-14

When preparing projections of future taxable profits for the purposes of the deferred tax asset recognition test, a company needs to reflect expectations at the reporting date and use assumptions that are consistent with those used for other recoverability assessments – e.g. impairment of non-financial assets.

IAS 12.81(g), Insights 3.13.640.60

a. IAS 12 requires disclosure of the amount of recognised deferred tax assets and liabilities in respect of each 'type' of temporary difference. The standards are 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 effects of both recognised and unrecognised deferred tax assets as a single amount – e.g. similar to the 'gross' approach under US GAAP – because under IFRS Standards it is recognised deferred tax assets that are required to be disclosed.

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18. Income taxes (continued)

IAS 12.81(g)(i)–(ii)

D. Movement in deferred tax balances (continued)

2021 *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**	**Deferred tax assets**	**Deferred tax liabilities**
Property and equipment, and intangible assets	**(55)**	**(22)**	**-**	**(77)**	**-**	**(77)**
Leases[a]	**51**	**(2)**	**-**	**49**	**49**	**-**
Investment securities at FVOCI	**(70)**	**-**	**13**	**(57)**	**-**	**(57)**
Debt securities – credit risk component	**1**	**-**	**(1)**	**-**	**-**	**-**
Derivatives	**28**	**-**	**12**	**40**	**40**	**-**
Allowance for expected credit losses	**68**	**21**	**-**	**89**	**89**	**-**
Tax losses carried forward	**31**	**4**	**-**	**35**	**35**	**-**
Share-based payments	**125**	**10**	**-**	**135**	**135**	**-**
Other	**12**	**(10)**	**(3)**	**(1)**	**21**	**(22)**
Tax assets (liabilities) before set-off	**191**	**1**	**21**	**213**	**369**	**(156)**
Set-off of tax	**-**	**-**	**-**	**-**	**(49)**	**49**
Tax assets (liabilities)	**191**	**1**	**21**	**213**	**320**	**(107)**

IAS 12.15, 24, Insights 3.13.230. 25–30

a. The Group accounts for deferred tax on leases applying the 'integrally linked' approach. The Group has disclosed the amount of recognised deferred tax in respect of leases. For further discussion of the accounting policy, see Note 46(I)(ii); for a discussion of forthcoming requirements arising from *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)*, see Note 47(A).

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Notes to the consolidated financial statements (continued)

18. Income taxes (continued)

IAS 12.81(g)(i)–(ii)

D. Movement in deferred tax balances (continued)

2020 *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	Deferred tax assets	Deferred tax liabilities
Property and equipment, and intangible assets	(43)	(12)	-	(55)	-	(55)
Leases	53	(2)	-	51	51	-
Investment securities at FVOCI	(82)	-	12	(70)	-	(70)
Debt securities – credit risk component	2	-	(1)	1	1	-
Derivatives	25	-	3	28	28	-
Allowance for expected credit losses	62	6	-	68	68	-
Tax losses carried forward	26	5	-	31	31	-
Share-based payments	117	8	-	125	125	-
Other	14	1	(3)	12	44	(32)
Tax assets (liabilities) before set-off	174	6	11	191	348	(157)
Set-off of tax	-	-	-	-	(51)	51
Tax assets (liabilities)	174	6	11	191	297	(106)

E. Unrecognised deferred tax liabilities[a]

IAS 12.81(f), 87

At 31 December 2021, there was a deferred tax liability of €8.3 million (2020: €7.3 million) for temporary differences of €25 million (2020: €22 million) related to an investment in a subsidiary. However, this liability was not recognised because the Group controls the dividend policy of the subsidiary – i.e. the Group 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 2021, the total tax-exempt reserves amounted to €76 million (2020: €64 million), which would result in a tax liability of €25 million (2020: €21 million) if the subsidiary paid dividends from these reserves.

IAS 1.125, 12.81(e)

F. Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items, because it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom.[b]

In millions of euro	2021 Gross amount	2021 Tax effect	2020 Gross amount	2020 Tax effect
Deductible temporary differences	**36**	**12**	45	15
Tax losses	**12**	**4**	15	5
	48	**16**	60	20

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.

IAS 12.81(e) — b. Although IAS 12 only requires the disclosure of the amount of deductible temporary differences and unused tax losses for which no deferred tax asset has been recognised, the Group has also disclosed their respective tax effects. This disclosure is for illustrative purposes only.

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Notes to the consolidated financial statements (continued)

18. Income taxes (continued)

G. Tax losses carried forward

IAS 1.125, 12.82

Tax losses for which no deferred tax asset was recognised expire as follows.

	2021		2020	
In millions of euro	**2021**	**Expiry date**	**2020**	**Expiry date**
Expire	**12**	**2022–2025**	3	2021–2024
Never expire	**-**	**-**	12	-

In 2021, 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 €12 million of previously unrecognised tax losses (tax impact: €4 million) because management considered it probable that future taxable profits would be available against which such losses can be used.

In 2020, the Group's French subsidiary, Bleu Banking S.A., launched a new initiative that would allow it to reduce costs significantly going forward and improve profitability. As a result, management revised its estimates of future taxable profits and the Group recognised the tax effect of €15 million of previously unrecognised tax losses (tax impact: €5 million) because management considered it probable that future taxable profits would be available against which such losses can be used.

In 2021, the Group's African subsidiary, Blue Banking (Africa) Limited, incurred a tax loss of €9 million (2020: €3 million), increasing cumulative tax losses to €12 million (2020: €3 million). Management has determined that the recoverability of cumulative tax losses is uncertain as it is not probable that future taxable profit will be available against which the Group can use the benefits. The tax losses will expire between 2022 and 2025. Based on the five-year business plan and taking into account the reversal of existing taxable temporary differences, Blue Banking (Africa) Limited is not expected to generate taxable profits until 2026. However, if interest rates improve more quickly than forecast or new taxable temporary differences arise in the next financial year, then additional deferred tax assets and a related income tax benefit of up to €4 million could be recognised.

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Notes to the consolidated financial statements (continued)

18. Income taxes (continued)

H. Uncertainty over income tax treatments[a]

IAS 1.122, 125, 129, 12.88

The Group's US subsidiary, Blue Banking (North America), earns interest income on intercompany loans, which is eliminated on consolidation. Under the tax law in the US, an entity is required to use market interest rates in determining taxable income from intercompany loans. The determination of market rates may require the use of judgement. A pending recent court case for another entity has challenged the interest rates used and the Group has considered if the intercompany rates represent market rates. If the rates used by the Group were determined not to represent market rates, then additional estimated tax expense for 2020 of up to €5 million may be incurred. This amount has not been recognised in these consolidated financial statements because the Group believes that the rates used in the past were reflective of market rates and that it is probable that it would successfully defend the Group's tax treatment in court.

Of the Group's current tax assets, €13 million (2020: nil) relates to management's estimation of the amount of tax receivable by the Group's UK subsidiary, Blue Banking Plc, in relation to a dispute with the UK tax authority. The UK tax authority examined the 2019–20 tax returns and challenged the deductibility of certain expenses. Following the examination, the Group was required to make an immediate payment to avoid penalty charges. However, based on the advice received from its tax and legal experts, the Group believes that it is entitled to deductions previously claimed under the tax legislation and lodged an appeal to dispute the tax authority's challenge in October 2021. The dispute process is ongoing and due to the uncertainty involved, there is a possibility that the outcome of the dispute will be significantly different from the amount currently recognised. Although management has used a single best estimate of the tax amount expected to be paid, it is anticipated that the reasonably possible outcomes for the current tax assets sit within a range between €5 million and €22 million.

The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

a. The Group has provided quantitative disclosure of the sensitivity of the amount of the uncertain tax treatment to the method, assumptions and estimates underlying the calculation. Other approaches to the disclosure may be acceptable to meet the requirements of paragraph 129 of IAS 1.

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19. Classification of financial assets and financial liabilities

See accounting policies in Notes 46(J)(ii) and (J)(viii).

IFRS 7.8

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

31 December 2021 *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	*20*	-	-	-	-	2,969	2,969
Non-pledged trading assets	*21*	16,122	-	-	-	-	16,122
Pledged trading assets	*21*	540	-	-	-	-	540
Derivative assets held for risk management	*22*	858	-	-	-	-	858
Loans and advances to banks	*23*	-	-	-	-	5,555	5,555
Loans and advances to customers:							
Measured at fair value	*24*	3,986	-	-	-	-	3,986
Measured at amortised cost[b]	*24*	-	-	-	-	58,746	58,746
Investment securities:							
Measured at fair value	*25*	1,623	2,879	1,363	27	-	5,892
Measured at amortised cost	*25*	-	-	-	-	410	410
Other financial assets	*28*	-	-	-	-	56	56
Total financial assets		23,129	2,879	1,363	27	67,736	95,134
Trading liabilities	*21*	7,026	-	-	-	-	7,026
Derivative liabilities held for risk management	*22*	828	-	-	-	-	828
Deposits from banks	*29*	-	-	-	-	11,678	11,678
Deposits from customers	*30*	-	-	-	-	53,646	53,646
Debt securities issued:							
Measured at fair value	*31*	-	1,250	-	-	-	1,250
Measured at amortised cost	*31*	-	-	-	-	9,977	9,977
Subordinated liabilities	*32*	-	-	-	-	5,642	5,642
Lease liabilities[b]	*34*	-	-	-	-	367	367
Total financial liabilities		7,854	1,250	-	-	81,310	90,414

IFRS 7.6, 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 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.

b. The 'Amortised cost' column includes:

- under the caption 'Loans and advances to customers' an immaterial amount of finance lease receivables that are measured in accordance with IFRS 16; and
- under the caption 'Lease liabilities' an immaterial amount of lease liabilities that are measured in accordance with IFRS 16.

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IFRS 7.8

Notes to the consolidated financial statements (continued)

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

31 December 2020 *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	*20*	-	-	-	-	3,037	3,037
Non-pledged trading assets	*21*	15,249	-	-	-	-	15,249
Pledged trading assets	*21*	519	-	-	-	-	519
Derivative assets held for risk management	*22*	726	-	-	-	-	726
Loans and advances to banks	*23*	-	-	-	-	4,683	4,683
Loans and advances to customers:							
Measured at FVTPL	*24*	3,145	-	-	-	-	3,145
Measured at amortised cost[a]	*24*	-	-	-	-	53,567	53,567
Investment securities:							
Measured at fair value	*25*	1,433	2,071	1,726	25	-	5,255
Measured at amortised cost	*25*	-	-	-	-	101	101
Other financial assets	*28*	-	-	-	-	56	56
Total financial assets		21,072	2,071	1,726	25	61,444	86,338
Trading liabilities	*21*	6,052	-	-	-	-	6,052
Derivative liabilities held for risk management	*22*	789	-	-	-	-	789
Deposits from banks	*29*	-	-	-	-	10,230	10,230
Deposits from customers	*30*	-	-	-	-	48,904	48,904
Debt securities issued:							
Measured at fair value	*31*	-	2,208	-	-	-	2,208
Measured at amortised cost	*31*	-	-	-	-	8,040	8,040
Subordinated liabilities	*32*	-	-	-	-	4,985	4,985
Lease liabilities[a]	*34*	-	-	-	-	441	441
Total financial liabilities		6,841	2,208	-	-	72,600	81,649

a. The 'Amortised cost' column includes:
- under the caption 'Loans and advances to customers' an immaterial amount of finance lease receivables that are measured in accordance with IFRS 16; and
- under the caption 'Lease liabilities' an immaterial amount of lease liabilities that are measured in accordance with IFRS 16.

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IAS 7.45

20. Cash and cash equivalents[a]

See accounting policy in Note 46(K).

In millions of euro	2021	2020
Unrestricted balances with central banks	**118**	128
Cash and balances with other banks	**256**	184
Money market placements	**2,595**	2,725
	2,969	3,037

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 28); 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)

21. Trading assets and liabilities

See accounting policy in Note 46(L).

Summary

In millions of euro	Trading assets 2021	Trading assets 2020	Trading liabilities 2021	Trading liabilities 2020
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 2021	Non-pledged trading assets 2021	Total trading assets 2021	Pledged trading assets 2020	Non-pledged trading assets 2020	Total trading assets 2020
Government bonds	**332**	**6,010**	**6,342**	317	5,781	6,098
Corporate bonds	**143**	**4,348**	**4,491**	145	3,925	4,070
Treasury bills	**-**	**3,879**	**3,879**	-	3,744	3,744
Equities	**65**	**391**	**456**	57	379	436
Asset-backed securities	**-**	**516**	**516**	-	463	463
	540	**15,144**	**15,684**	519	14,292	14,811
Derivative assets						
Interest rate	**-**	**78**	**78**	-	91	91
Credit	**-**	**332**	**332**	-	369	369
Equity	**-**	**84**	**84**	-	79	79
Foreign exchange	**-**	**150**	**150**	-	141	141
OTC structured derivatives	**-**	**334**	**334**	-	277	277
	-	**978**	**978**	-	957	957
	540	**16,122**	**16,662**	519	15,249	15,768

IFRS 7.14(a), [IFRS 9.3.2.23(a)]

The pledged trading assets presented in the table above are those financial assets that may be repledged or resold by counterparties (see Note 6(B)).

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21. Trading assets and liabilities (continued)

IFRS 7.8(e)(ii)

B. Trading liabilities

In millions of euro	2021	2020
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 7.28

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.

IFRS 9.B5.1.2A

Any difference between the fair value on 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 46(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	2021	2020
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)

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

IFRS 7.21A, 23E–23F, 24C(b)

COVID-19 considerations

When a company applies hedge accounting, it is required to disclose information about its risk management strategy and the amount, timing and uncertainty of future cash flows. It is likely that the COVID-19 outbreak will affect these areas and the resulting disclosures and a bank will need to use judgement to determine the specific disclosures that are relevant and necessary for its business.

Examples of specific disclosures that may be relevant include explanations of:

- changes in how the bank manages risks;
- impacts on hedge ineffectiveness;
- descriptions of forecast transactions that were subject to hedge accounting but are no longer expected to occur, and the related reclassifications to profit or loss; and
- reclassifications of irrecoverable losses from the cash flow hedge reserve to profit or loss.

IFRS 7.21A

See accounting policy in Note 46(M).

A. Derivatives held for risk management

The following table describes the fair values of derivatives held for risk management purposes by type of risk exposure.

IFRS 7.22B(a), 22(b)

	2021		2020	
In millions of euro	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Risk exposure				
Interest rate				
Designated in fair value hedges	**175**	**99**	101	89
Designated in cash flow hedges	**210**	**117**	151	95
Other risk management derivatives	**19**	**9**	57	8
Total interest rate derivatives	**404**	**225**	309	192
Interest rate and foreign exchange				
Designated in fair value hedges	**-**	**-**	-	-
Designated in cash flow hedges	**150**	**138**	99	269
Total interest rate and foreign exchange derivatives	**150**	**138**	99	269
Foreign exchange				
Designated in a net investment hedge	**85**	**93**	77	78
Other risk management derivatives	**65**	**214**	101	103
Total foreign exchange derivatives	**150**	**307**	178	181
Credit – other risk management derivatives	**74**	**64**	67	55
Equity – other risk management derivatives	**80**	**94**	73	92
	858	**828**	726	789

Details of derivatives designated as hedging instruments in qualifying hedging relationships are provided in (B) below. The Group uses other derivatives, not designated in a qualifying hedging relationship ('other risk management derivatives'), to manage its exposure to foreign currency, interest rate, equity market and credit risks. The instruments used principally include interest rate swaps, cross-currency swaps, forward contracts, interest rate futures, interest rate options, credit swaps and equity swaps.

For more information about how the Group manages its market risks, see Note 43(D).

IFRS 7.21B

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 2018 in this guide). Therefore, in this guide these disclosures are applied to the extent that they are relevant to the Group's activities.

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

B. Hedge accounting

i. Fair value hedges of interest rate risk

IFRS 7.22A, 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 the €STR benchmark interest rate (for the impact of IBOR reform on hedge accounting, see (iii) below). Pay-floating/receive-fixed interest rate swaps are matched to specific issuances of fixed-rate notes or pay-fixed/receive-floating interest rate swaps are matched to fixed-rate loans and advances with terms that closely align with the critical terms of the hedged item.

IFRS 7.22A, 22C

The Group's approach to managing market risk, including interest rate risk, is discussed in Note 43(D). The Group's exposure to interest rate risk is disclosed in Note 6(C)(ii). Interest rate risk to which the Group applies hedge accounting arises from fixed-rate euro notes issued and fixed-rate loans and advances, whose fair value fluctuates when benchmark interest rates change. The Group hedges interest rate risk only to the extent of benchmark interest rates because the changes in fair value of a fixed-rate note or loan are significantly influenced by changes in the benchmark interest rate (€STR). Hedge accounting is applied where economic hedging 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 6(A)(i)–(ii)).

IFRS 7.22B

Before fair value hedge accounting is applied by the Group, the Group determines whether an economic relationship between the hedged item and the hedging instrument exists based on an evaluation of the qualitative characteristics of these items and the hedged risk that is supported by quantitative analysis. The Group considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship. The Group evaluates whether the fair value of the hedged item and the hedging instrument respond similarly to similar risks. The Group further supports this qualitative assessment by using regression analysis to assess whether the hedging instrument is expected to be and has been highly effective in offsetting changes in the fair value of the hedged item.

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Notes to the consolidated financial statements (continued)

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

B. Hedge accounting (continued)

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

IFRS 7.22B

The Group establishes a hedge ratio by aligning the par amount of the fixed-rate loan or note and the notional amount of the interest rate swap designated as a hedging instrument. Under the Group policy, in order to conclude that a 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 7.22B(c), 23D

In these hedging 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 7.23E

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

The effective portion of 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]

At 31 December 2021 and 31 December 2020, the Group held the following interest rate swaps as hedging instruments in fair value hedges of interest risk.

	Maturity 2021			Maturity 2020		
Risk category	**Less than 1 year**	**1–5 years**	**More than 5 years**	**Less than 1 year**	**1–5 years**	**More than 5 years**
Interest rate risk						
Hedge of euro notes						
Nominal amount (in millions of euro)	**133**	**190**	**8**	125	168	20
Average fixed interest rate	**3.6%**	**4.9%**	**6.0%**	3.7%	4.8%	6.3%
Hedge of loans and advances						
Nominal amount (in millions of euro)	**527**	**720**	**28**	598	725	89
Average fixed interest rate	**3.6%**	**4.9%**	**6.1%**	3.6%	4.8%	6.2%

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.

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22. 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 7.24A, 24C

The amounts relating to items designated as hedging instruments and hedge ineffectiveness at 31 December 2021 were as follows.

	2021		
		Carrying amount	
In millions of euro	Nominal amount	Assets	Liabilities
Interest rate risk			
Interest rate swaps – hedge of euro notes	**331**	**30**	**20**
Interest rate swaps – hedge of loans and advances	**1,275**	**145**	**79**

IFRS 7.24B

The amounts relating to items designated as hedged items at 31 December 2021 were as follows.

	2021	
	Carrying amount	
In millions of euro	Assets	Liabilities
Notes issued	**-**	**360**
Loans and advances	**1,230**	**-**

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2021			
Line item in the statement of financial position where the hedging instrument is included	**Change in fair value used for calculating hedge ineffectiveness for 2021**	**Ineffectiveness recognised in profit or loss**	**Line item in profit or loss that includes hedge ineffectiveness**
Derivative assets (liabilities) held for risk management	**(3)**	**-**	Net income from other financial instruments at FVTPL
Derivative assets (liabilities) held for risk management	**37**	**-**	Net income from other financial instruments at FVTPL

2021				
Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item		**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**
Assets	**Liabilities**			
-	**(9)**	Debt securities issued	**4**	**-**
(45)	**-**	Loans and advances to customers	**(34)**	**2**

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22. 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 (continued)

IFRS 7.24A, 24C

The amounts relating to items designated as hedging instruments and hedge ineffectiveness at 31 December 2020 were as follows.

	2020		
		Carrying amount	
In millions of euro	**Nominal amount**	**Assets**	**Liabilities**
Interest rate risk			
Interest rate swaps – hedge of euro notes	313	14	16
Interest rate swaps – hedge of loans and advances	1,412	87	73

IFRS 7.24B

The amounts relating to items designated as hedged items at 31 December 2020 were as follows.

	2020	
	Carrying amount	
In millions of euro	**Assets**	**Liabilities**
Notes issued	-	325
Loans and advances	1,450	-

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2020			
Line item in the statement of financial position where the hedging instrument is included	**Change in fair value used for calculating hedge ineffectiveness for 2020**	**Ineffectiveness recognised in profit or loss**	**Line item in profit or loss that includes hedge ineffectiveness**
Derivative assets (liabilities) held for risk management	(2)	-	Net income from other financial instruments at FVTPL
Derivative assets (liabilities) held for risk management	21	3	Net income from other financial instruments at FVTPL

2020				
Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item		**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**
Assets	**Liabilities**			
-	(12)	Debt securities issued	6	-
(40)	-	Loans and advances to customers	(30)	1

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

B. Hedge accounting (continued)

ii. Cash flow hedges of interest rate risk and foreign currency debt securities issued

IFRS 7.22A, 22B(a), 22C

The Group uses pay fixed/receive floating interest rate and cross-currency interest rate swaps to hedge the interest rate risks in respect of the benchmark interest rate (mainly SOFR, SONIA and €STR) and foreign currency risks (mainly US dollar and sterling) from its issuance of floating-rate notes denominated in foreign currencies (for the impact of IBOR reform on hedge accounting, see (iii) below). The Group hedges interest rate risk to the extent of benchmark interest rate exposure on its floating-rate notes to mitigate variability in its cash flows. Hedge accounting is applied where economic hedging relationships meet the hedge accounting criteria.

IFRS 7.22A

The Group's approach to managing market risk, including interest rate risk and foreign currency risk, is discussed in Note 43(D). The Group's exposure to market risk is disclosed in Note 6(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.

For the same reasons as discussed above for fair value hedging relationships, the Group does not consider there to be uncertainty in the timing or amount of Euribor cash flows arising from IBOR reform as at 31 December 2021.

IFRS 7.22B(b)

The Group determines whether an economic relationship exists between the cash flows of the hedged item and hedging instrument based on an evaluation of the qualitative characteristics of these items and the hedged risk that is supported by quantitative analysis. The Group considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship. The Group evaluates whether the cash flows of the hedged item and the hedging instrument respond similarly to the hedged risk, such as the benchmark interest rate or foreign currency. The Group further supports this qualitative assessment by using regression analysis to assess whether the hedging instrument is expected to be and has been highly effective in offsetting changes in the present value of the hedged item.

The Group assesses hedge effectiveness using the hypothetical derivative method, which creates a derivative instrument to serve as a proxy for the hedged transaction. The terms of the hypothetical derivative match the critical terms of the hedged item and it has a fair value of zero at inception. The hypothetical derivative and the actual derivative are regressed to establish the statistical significance of the hedging relationship. 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 this regression analysis.

IFRS 7.22B(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%.

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Notes to the consolidated financial statements (continued)

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

B. Hedge accounting (continued)

ii. Cash flow hedges of interest rate risk and foreign currency debt securities issued (continued)

IFRS 7.23D

In these hedging 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 or timing of cash flows of the swap and the notes.

IFRS 7.23E

There were no other significant sources of ineffectiveness in these hedging relationships.

At 31 December 2021 and 31 December 2020, the Group held the following instruments to hedge exposures to changes in interest rates and foreign currency.

	Maturity 2021			Maturity 2020		
	Less than 1 year	1–5 years	More than 5 years	Less than 1 year	1–5 years	More than 5 years
Interest rate risk						
Interest rate swaps						
Nominal amount (in millions of euro)	**408**	**1,203**	**29**	525	1,806	12
Average fixed interest rate	**3.6%**	**4.9%**	**6.0%**	3.6%	4.9%	6.0%
Interest rate/foreign currency risk						
Cross-currency swaps (EUR:USD)						
Nominal amount (in millions of euro)	**-**	**567**	**-**	-	555	-
Average EUR:USD exchange rate	**-**	**1.3**	**-**	-	1.27	-
Average fixed interest rate	**-**	**3.8%**	**-**	-	3.8%	-
Cross-currency swaps (EUR:GBP)						
Nominal amount (in millions of euro)	**-**	**-**	**1,131**	-	-	1,162
Average EUR:GBP exchange rate	**-**	**-**	**0.82**	-	-	0.80
Average fixed interest rate	**-**	**-**	**7.0%**	-	-	7.0%

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

B. Hedge accounting (continued)

ii. Cash flow hedges of interest rate risk and foreign currency debt securities issued (continued)

Cash flow hedges

IFRS 7.24A, 24C

The amounts relating to items designated as hedging instruments and hedge ineffectiveness at 31 December 2021 and 31 December 2020 were as follows.

	2021			
		Carrying amount		
In millions of euro	Nominal amount	Assets	Liabilities	Line item in the statement of financial position where the hedging instrument is included
Interest rate risk				
Interest rate swaps	**1,640**	**210**	**117**	Derivative assets (liabilities) held for risk management
Interest rate/foreign currency risk				
Cross-currency interest rate swaps (EUR:USD)	**567**	**150**	**-**	Derivative assets (liabilities) held for risk management
Cross-currency interest rate swaps (EUR:GBP)	**1,131**	**-**	**138**	Derivative assets (liabilities) held for risk management

	2020			
		Carrying amount		
In millions of euro	Nominal amount	Assets	Liabilities	Line item in the statement of financial position where the hedging instrument is included
Interest rate risk				
Interest rate swaps	2,343	151	95	Derivative assets (liabilities) held for risk management
Interest rate/foreign currency risk				
Cross-currency interest rate swaps (EUR:USD)	555	99	-	Derivative assets (liabilities) held for risk management
Cross-currency interest rate swaps (EUR:GBP)	1,162	-	269	Derivative assets (liabilities) held for risk management

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2021					
Changes in fair value used for calculating hedge ineffectiveness for 2021	**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**
(33)	**(27)**	**(6)**	Net income from other financial instruments at FVTPL	**10**	Interest income calculated using the effective interest method
(11)	**(9)**	**(2)**	Net income from other financial instruments at FVTPL	**4**	Interest income calculated using the effective interest method
(7)	**(7)**	**-**	Net income from other financial instruments at FVTPL	**(8)**	Interest income calculated using the effective interest method

2020					
Changes in fair value used for calculating hedge ineffectiveness for 2020	**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**
(26)	(9)	(17)	Net income from other financial instruments at FVTPL	12	Interest income calculated using the effective interest method
(8)	(5)	(3)	Net income from other financial instruments at FVTPL	6	Interest income calculated using the effective interest method
(8)	(8)	-	Net income from other financial instruments at FVTPL	(6)	Interest income calculated using the effective interest method

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Notes to the consolidated financial statements (continued)

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

B. Hedge accounting (continued)

ii. Cash flow hedges of interest rate risk and foreign currency debt securities issued (continued)

Cash flow hedges (continued)

IFRS 7.24B

The amounts relating to items designated as hedged items at 31 December 2021 were as follows.

In millions of euro	2021			
	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 risk				
EUR floating-rate notes	Subordinated liabilities	**27**	**(30)**	**-**
Interest rate/foreign currency risk				
USD floating-rate notes	Subordinated liabilities	**9**	**(12)**	**-**
GBP floating-rate notes	Subordinated liabilities	**10**	**(68)**	**-**

IFRS 7.24B

The amounts relating to items designated as hedged items at 31 December 2020 were as follows.

In millions of euro	2020			
	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 risk				
EUR floating-rate notes	Subordinated liabilities	9	(25)	-
Interest rate/foreign currency risk				
USD floating-rate notes	Subordinated liabilities	5	(14)	-
GBP floating-rate notes	Subordinated liabilities	12	(46)	-

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Notes to the consolidated financial statements (continued)

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

B. Hedge accounting (continued)

iii. Impact of IBOR reform

Uncertainty arising from IBOR reform

[IFRS 9.6.9.1, 6.9.4]

The Group has concluded that as at 31 December 2021 its fair value and cash flow hedging relationships were no longer subject to uncertainty driven by IBOR reform.

Accordingly, the Group:

– ceased to apply the assumptions that the hedged benchmark interest rate, the cash flows of the hedged item and/or hedging instrument are not altered as a result of IBOR reform when the uncertainty arising from IBOR reform was no longer present.

– amended the formal hedge documentation of these hedging relationship to reflect the changes required by IBOR reform by the end of the reporting period during which the changes occurred and amended the description of the hedging instrument in the formal hedge documentation when a fallback provision inserted in a hedging instrument was triggered. These changes in the formal hedge documentation did not cause a discontinuation of the hedging relationship.

– remeasured the cumulative changes in the hedged cash flows and the hedging instrument based on new alternative benchmark rates – i.e. SOFR or SONIA – when the uncertainty arising from IBOR reform was removed. For the purpose of remeasuring the cumulative changes in the hedged cash flows, the Group amended the terms of the hypothetical derivative to reflect the changes required by IBOR reform in the hedged item.

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

B. Hedge accounting (continued)

iv. Net investment hedges (continued)

IFRS 7.22A

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 in the consolidated financial statements of the Group. 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 7.22A

The hedged risk in the net investment hedges is the variability in the 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. An economic relationship exists between the hedged net investment and hedging instrument due to the shared foreign currency risk exposure.

IFRS 7.22B, 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, the hedge ratio is established by aligning the principal amount of the debt with the carrying amount of the net investment that is designated. There are no sources of ineffectiveness because changes in the spot exchange rate are designated as the hedged risk.

IFRS 7.22B(b)

When the hedging instrument is a forward foreign exchange contract, the Group establishes a hedge ratio where the notional on the forward foreign exchange contract matches the carrying amount of the designated net investment. The Group ensures that the foreign currency in which the hedging instrument is denominated is the same as the functional currency of the net investment. This qualitative assessment is supplemented quantitatively using the hypothetical derivative method for the purposes of assessing hedge effectiveness. 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. The hypothetical derivative is constructed to have the same critical terms as the net investment designated as the hedged item and a fair value of zero at inception.

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. The Group establishes a hedge ratio by aligning the nominal amount of the foreign exchange leg of the derivative to the same amount of net investment.

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Notes to the consolidated financial statements (continued)

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

B. Hedge accounting (continued)

iv. Net investment hedges (continued)

IFRS 7.23B

At 31 December 2021 and 31 December 2020, the Group held the following forward foreign exchange contracts to hedge its net investments in subsidiaries.

	Maturity 2021			Maturity 2020		
	Less than 1 year	1–2 years	2–5 years	Less than 1 year	1–2 years	2–5 years
Nominal amount (net) (in millions of euro)	**274**	**115**	**199**	110	298	205
Average EUR:GBP exchange rate	**0.73**	**0.77**	**0.81**	0.75	0.79	0.85

IFRS 7.23B

US dollar-denominated debt, which is included within debt securities issued (see Note 31), is used to hedge the net investment in the Group's subsidiaries in the US with a US dollar functional currency and a maturity of three years at 31 December 2021.

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

B. Hedge accounting (continued)

iv. Net investment hedges (continued)

Net investment hedges

IFRS 7.24A, 24C

The amounts relating to items designated as hedging instruments at 31 December 2021 were as follows.

	2021			
		Carrying amount		
In millions of euro	Nominal amount	Assets	Liabilities	Line item in the statement of financial position where the hedging instrument is included
Foreign exchange-denominated debt (USD)	**950**	**-**	**960**	Debt securities issued
Forward foreign exchange contracts (EUR:GBP)	**588**	**85**	**93**	Derivative assets (liabilities) held for risk management

IFRS 7.24B

The amounts related to items designated as hedged items at 31 December 2021 were as follows.

	2021
In millions of euro	Change in value used for calculating hedge ineffectiveness
USD net investment	**(36)**
GBP net investment	**6**

IFRS 7.24A, 24C

The amounts relating to items designated as hedging instruments at 31 December 2020 were as follows.

	2020			
		Carrying amount		
In millions of euro	Nominal amount	Assets	Liabilities	Line item in the statement of financial position where the hedging instrument is included
Foreign exchange-denominated debt (USD)	950	-	960	Debt securities issued
Forward foreign exchange contracts (EUR:GBP)	613	77	78	Derivative assets (liabilities) held for risk management

IFRS 7.24B

The amounts related to items designated as hedged items at 31 December 2020 were as follows.

	2020
In millions of euro	Change in value used for calculating hedge ineffectiveness
USD net investment	(38)
GBP net investment	7

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2021

Change in fair value used for calculating hedge ineffectiveness for 2021	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
36	**36**	**-**	Other interest income	**-**	**n/a**
(7)	**(6)**	**(1)**	Other interest income	**-**	**n/a**

2021

Foreign currency translation reserve	Balances remaining in the foreign currency translation reserve from hedging relationships for which hedge accounting is no longer applied
(60)	**-**
15	**2**

2020

Change in fair value used for calculating hedge ineffectiveness for 2020	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
38	38	-	Other interest income	-	n/a
(12)	(7)	(5)	Other interest income	-	n/a

2020

Foreign currency translation reserve	Balances remaining in the foreign currency translation reserve from hedging relationships for which hedge accounting is no longer applied
(75)	-
18	2

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

C. Reconciliation of components of equity

IFRS 7.24E–24F

The following table provides a reconciliation by risk category of components of equity and analysis of OCI items resulting from hedge accounting.

In millions of euro	Cash flow hedging reserve	Translation reserve
Balance at 1 January 2021	**(85)**	**77**
Cash flow hedges		
Effective portion of changes in fair value:		
Interest rate risk	**(27)**	**-**
Interest rate/USD foreign currency risk	**(9)**	**-**
Interest rate/GBP foreign currency risk	**(7)**	**-**
Net amount reclassified to profit or loss:		
Interest rate risk	**10**	**-**
Interest rate/USD foreign currency risk	**4**	**-**
Interest rate/GBP foreign currency risk	**(8)**	**-**
Related tax	**12**	**-**
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)**
Balance at 31 December 2021	**(110)**	**62**

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Notes to the consolidated financial statements (continued)

23. Loans and advances to banks

See accounting policy in Note 46(N).

IFRS 7.6, B1–B3

In millions of euro	2021	2020
Reverse sale-and-repurchase agreements	**1,996**	1,278
Other	**3,588**	3,434
Less impairment loss allowance	**(29)**	(29)
	5,555	4,683

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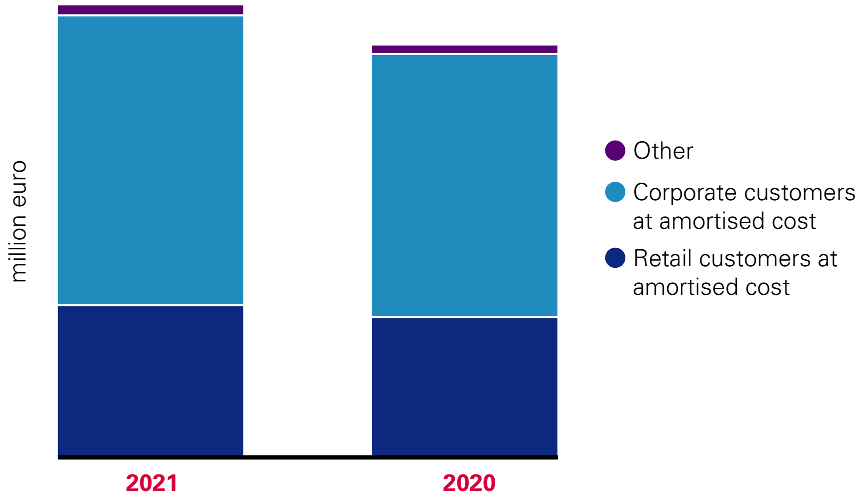
24. Loans and advances to customers[a]

See accounting policy in Note 46(N).



In millions of euro	*Note*	**2021**	**2020**
IFRS 7.8(f) Loans and advances to customers at amortised cost		**59,731**	54,321
Finance leases	*41*	**939**	861
Less impairment loss allowance		**(1,924)**	(1,615)
		58,746	53,567
IFRS 7.8(a)(ii) Loans and advances to customers at FVTPL		**3,986**	3,145
		62,732	56,712

A. Loans and advances to customers at amortised cost

IFRS 7.6, B1–B3

	2021			**2020**		
In millions of euro	**Gross carrying amount**	**ECL allowance**	**Carrying amount**	**Gross carrying amount**	**ECL allowance**	**Carrying amount**
Retail customers						
Mortgage lending	**14,856**	**(886)**	**13,970**	13,629	(632)	12,997
Personal loans	**4,164**	**(248)**	**3,916**	3,621	(248)	3,373
Credit cards	**2,421**	**(145)**	**2,276**	2,284	(145)	2,139
Corporate customers						
Reverse sale-and-repurchase agreements	**6,318**	**(20)**	**6,298**	6,134	(20)	6,114
Corporate loans	**31,972**	**(608)**	**31,364**	28,653	(548)	28,105
	59,731	**(1,907)**	**57,824**	54,321	(1,593)	52,728

B. Loans and advances to customers at FVTPL

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

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)

25. Investment securities[a]

See accounting policy on Note 46(O).

In millions of euro		**2021**	2020
IFRS 7.8(a)(ii)	Investment securities mandatorily measured at FVTPL	**1,623**	1,433
IFRS 7.8(a)(i)	Investment securities designated as at FVTPL	**2,879**	2,071
IFRS 7.8(f)	Investment securities measured at amortised cost	**410**	101
IFRS 7.8(h)(i)	Investment securities measured at FVOCI – debt instruments	**1,363**	1,726
IFRS 7.8(h)(ii)	Investment securities designated as at FVOCI – equity investments	**27**	25
		6,302	5,356

Investment securities mandatorily measured at FVTPL

IFRS 7.6, B1–B3

In millions of euro	**2021**	2020
Corporate bonds	**632**	542
Asset-backed securities	**523**	489
Debt securities	**1,155**	1,031
Equity securities	**468**	402
	1,623	1,433

IFRS 7.21, [IAS 28.18]

Investment securities that are mandatorily measured as at FVTPL include the Group's equity investments in certain entities held by its venture capital subsidiary. These investments (2021: €166 million; 2020: €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.

Investment securities designated as at FVTPL

IFRS 7.6, B1–B3

In millions of euro	**2021**	2020
Corporate bonds	**2,622**	1,884
Asset-backed securities	**257**	187
	2,879	2,071

IFRS 7.21, B5(aa)

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

Investment securities measured at amortised cost

IFRS 7.6, B1–B3

In millions of euro	**2021**	2020
Government bonds	**210**	70
Corporate bonds	**100**	21
Asset-backed securities	**100**	10
Debt securities	**410**	101

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

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Notes to the consolidated financial statements (continued)

25. Investment securities (continued)

Debt investment securities measured at FVOCI

IFRS 7.6, B1–B3

In millions of euro	*Note*	2021	2020
Government bonds		**514**	746
Corporate bonds		**551**	767
Asset-backed securities		**200**	126
Retained interests in securitisations	*38*	**98**	87
Debt securities		**1,363**	1,726

Equity investment securities designated as at FVOCI[a]

IFRS 7.8(h)(ii), 11A

The following table shows investments in equity securities that are designated at FVOCI. The FVOCI designation was made because the investments are expected to be held for the long term for strategic purposes.

IFRS 7.6, B1–B3

In millions of euro	Fair value at 31 December 2021	Dividend income recognised 2021
Investment in XY Trust Company	**15**	**1**
Investment in AB Securities	**12**	**1**
	27	**2**

IFRS 7.11A(e), 11B(c), 20(a)(viii)

None of these strategic investments were disposed of during the year ended 31 December 2021 (2020: nil), and there were no transfers of any cumulative gain or loss within equity relating to these investments (2020: nil). The change in fair value on these investments was €2 million for the year ended 31 December 2021 (2020: nil).

IFRS 7.6, B1–B3

In millions of euro	Fair value at 31 December 2020	Dividend income recognised 2020
Investment in XY Trust Company	14	4
Investment in AB Securities	11	4
	25	8

Insights 7.10.230.25 a. When disclosing which investments in equity instruments have been designated as at FVOCI, it appears that an entity should apply judgement in determining what disclosures would provide the most useful information for financial statement users. We believe that in most cases, disclosing the names of individual investees would be appropriate – e.g. if an entity has a small number of individually significant investments, particularly if this disclosure enables users to access additional information about those investees from other sources. However, in some cases disclosure at a higher level of aggregation and disclosures other than the names of investees may provide more useful information. For example, if an entity has a large number of individually insignificant investments in a few industries, then disclosure by industry may be appropriate. Similarly, if an entity holds investments for which no public information is available, then disclosure about the nature and purpose of those investments may be relevant.

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Notes to the consolidated financial statements (continued)

26. Property and equipment[a]

See accounting policy in Note 46(P).

	In millions of euro	Land and buildings	IT equipment	Fixtures and fittings	Total
IAS 16.73(d)–(e)					
	Cost				
IAS 16.73(d)	Balance at 1 January 2020	970	154	78	1,202
IAS 16.73(e)(i)	Additions	24	21	18	63
IAS 16.73(e)(ii)	Disposals	(14)	(7)	(6)	(27)
IAS 16.73(e)(viii)	Effect of movements in exchange rates	-	2	1	3
IAS 16.73(d)	Balance at 31 December 2020	980	170	91	1,241
IAS 16.73(d)	Balance at 1 January 2021	**980**	**170**	**91**	**1,241**
IAS 16.73(e)(i)	Additions	**34**	**32**	**22**	**88**
IAS 16.73(e)(ii)	Disposals	**(26)**	**(16)**	**(7)**	**(49)**
IAS 16.73(e)(viii)	Effect of movements in exchange rates	**-**	**1**	**1**	**2**
IAS 16.73(d)	Balance at 31 December 2021	**988**	**187**	**107**	**1,282**
	Accumulated depreciation and impairment losses				
IAS 16.73(d)	Balance at 1 January 2020	405	53	24	482
IAS 16.73(e)(vii)	Depreciation for the year	80	9	4	93
IAS 16.73(e)(v)	Impairment loss	-	-	-	-
IAS 16.73(e)(ii)	Disposals	(4)	(3)	(2)	(9)
IAS 16.73(e)(viii)	Effect of movements in exchange rates	-	2	1	3
IAS 16.73(d)	Balance at 31 December 2020	481	61	27	569
IAS 16.73(d)	Balance at 1 January 2021	**481**	**61**	**27**	**569**
IAS 16.73(e)(vii)	Depreciation for the year	**81**	**10**	**4**	**95**
IAS 16.73(e)(v)	Impairment loss	**-**	**-**	**-**	**-**
IAS 16.73(e)(ii)	Disposals	**(7)**	**(4)**	**(2)**	**(13)**
IAS 16.73(e)(viii)	Effect of movements in exchange rates	**-**	**1**	**1**	**2**
IAS 16.73(d)	Balance at 31 December 2021	**555**	**68**	**30**	**653**
IAS 16.73(e), 1.78(a)	**Carrying amounts**				
	Balance at 1 January 2020	565	101	54	720
	Balance at 31 December 2020	499	109	64	672
	Balance at 31 December 2021	**433**	**119**	**77**	**629**

[IFRS 16.47] As at 31 December 2021, property and equipment includes right-of-use assets of €225 million (2020: €294 million) related to leased branches and office premises (see Note 41(A)(i)).

IAS 16.73(d)–(e) a. Although IAS 16 *Property, Plant and Equipment* 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. These additional reconciliations are not required and a different format may be used.

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Notes to the consolidated financial statements (continued)

27. Intangible assets and goodwill

See accounting policies in Notes 46(R) and (S).

A. Reconciliation of carrying amount[a]

Reference	In millions of euro	Goodwill	Purchased software	Developed software	Total
	Cost				
IFRS 3.B67(d)(i), IAS 38.118(c)	Balance at 1 January 2020	78	94	116	288
IAS 38.118(e)(i)	Acquisitions	-	20	-	20
IAS 38.118(e)(i)	Internal development	-	-	13	13
IAS 38.118(e)(vii)	Effect of movements in exchange rates	-	-	1	1
IFRS 3.B67(d)(viii), IAS 38.118(c)	Balance at 31 December 2020	78	114	130	322
IFRS 3.B67(d)(i), IAS 38.118(c)	Balance at 1 January 2021	**78**	**114**	**130**	**322**
IAS 38.118(e)(i)	Acquisitions	**-**	**26**	**-**	**26**
IAS 38.118(e)(i)	Internal development	**-**	**-**	**14**	**14**
IAS 38.118(e)(vii)	Effect of movements in exchange rates	**-**	**-**	**2**	**2**
IFRS 3.B67(d)(viii), IAS 38.118(c)	Balance at 31 December 2021	**78**	**140**	**146**	**364**
	Accumulated amortisation and impairment losses				
IFRS 3.B67(d)(i), IAS 38.118(c)	Balance at 1 January 2020	5	20	17	42
IAS 38.118(e)(vi)	Amortisation for the year	-	10	10	20
IFRS 3.B67(d)(v), IAS 36.130(b), 38.118(e)(iv)	Impairment loss	-	-	-	-
IAS 38.118(e)(vii)	Effect of movements in exchange rates	-	-	1	1
IFRS 3.B67(d)(viii), IAS 38.118(c)	Balance at 31 December 2020	5	30	28	63
IFRS 3.B67(d)(i), IAS 38.118(c)	Balance at 1 January 2021	**5**	**30**	**28**	**63**
IAS 38.118(e)(iv)	Amortisation for the year	**-**	**16**	**9**	**25**
IFRS 3.B67(d)(v), IAS 36.130(b), 38.118(e)(iv)	Impairment loss	**-**	**-**	**-**	**-**
IAS 38.118(e)(vii)	Effect of movements in exchange rates	**-**	**-**	**1**	**1**
IFRS 3.B67(d)(viii), IAS 38.118(c)	Balance at 31 December 2021	**5**	**46**	**38**	**89**
IAS 38.118(c)	**Carrying amounts**				
	Balance at 1 January 2020	73	74	99	246
	Balance at 31 December 2020	73	84	102	259
	Balance at 31 December 2021	**73**	**94**	**108**	**275**

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

IAS 38.118(c), (e) a. Although IAS 38 *Intangible Assets* only requires the reconciliation of the carrying amount 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 amortisation. These additional reconciliations are not required and a different format may be used.

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Notes to the consolidated financial statements (continued)

27. Intangible assets and goodwill (continued)

B. Impairment testing for CGUs containing goodwill

COVID-19 considerations

For an example of COVID-19-related disclosures relating to goodwill impairment testing, see the COVID-19 supplement accompanying our Guide to annual financial statements – Illustrative disclosures (September 2020).

IAS 36.134(a)

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

In millions of euro	**2021**	2020
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 the year ended 31 December 2021 (2020: 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 the year ended 31 December 2021 (2020: 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[c] used in the calculation of value in use were as follows. The values assigned to the key assumptions represent management's assessment of future trends in the relevant sector and have been based on historical data from both external and internal sources.

		European investment banking		European retail banking	
	In percent	**2021**	2020	**2021**	2020
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

a. Separate disclosures are required for each CGU (or group of CGUs) for which the carrying amount of goodwill or intangible assets with an indefinite useful life allocated to the CGU is significant in comparison with its carrying amount.

b. For an example when goodwill is impaired, see our Guide to annual financial statements – Illustrative disclosures (September 2021).

IAS 36.134(d)(iv)–(v), (e)(iv)–(v), (f), IE89

c. 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 key assumptions, having regard to the requirement for an entity to disclose a description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information. An entity also discloses additional quantitative information if a reasonably possible change in key assumptions would result in an impairment.

IAS 36.50(b), 55, A20, Insights 3.10.840.10–20

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.

Whichever rate is used (pre- or post-tax), the pre-tax discount rate needs to be disclosed. When value in use is determined using post-tax cash flows and a post-tax discount rate, the pre-tax discount rate needs to be calculated to comply with the disclosure requirements.

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27. Intangible assets and goodwill (continued)

B. Impairment testing for CGUs containing goodwill (continued)

IAS 36.134(d)(ii)–(iii)

Five years of cash flow projections were included in the discounted cash flow model. A long-term growth rate was used to extrapolate the cash flows beyond the five-year period. The 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.

IAS 36.134(d)(ii)

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.

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Notes to the consolidated financial statements (continued)

IAS 1.77

28. Other assets[a]

See accounting policy in Notes 46(J) and (Q).

A. Summary

	In millions of euro	2021	2020
IAS 1.54(h)	Accrued income	**477**	314
IAS 1.54(h)	Accounts receivable and prepayments	**460**	315
IAS 1.54(b)	Investment property	**59**	71
IAS 7.48	Restricted deposits with central banks	**56**	56
IAS 1.54(j)	Assets held for sale	**10**	16
	Other	**45**	57
		1,107	829

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	2021	2020
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	**(16)**	(2)
IAS 40.76(d), IFRS 13.93(e)(i), (f)	Changes in fair value	**(2)**	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.

IFRS 16.92(a)

Investment property comprises a number of commercial properties that are leased to third parties. Each of the leases contains an initial non-cancellable period of 10 years. Subsequent renewals are negotiated with the lessee and historically the average renewal period is four years. Further information about these leases is included in Note 41.

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

Changes in fair values are recognised as gains in profit or loss and included in 'other income'. All gains are unrealised.

IAS 40.75(f)(i)

At 31 December 2021, rental income from investment property of €4 million (2020: €4 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 2021).

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IAS 1.77

28. 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 (2021: 2–3%, weighted average 2.5%; 2020: 2–3%, weighted average 2.6%). – Void periods (2021 and 2020: average 6 months after the end of each lease). – Occupancy rate (2021: 90–95%, weighted average 92.5%; 2020: 91–95%, weighted average 92.8%). – Rent-free periods (2021 and 2020: 1-year period on new leases). – Risk-adjusted discount rates (2021: 5–6.3%, weighted average 5.8%; 2020: 5–6.4%, weighted average 5.8%).	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).

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Notes to the consolidated financial statements (continued)

29. Deposits from banks

In millions of euro	2021	2020
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

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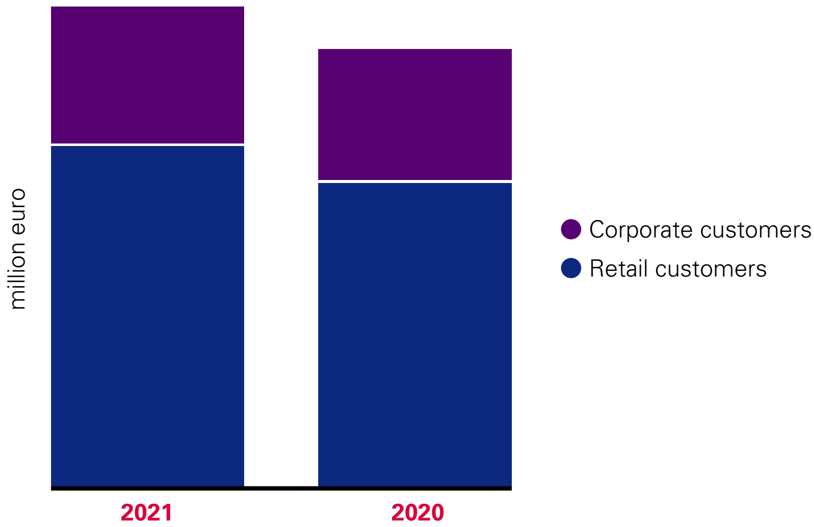
30. Deposits from customers

See accounting policy in Note 46(T).



In millions of euro	2021	2020
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

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Notes to the consolidated financial statements (continued)

31. Debt securities in issue

See accounting policy in Note 46(T).

	In millions of euro	2021	2020
IFRS 7.8(g)	At amortised cost	**9,977**	8,040
IFRS 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 7.21, B5(a)

Certain debt securities in issue 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 7.10(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	2021	2020
IFRS 7.10(a)	Balance at 1 January	**(2)**	(3)
IFRS 7.10(a), 20(a)(i)	Recognised in OCI during the year	**3**	1
	Balance at 31 December	**1**	(2)

IFRS 7.10(c)–(d)

None of the liabilities designated as at FVTPL was derecognised during the year ended 31 December 2021 (2020: nil).

IFRS 7.11(a)

The change in fair value attributable to changes in credit risk on financial liabilities is calculated using the credit spread observed for recent issuances of similar debt, adjusted for subsequent changes in the credit spread observed on credit default swaps on the issuing Group entity's senior debt.

IFRS 7.10(b)

The carrying amount of financial liabilities designated as at FVTPL at 31 December 2021 was €30 million lower than the contractual amount due at maturity (2020: €43 million lower).

IFRS 7.18–19

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 2021 and 31 December 2020.

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32. Subordinated liabilities

See accounting policy in Note 46(T).

In millions of euro	2021	2020
Tier 2 capital securities	**4,782**	4,158
Other subordinated liabilities	**860**	827
	5,642	4,985

IFRS 7.7

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

In millions of euro	First call date	Maturity date	2021	2020
Tier 2 capital securities				
10% EUR 1,500 million non-cumulative callable perpetual securities	1992	n/a	**1,315**	1,394
8% USD 1,200 million non-cumulative callable perpetual securities	2004	n/a	**744**	688
EUR 750 million callable floating-rate notes	2003	2030	**725**	-
EUR 500 million callable floating-rate notes	2004	2028	**-**	59
EUR 300 million callable floating-rate notes	2004	2028	**300**	300
USD 750 million callable floating-rate notes	2024	2029	**567**	555
GBP 1,000 million callable floating-rate notes	2004	2028	**1,131**	1,162
Other subordinated liabilities				
Other floating subordinated liabilities each less than EUR 50 million	2004	2028	**620**	595
Other fixed subordinated liabilities each less than EUR 50 million	2004	2028	**240**	232
			5,642	4,985

IFRS 7.7

Tier 2 capital securities

Tier 2 capital securities are either perpetual or dated subordinated securities on which there is an obligation to pay coupons. They may be called before maturity date at the option of the Group and subject to permission by the Group's lead regulator. These capital securities are included within the Group's regulatory capital base as Tier 2 capital under [*name of regulation*] subject to grandfathering limits.

In accordance with [*name of regulation*], the capital contribution of all Tier 2 securities is amortised for regulatory purposes in their final five years before maturity.

The securities 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 7.18–19

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 2021 and 31 December 2020.

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Notes to the consolidated financial statements (continued)

33. Provisions

See accounting policies in Notes 46(U) and (V).

	In millions of euro	2021	2020
IFRS 7.B8E, [IFRS 9.4.2.1(c)]	Financial guarantee contracts issued	**32**	26
IFRS 7.B8E, [IFRS 9.5.5.1]	Loan commitments issued	**6**	4
[IAS 37]	Other provisions	**90**	84
		128	114

A. Financial guarantee contracts issued

At 31 December 2021, the amount in respect of financial guarantee contracts issued represents the sum of an ECL provision of €6 million (2020: €2 million) (see Note 6(A)(iii)) and the amounts recognised at issuance less cumulative amortisation of €26 million (2020: €24 million).

B. Loan commitments issued

At 31 December 2021, the amount in respect of loan commitments issued represents the sum of an ECL provision of €5 million (2020: €4 million) (see Note 6(A)(iii)) and the amounts recognised at issuance of loan commitments to provide loans at below-market rates less cumulative amortisation of €1 million (2020: nil).

C. Other provisions

The following table sets out other provisions.

	In millions of euro	Note	Redundancy	Branch closures	Other	Total
IAS 37.84(a)	Balance at 1 January 2021		**41**	**40**	**3**	**84**
IAS 37.84(b)	Provisions made during the year	16	**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]	16	**-**	**-**	**(1)**	**(1)**
IAS 37.84(e)	Unwind of discount		**1**	**1**	**-**	**2**
IAS 37.84(a)	Balance at 31 December 2021		**39**	**44**	**7**	**90**
IAS 1.60	Non-current		**-**	**39**	**-**	**39**
	Current		**39**	**5**	**7**	**51**
			39	**44**	**7**	**90**

IAS 1.98(b), 37.85(a)–(b)

i. Redundancy

In accordance with the *Delivery Channel Optimisation Plan* announced by the Group in November 2020, 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 the year ending 31 December 2022.

[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.

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Notes to the consolidated financial statements (continued)

33. Provisions (continued)

C. Other provisions (continued)

ii. Branch closures

IAS 1.98(b), 37.85(a)–(b)

In accordance with the plans announced by the Group in November 2020, 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 the years ended 31 December 2020 and 31 December 2021. The remaining provision relates to the balance of the branches' closures set out in the plan, which will be completed during the year ending 31 December 2023.

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Notes to the consolidated financial statements (continued)

34. Other liabilities

See accounting policies in Notes 46(H) and (W).

	In millions of euro	*Note*	2021	2020
IFRS 16.47(b)	Lease liabilities	*41*	**367**	441
IAS 1.78(d)	Recognised liability for defined benefit obligations	*15*	**174**	158
IAS 1.78(d)	Short-term employee benefits		**62**	57
	Creditors and accruals		**51**	68
IAS 1.78(d)	Liability for long-service leave		**51**	44
IAS 1.78(d)	Cash-settled share-based payment liability	*15*	**44**	38
	Other		**89**	12
			838	818

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Notes to the consolidated financial statements (continued)

35. Capital and reserves

See accounting policy in Note 46(X).

IAS 1.79(a)(iv)

A. Share capital and share premium

	Ordinary shares	
In millions of shares	**2021**	**2020**
In issue at 1 January	**1,756**	1,756
Exercise of share options	**3**	-
In issue at 31 December – fully paid (IAS 1.79(a)(ii))	**1,759**	1,756
Authorised – par value €1 (IAS 1.79(a)(i), (iii))	**2,000**	2,000

The Group has also issued employee share options (see Note 15(A)).

IAS 1.79(a)(v)

Ordinary shares

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.

IAS 1.55

B. Other equity instruments

In millions of euro	**Initial call date**	**2021**	**2020**
€390 million, 5.13%, perpetual subordinated contingent convertible securities	**June 2030**	**500**	500

Other equity instruments comprise additional Tier 1 securities issued by the Group.

The principal terms of the additional Tier 1 securities are as follows:

- the securities rank behind the claims against the Group of all other subordinated and unsubordinated creditors;
- the securities are undated and are redeemable, at the discretion of the Group, at the initial call date, or on any fourth anniversary after the initial call date; they are also redeemable at the option of the Group in the event of certain changes in their tax or regulatory treatment. Any redemption requires permission of the Group's lead regulator;
- the securities bear a fixed rate of interest until the initial call date. After the initial call date, if they are not redeemed, they bear interest fixed at market levels for each subsequent four-year period; and
- the interest on the securities is due and payable only at the sole discretion of the Group, which has sole and absolute discretion at all times and for any reason to cancel (in whole or in part) any interest payment that would otherwise be payable on any interest payment date. The additional Tier 1 securities will be converted into ordinary shares of the Group, at a pre-determined price, should the CET1 ratio of the Group fall below 7%.

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Notes to the consolidated financial statements (continued)

35. Capital and reserves (continued)

C. 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 46(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 46(M)).

iii. Fair value reserve

IAS 1.79(b)

The fair value reserve comprises:

- the cumulative net change in the fair value of equity securities measured at FVOCI; and
- the cumulative net change in the fair value of debt securities measured at FVOCI until the assets are derecognised or reclassified. This amount is increased by the amount of loss allowance (see Note 46(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 31).

D. Dividends and coupons

IAS 1.107

The following amounts were recognised as distributions to equity holders of the Bank during the years ended 31 December.

In millions of euro	**2021**	**2020**
Dividends: €0.15 per ordinary share (2020: €0.15)	**263**	263
Coupons on other equity	**20**	20
	283	283

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	**2021**	**2020**
€0.15 per ordinary share	**263**	263

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36. Group subsidiaries

See accounting policy in Note 46(A).

A. List of significant subsidiaries[a]

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

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

	Principal place of business	Ownership interest 2021	Ownership interest 2020
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 ended 31 December 2021, the Group issued guarantees of €80 million (2020: 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 46(A)(ii)). 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 46(U).

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 (2020: €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)

NCI percentage	**20%**	**20%**
In millions of euro	**2021**	**2020**
Loans and advances	**2,015**	1,770
Other assets	**120**	230
Liabilities	**(1,450)**	(1,415)
Net assets	**685**	585
Carrying amount of NCI (*IFRS 12.12(f)*)	**137**	117
Revenue	**750**	717
Profit	**100**	90
Total comprehensive income	**100**	90
Profit allocated to NCI (*IFRS 12.12(e)*)	**20**	18
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)
Cash flows from financing activities cash dividends to NCI (*IFRS 12.B10(a)*)	**-**	-
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.

a. For additional disclosure examples and explanatory notes on IFRS 12, see our Guide to annual financial statements – IFRS 12 supplement.

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Notes to the consolidated financial statements (continued)

37. 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 2021**	**Total assets 2020**
Securitisation vehicles for loans and advances (see Note 38)	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	**2021 Investment securities**	**2020 Investment securities**
Securitisation vehicles for loans and advances	**256**	224
Investment funds	**238**	210
Total	**494**	434

IFRS 12.30

During the year ended 31 December 2021, 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	**2021**	**2020**
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

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Notes to the consolidated financial statements (continued)

38. Transfers of financial assets

See accounting policy in Note 46(J)(iii).

IFRS 7.42A, 42D(a)

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 46(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 7.42D(a)–(c)

'Sale-and-repurchase agreements' are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. The Group continues to recognise the securities in their entirety in the statement of financial position because it retains substantially all 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 7.42D(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)

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.

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Notes to the consolidated financial statements (continued)

38. Transfers of financial assets (continued)

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

iv. Securitisations

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.

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 7.42D(a)–(c)

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 7.42D(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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38. Transfers of financial assets (continued)

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

iv. Securitisations (continued)

IFRS 7.42D(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 2021 *In millions of euro*	**Loans and advances to customers**	**Pledged trading assets**	**Loans and advances to customers**
	Assets			
	Sales and repurchase agreements	271	216	629
	Securities lending	219	92	605
	Sale of a security with a total return swap	-	146	-
	Securitisations	291	86	-
IFRS 7.42D(e)	Carrying amount of assets	781	540	1,234
	Associated liabilities			
	Sales and repurchase agreements	273	217	630
	Securities lending	224	92	606
	Sale of a security with a total return swap	-	147	-
	Securitisations	302	86	-
IFRS 7.42D(e)	Carrying amount of associated liabilities	799	542	1,236
	For those liabilities that have recourse only to the transferred financial assets			
	Assets			
	Sales and repurchase agreements	271	-	631
	Securities lending	219	-	609
	Sale of a security with a total return swap	-	-	-
	Securitisations	291	-	-
IFRS 7.42D(d)	Fair value of assets	781	-	1,240
	Associated liabilities			
	Sales and repurchase agreements	271	-	631
	Securities lending	219	-	609
	Sale of a security with a total return swap	-	-	-
	Securitisations	291	-	-
IFRS 7.42D(d)	Fair value of associated liabilities	781	-	1,240
	Net position	-	-	-

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Notes to the consolidated financial statements (continued)

38. Transfers of financial assets (continued)

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

iv. Securitisations (continued)

31 December 2020 *In millions of euro*	Financial assets at fair value through profit or loss Loans and advances to customers	 Pledged trading assets	Financial assets at amortised cost Loans and advances to customers
Assets			
Sales and repurchase agreements	196	201	343
Securities lending	185	98	780
Sale of a security with a total return swap	-	140	-
Securitisations	252	80	-
IFRS 7.42D(e) Carrying amount of assets	633	519	1,123
Associated liabilities			
Sales and repurchase agreements	213	204	598
Securities lending	189	89	527
Sale of a security with a total return swap	-	138	-
Securitisations	248	89	-
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			
Assets			
Sales and repurchase agreements	196	-	342
Securities lending	185	-	778
Sale of a security with a total return swap	-	-	-
Securitisations	252	-	-
IFRS 7.42D(d) Fair value of assets	633	-	1,120
Associated liabilities			
Sales and repurchase agreements	196	-	342
Securities lending	185	-	778
Sale of a security with a total return swap	-	-	-
Securitisations	252	-	-
IFRS 7.42D(d) Fair value of associated liabilities	633	-	1,120
Net position	-	-	-

IFRS 7.42D(f)

At 31 December 2021, 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 (2020: €54 million). On 31 December 2021, 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 (2020: €21 million and €19 million respectively).

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38. Transfers of financial assets (continued)

B. Transferred financial assets that are derecognised in their entirety

i. Securitisations

Sales to unconsolidated structured entities

IFRS 7.42C, 42E

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 7.42E(f), 42G

In June 2021 and May 2020, 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.

During the year ended 31 December 2021, the Group realised a gain of €8 million on the sale of the investment securities to the unconsolidated securitisation vehicle (2020: €5 million). During the year ended 31 December 2021, it recognised interest income of €4 million in profit or loss and a fair value gain of €1 million in OCI on the notes (2020: €3 million and €1 million respectively). The cumulative interest income and fair value gain on the notes held on 31 December 2021 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.

IFRS 7.42E(a)–(b)

	Carrying amount	Fair value	
In millions of euro	**Investment securities**	**Assets**	**Liabilities**
Type of continuing involvement			
Notes issued by unconsolidated securitisation vehicle:			
31 December 2021	**98**	**98**	**-**
31 December 2020	87	87	-

IFRS 7.42E(c)

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

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Notes to the consolidated financial statements (continued)

38. Transfers of financial assets (continued)

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

i. Securitisations (continued)

Other sales

IFRS 7.42C, 42E, 42H

As part of certain securitisation transactions that result in the Group derecognising the transferred financial assets in their entirety, the Group retains servicing rights in respect of the transferred financial assets. Under the servicing arrangements, the Group collects the cash flows on the transferred mortgages on behalf of the unconsolidated 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.

IFRS 7.42E(a)

In 2021 and 2020, 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 2021 (€148 million in May and €133 million in November) (2020: €199 million in July).

IFRS 7.42G

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 during the year ended 31 December 2021 in respect of servicing the residential mortgage loans (2020: €1 million). The cumulative amount of such recognised income as at 31 December 2021 is €3 million (2020: €1 million). On 31 December 2021, the fair value of the loans and advances to customers that the Group still services amounted to €262 million (2020: €170 million). The fair value of servicing assets and liabilities on 31 December 2021 and 31 December 2020 was not material.

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Notes to the consolidated financial statements (continued)

39. Contingencies

See accounting policy in Note 46(V).

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 2015 to 2018. 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 €250,000 would be reimbursable under an insurance policy. Based on legal advice, management believes that its defence of the action will be successful.

During 2021, Melody S.A filed a lawsuit in [*Country X*] against Blue Banking Limited, a subsidiary of the Group, related to disputed derivative transactions entered into in 2018. Melody S.A requested the contracts be declared null and void, and to receive compensation in the amount of €5 million, as well as related interest. In October 2021, the court ruled in favour of the subsidiary. However, in November 2021 Melody S.A. filed an appeal against the decision reached by the court in [*Country X*] and a hearing at the Supreme Court is scheduled for February 2022. The opinion of the Group's legal counsel is that the claim does not have meritorious grounds. As a result, management believes that its defence in the Supreme Court will be successful.

In 2019, in common with a number of banks in [*Country Y*], a Group subsidiary transitioned to a new digital system in order to streamline cheque clearing. The Competition Authority in [*Country Y*] is investigating whether competition law was infringed by the exchange of information about fees among 10 banks transitioning to the new system. The subsidiary is co-operating with the investigation. The Competition Authority initiated a legal proceeding which is pending a final outcome. Based on legal advice, management believes that its defence of the action will be successful. However, if the defence against the action is unsuccessful, then fines and legal costs could amount to €200,000, of which €150,000 would be reimbursable under an insurance policy.

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Notes to the consolidated financial statements (continued)

40. Related parties[a]

A. Parent and ultimate controlling party

IAS 1.138(c), 24.13

During the year ended 31 December 2021, 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*]. The previous ultimate controlling party was [*name of the previous controlling party*].[b]

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		2021	2020
IAS 24.17(a)	Short-term employee benefits	**12**	10
IAS 19.151(b), 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 15(B)). Executive officers also participate in the Group's share option programme (see Note 15(A)).

ii. Key management personnel transactions

IAS 24.18–19

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	2021	2020	2021	2020	2021	2020
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), 23

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 at 31 December 2021 from related parties amounted to €500,000 (2020: €500,000). The interest paid on balances outstanding at 31 December 2021 to related parties amounted to €150,000 (2020: €130,000). 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)

As at 31 December 2021, the balances with key management personnel are allocated to Stage 1 of the ECL model and have a loss allowance of €35,000 (2020: €34,000). During 2021 €1,000 impairment loss was recognised in profit or loss in respect of these balances (2020: €1,200).

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.

IAS 24.13 b. The Bank's parent produces consolidated financial statements that are available for public use. If neither the Bank's parent nor its ultimate controlling party produced consolidated financial statements available for public use, then the Bank would disclose the name of the next most senior parent that does so. If neither the ultimate controlling party nor any intermediate controlling party produced consolidated financial statements that are available for public use, then this fact would be disclosed.

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41. Leases

See accounting policy in Note 46(H).

A. Leases as lessee

IFRS 16.51, 59

The Group leases a number of branch and office premises. The leases typically run for a period of 10 years, with an option to renew the lease after that date. For some leases, payments are renegotiated every five years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices.

IAS 16.60

The Group also leases IT equipment with contract terms of one to three years. These leases are short-term and/or leases of low-value items. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

IFRS 16.53–54

Information about leases for which the Group is a lessee is presented below.

i. Right-of-use assets

IFRS 16.47(a)(ii)

Right-of-use assets relate to leased branch and office premises that are presented within property and equipment (see Note 26).

	In millions of euro	**2021**	**2020**
IFRS 16.53(j)	Balance at 1 January	**294**	367
IFRS 16.53(a)	Depreciation charge for the year	**(74)**	(74)
IFRS 16.53(h)	Additions	**5**	1
IFRS 16.53(j)	Balance at 31 December	**225**	294

See Note 6(B)(ii) for maturity analysis of lease liabilities as at 31 December.

ii. Amounts recognised in profit or loss

	In millions of euro	**2021**	**2020**
IFRS 16.53(b)	Interest on lease liabilities	**11**	15
IFRS 16.53(c)	Expenses relating to short-term leases	**2**	2
IFRS 16.53(d)	Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	**2**	2

iii. Amounts recognised in statement of cash flows

	In millions of euro	**2021**	**2020**
IFRS 16.53(g)	Total cash outflow for leases	**93**	99

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Notes to the consolidated financial statements (continued)

41. Leases (continued)

A. Leases as lessee (continued)

iv. Extension options

IFRS 16.59(b)(ii), B50, IE10, Ex23

Some leases of office premises contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

The Group has estimated that the potential future lease payments, should it exercise the extension options, would result in an increase in lease liability of €100 million.

B. Leases as lessor

i. Finance lease

The Group leases out certain property and equipment under finance leases in its capacity as a lessor. For interest income on the Group's lease receivables, see Note 9.

IFRS 16.94

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

IFRS 16.94

In millions of euro	**2021**	**2020**
Gross investment in finance leases, receivable		
Less than one year	**251**	203
Between one and two years	**205**	189
Between two and three years	**200**	184
Between three and four years	**200**	184
Between four and five years	**200**	184
More than five years	**104**	106
	1,160	1,050
Unearned finance income	**(221)**	(189)
Net investment in finance leases	**939**	861

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Notes to the consolidated financial statements (continued)

41. Leases (continued)

B. Leases as lessor (continued)

ii. Operating lease

IFRS 16.92(a)

The Group leases out its investment property. The Group has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. Note 28(B) sets out information about the operating leases of investment property.

IFRS 16.90(b)

Rental income recognised by the Group during the year ended 31 December 2021 was €4 million (2020: €4 million).

IFRS 16.97

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

In millions of euro	2021	2020
Less than one year	**3**	4
One to two years	**3**	4
Two to three years	**3**	4
Three to four years	**3**	4
Four to five years	**2**	3
More than five years	**1**	2
Total	**15**	21

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Notes to the consolidated financial statements (continued)

42. Subsequent events

IAS 10.21

COVID-19 considerations

IAS 10 *Events after the Reporting Period* provides guidance on adjusting and non-adjusting post-balance sheet events. With fast-changing economic conditions, banks will have to carefully consider whether certain events occurring after the reporting date are material non-adjusting events that need to be disclosed in the financial statements. For each material category of non-adjusting event after the reporting date, a company discloses:

– the nature of the event; and

– an estimate of its financial effect, or a statement that such an estimate cannot be made.

Acquisition of ABC Bank

IAS 10.21–22(a)

On 22 February 2022, 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 2022. Due to the early stage of the transaction, an estimate of the financial effect of this proposed acquisition cannot be made reliably.

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IFRS 7.31

43. Financial risk management

COVID-19 considerations

IFRS 7 requires disclosure of risks arising from financial instruments and how the company manages those risks. A bank may have introduced changes to the way it does business, which in turn impact the risk that arises from the transactions it enters into and the way it manages those risks. Therefore, a bank needs to explain the significant impact of the COVID-19 outbreak on the risks arising from financial instruments and how it manages those risks. It will need to use judgement to determine the specific disclosures that are both relevant to its business and necessary to meet these disclosure objectives.

A. Introduction and overview

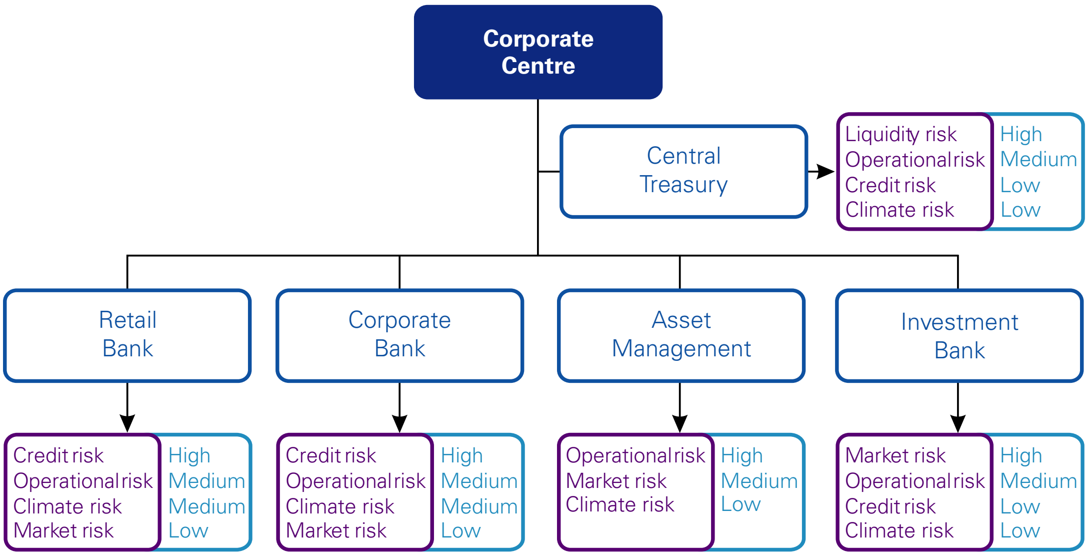
IFRS 7.31–32

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

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

In addition, the Group has identified climate risk as an emerging risk arising from financial instruments that has a growing impact on the Group's activities.[a]

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.[b]



IFRS 7.33

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

a. ESMA has identified climate-related disclosures as one of its enforcement priorities for 2021.

b. *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. The Group has concluded 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.*

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Notes to the consolidated financial statements (continued)

IFRS 7.31

43. Financial risk management (continued)

A. Introduction and overview (continued)

i. Risk management framework

The Group'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 approving 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.

IFRS 7.33

B. Credit risk

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

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43. Financial risk management (continued)

IFRS 7.33

B. Credit risk (continued)

IFRS 7.35B(a)

ii. Management of credit risk

The Board of Directors created the Group Credit Committee for the oversight of credit risk. 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 6(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;
  - determining and monitoring significant increase in credit risk; 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.

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.

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Notes to the consolidated financial statements (continued)

IFRS 7.31

43. Financial risk management (continued)

IFRS 7.33

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. Liquidity risk arises from mismatches in the timing and amounts of cash flows, which is inherent to the Group's operations and investments.

IFRS 7.39(c)

Management of liquidity risk

The Group's Board of Directors sets the Group's strategy for managing liquidity risk and oversight of the implementation is administered by ALCO. ALCO approves the Group's liquidity policies and procedures created by the Financial Risk group. 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 to ALCO on a monthly basis or ad hoc when predefined thresholds are breached.

IFRS 7.39(b)

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when 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 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 against various exposures and global, country-specific and Group-specific events.

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.

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43. Financial risk management (continued)

IFRS 7.33

C. Liquidity risk (continued)

IFRS 7.39(c)

Management of liquidity risk (continued)

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).

IFRS 7.33

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 has set up an IBOR Committee that is tasked with managing the Group's market risks associated with IBOR reform specifically. This committee regularly communicates with ALCO and the Group Market Risk Committee for developing new policies and monitoring risks in relation to IBOR reform. See also Note 6(E).

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 7.41(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 maximum estimated loss that can arise with a specified probability (confidence level) in the portfolio over a specified period of time (holding period) from an adverse market movement. 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 correlation between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements.

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Notes to the consolidated financial statements (continued)

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43. Financial risk management (continued)

IFRS 7.33

D. Market risks (continued)

ii. Exposure to market risks – Trading portfolios (continued)

IFRS 7.41(b)

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

- A 10-day holding period assumes that it is possible to hedge or dispose of positions within that period. This may not be the case for illiquid assets or in situations in which there is severe 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 in any given 10-day period.
- 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, credit spread and other price risks (e.g. equity). 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 summaries are submitted to ALCO on a monthly basis or ad hoc if defined thresholds are breached.

IFRS 7.41(b)

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.

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Notes to the consolidated financial statements (continued)

43. Financial risk management (continued)

IFRS 7.31

D. Market risks (continued)

IFRS 7.33

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 and changes to exposures arising from IBOR reform. 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 22).

Foreign exchange risk

Non-structural positions

The Group's risk management policies do not allow holding of significant foreign currency positions outside 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 the 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 is explained in Note 22(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.

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Notes to the consolidated financial statements (continued)

IFRS 7.31

43. 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 created a 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;
- information technology and cyber risks; 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.

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Notes to the consolidated financial statements (continued)

IFRS 7.31

43. Financial risk management (continued)

F. Climate-related risk

'Climate-related risks' are potential negative impacts on the Group arising from climate change. Climate-related risks have an impact on the principal risk categories discussed above (i.e. credit, liquidity, market and operational risks), but due to their pervasive nature have been identified and managed by the Group on an overall basis.

The Group distinguishes between physical risks and transition risks. Physical risks arise as the result of acute weather events such as hurricanes, floods and wildfires, and longer-term shifts in climate patterns, such as sustained higher temperatures, heat waves, droughts and rising sea levels. Transition risks arise as a result of measures taken to mitigate the effects of climate change and transition to a low-carbon economy – e.g. changes to laws and regulations, litigation due to failure to mitigate or adapt, and shifts in supply and demand for certain commodities, products and services due to changes in consumer behaviour and investor demand.

The Group has set up a Climate Risk Committee, which is responsible for developing group-wide policies, processes and controls to incorporate climate risks in the management of principal risk categories.

The Group has developed a climate risk framework for:

– identifying risk factors and assessing their potential impact on the Group's financial statements; and

– allocating responsibilities for managing each identified risk factor.

The Group has also set out principles on how to incorporate climate-related risk into stress test scenarios.

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Notes to the consolidated financial statements (continued)

IFRS 7.31

43. Financial risk management (continued)

F. Climate-related risk (continued)

The Group has identified the following climate-related risk factors as having an impact on the Group's financial instruments and included them in its principal risk management processes.

– *Industries exposed to increased transition risks:* The Group has identified industries that are subject to increased risk of climate regulation negatively affecting their business model. The Group Credit Committee has set overall lending limits for these industries.

– *Physical risk to real estate:* The Group has identified areas in which it operates that are exposed to increased physical risk such as hurricanes or floods. Heightened physical risk is considered in valuing collateral, such as real estate, plant or inventory.

In addition, the Group is in the process of developing models that aim to assess how borrowers' performance is linked to climate change. The Group plans to use these models in pricing credit risk and in calculating ECLs.

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44. Analysis of changes in financing during the year

IAS 7.44A–44E

A. Reconciliation of movements of liabilities to cash flows arising from financing activities[a]

		Liabilities	
In millions of euro	***Note***	**Debt securities**	**Sub-ordinated liabilities**
Balance at 1 January 2021		**10,248**	**4,985**
Changes from financing cash flows (IAS 7.44B(a))			
Proceeds from issue of debt securities		**1,018**	**-**
Repayment of debt securities		**(96)**	**-**
Proceeds from issue of subordinated liabilities	*35*	**-**	**667**
Payment of lease liability		**-**	**-**
Proceeds from exercise of share options	*35*	**-**	**-**
Dividends and coupon on equity instruments paid	*35*	**-**	**-**
Total changes from financing cash flows		**922**	**667**
The effect of changes in foreign exchange rates (IAS 7.44B(c))		**-**	**49**
Changes in fair value (IAS 7.44B(d))		**27**	**-**
Other changes (IAS 7.44B(e))		**-**	**-**
Liability-related			
Interest expense	*9*	**343**	**410**
Interest paid		**(313)**	**(469)**
Total liability-related other changes		**30**	**(59)**
Total equity-related other changes		**-**	**-**
Balance at 31 December 2021		**11,227**	**5,642**

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Liabilities	Equity						
Lease liabilities	Ordinary shares	Share premium	Other equity instruments	Retained earnings	Reserves	NCI	Total
441	1,756	439	500	3,135	199	117	21,820
-	-	-	-	-	-	-	1,018
-	-	-	-	-	-	-	(96)
-	-	-	-	-	-	-	667
(78)	-	-	-	-	-	-	(78)
-	3	29	-	-	-	-	32
-	-	-	(20)	(263)	-	-	(283)
(78)	3	29	(20)	(263)	-	-	1,260
-	-	-	-	-	(52)	-	(3)
-	-	-	-	-	(35)	-	(8)
4	-	-	-	-	25	20	49
11	-	-	-	-	-	-	764
(11)	-	-	-	-	-	-	(793)
-	-	-	-	-	-	-	(29)
-	-	-	20	463	-	-	483
367	1,759	468	500	3,335	137	137	23,572

IAS 7.44D–44E, 60

a. This example illustrates one possible format to meet the disclosure requirement in paragraphs 44A–44E of IAS 7 by providing a reconciliation between the opening and closing balances for liabilities arising from financing activities. Other presentation formats are possible. Although the amendments only require disclosure of a reconciliation of changes in liabilities arising from financing activities, the Group has elected to expand the disclosure to cover changes in equity balances arising from financing activities as well. If an entity provides the disclosures required by paragraph 44A of IAS 7 in combination with disclosures of changes in other assets and liabilities, then it discloses the change in liabilities arising from financing activities separately from changes in those other assets or liabilities.

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Notes to the consolidated financial statements (continued)

44. Analysis of changes in financing during the year (continued)

IAS 7.44A–44E

A. Reconciliation of movements of liabilities to cash flows arising from financing activities (continued)

In millions of euro	***Note***
Balance at 1 January 2020	
Changes from financing cash flows (IAS 7.44B(a))	
Proceeds from issue of debt securities	
Repayment of debt securities	
Proceeds from issue of subordinated liabilities	*35*
Payment of lease liability	
Proceeds from exercise of share options	*35*
Dividends and coupon on equity instruments paid	*35*
Total changes from financing cash flows	
The effect of changes in foreign exchange rates (IAS 7.44B(c))	
Changes in fair value (IAS 7.44B(d))	
Other changes (IAS 7.44B(e))	
Liability-related	
Interest expense	*9*
Interest paid	
Total liability-related other changes	
Total equity-related other changes	
Balance at 31 December 2020	

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	Liabilities			Equity						
	Debt securities	Sub-ordinated liabilities	Lease liabilities	Ordinary shares	Share premium	Other equity instruments	Retained earnings	Reserves	NCI	Total
	9,387	4,391	517	1,756	439	500	3,027	231	99	20,347
	762	-	-	-	-	-	-	-	-	762
	(99)	-	-	-	-	-	-	-	-	(99)
	-	651	-	-	-	-	-	-	-	651
	-	-	(80)	-	-	-	-	-	-	(80)
	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	(20)	(263)	-	-	(283)
	663	651	(80)	-	-	(20)	(263)	-	-	951
	-	(70)	-	-	-	-	-	(14)	-	(84)
	184	-	-	-	-	-	-	(34)	-	150
	-	-	4	-	-	-	-	16	18	38
	316	353	15	-	-	-	-	-	-	684
	(302)	(340)	(15)	-	-	-	-	-	-	(657)
	14	13	-	-	-	-	-	-	-	27
	-	-	-	-	-	20	371	-	-	391
	10,248	4,985	441	1,756	439	500	3,135	199	117	21,820

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Notes to the consolidated financial statements (continued)

IAS 1.112(a), 117(a)

45. Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for the following material items, which are measured on the following alternative basis on each reporting date.

Items	Measurement basis
Non-derivative financial instruments at FVTPL	Fair value
Derivative financial instruments	Fair value
Debt and equity securities at FVOCI	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 46(W)(iv)

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Notes to the consolidated financial statements (continued)

IAS 1.112(a), 116, 117(b), 119–121

46. Significant accounting policies[a]

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements, except if mentioned otherwise (see also Note 5).

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 Standards 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 Standards, 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]*.

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Notes to the consolidated financial statements (continued)

46. Significant accounting policies (continued)

A. Basis of consolidation

i. Business combinations

[IFRS 3.3–4, 32, 34, 53, B5–B12]

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group (see (A)(ii)).

From 1 January 2021, in determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs. The Group has an option to apply a 'concentration test' that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

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 (S)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if 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 3.40, 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, other contingent consideration is remeasured at fair value at each reporting date and 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), 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 measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

ii. Subsidiaries

[IFRS 10.6, 8, 20, B80]

'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 36).

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Notes to the consolidated financial statements (continued)

46. Significant accounting policies (continued)

A. Basis of consolidation (continued)

ii. 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 37.

iii. Non-controlling interests

[IFRS 3.19]

NCI are measured initially 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.

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)]

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. 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 currencies of Group companies at the 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 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, impairment 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 exchange rate when the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

[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.

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Notes to the consolidated financial statements (continued)

46. Significant accounting policies (continued)

B. Foreign currency (continued)

i. Foreign currency transactions (continued)

[IFRS 9.B5.7.3]

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:

- equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI (see Note 25);
- 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)(iii) and (M)(iii)); and
- qualifying cash flow hedges to the extent that the hedges are 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 exchange rates at the reporting date. The income and expenses of foreign operations are translated into euro at the 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 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 in its entirety or partially 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).

IFRS 7.21, B5(e)

C. Interest

[IFRS 9.A, B5.4.7]

i. 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 purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

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.

[IFRS 9.A]

ii. 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. The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

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Notes to the consolidated financial statements (continued)

46. Significant accounting policies (continued)

IFRS 7.21, B5(e)

C. Interest (continued)

iii. Calculation of interest income and expense

[IFRS 9.5.4.1]

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. 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. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating-rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date on which amortisation of the hedge adjustment begins.

[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 (J)(vii).

Presentation

[IFRS 9.5.4.1]

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:[a]

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI;
- 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;
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk; and
- negative interest on financial liabilities measured at amortised cost.

Other interest income presented in the statement of profit or loss and OCI includes interest income on lease receivables (see (H)).

Interest expense presented in the statement of profit or loss and OCI includes:

- financial liabilities measured at amortised cost;
- 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;
- negative interest on financial assets measured at amortised cost; and
- interest expense on lease liabilities.

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 and from other financial instruments at FVTPL (see (F)).

Cash flows related to capitalised interest are presented in the statement of cash flows consistently with interest cash flows that are not capitalised.

Insights 7.10.70.20

a. IFRS Standards allow 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.

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Notes to the consolidated financial statements (continued)

46. Significant accounting policies (continued)

D. Fees and commission

IFRS 7.21, [IFRS 9.B5.4.1–B5.4.3]

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)).

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 income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. Information about the related Group's accounting policies is provided in Note 10(C).

IFRS 15.7

A contract with a customer that results in a recognised financial instrument in the Group's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

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

IFRS 7.21, 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 7.21, 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 hedging relationships, financial assets and financial liabilities designated as at FVTPL and also non-trading assets mandatorily measured at FVTPL. The line item includes fair value changes, interest, dividends and foreign exchange differences.

IFRS 7.21

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.

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

IFRS 16.9

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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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.

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Notes to the consolidated financial statements (continued)

46. Significant accounting policies (continued)

H. Leases (continued)

i. Group acting as a lessee

[IFRS 16.15, 45] At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of branches and office premises the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

[IFRS 16.22–24] The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

[IFRS 16.29–33] The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

[IFRS 16.26] The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

IAS 1.112(c) The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

[IFRS 16.27] Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

[IFRS 16.36, 40, 42] The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

[IFRS 16.39] When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

[IFRS 16.105] Where the basis for determining future lease payments changes as required by interest rate benchmark reform (see (J)(iv)), the Group remeasures the lease liability by discounting the revised lease payments using the revised discount rate that reflects the change to an alternative benchmark interest rate.

[IFRS 16.47–48] The Group presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

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46. Significant accounting policies (continued)

H. Leases (continued)

i. Group acting as a lessee (continued)

IFRS 16.60, [IFRS 16.5–6, 8, B3–B8, BC100]

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

ii. Group acting as a lessor

[IFRS 16.17] At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

[IFRS 16.61–62] When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

[IFRS 16.62–63] To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

[IFRS 16.77] The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease (see (J)(iii) and (vii)). The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

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 a business combination, or items recognised directly in equity or in OCI.

The Group has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore has accounted for them under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*[a] and has recognised the related expenses in 'other expenses'.

i. Current tax

[IAS 12.2, 12, 46, IFRIC 23.11] 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.

[IAS 12.71] Current tax assets and liabilities are offset only if certain criteria are met.

Insights 3.13.45.10 a. Interest and penalties related to income taxes are not explicitly included in the scope of IAS 12. The IFRS Interpretations Committee discussed the accounting for interest and penalties related to income taxes and noted that an entity first considers whether interest or a penalty itself is an income tax. If so, then it applies IAS 12. If the entity does not apply IAS 12, then it applies IAS 37 to that amount. The Committee also noted that this is not an accounting policy choice – i.e. an entity needs to apply judgement based on the specific facts and circumstances.

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Notes to the consolidated financial statements (continued)

46. Significant accounting policies (continued)

I. Income tax (continued)

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 the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

[IAS 12.15, 24]

Temporary differences in relation to a right-of-use asset and a lease liability for a specific lease are regarded as a net package (the lease) for the purpose of recognising deferred tax.[a]

[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 the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, 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, IFRIC 23.11]

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, and reflects uncertainty related to income taxes, if there is any.

[IAS 12.51, 51C]

The measurement of deferred tax reflects the tax consequences that would follow from 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.

Insights 3.13.230.25–30

a. If a tax deduction is allocated to the lease liability, then a temporary difference arises on the initial recognition of the right-of-use asset because there is an asset for accounting but no corresponding asset for tax purposes. Similarly, a liability is recognised for accounting purposes that has a tax base of zero; therefore, a temporary difference arises on the initial recognition of the lease liability. Because the transaction affects neither accounting nor taxable profit on initial recognition, a question arises about whether the initial recognition exemption applies.

In our view, in these circumstances the application of the initial recognition exemption is not appropriate. We believe that the asset and liability that arise for accounting purposes under a lease are integrally linked. Accordingly, they should be regarded as a net package (the lease) for the purpose of recognising deferred tax. This is consistent with the way in which the lease transaction is viewed for tax purposes.

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i. Recognition and initial measurement

IFRS 7.21, B5(e)

[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.

[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. The fair value of a financial instrument at initial recognition is generally its transaction price. See Notes 21(C) and 46(J)(vi) for a description of the policy if the fair value of a financial instrument at initial recognition differs from the transaction price.

ii. Classification

Financial assets

[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 SPPI.

[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 SPPI.

[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)).

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ii. Classification (continued)

[IFRS 9.B4.1.2]

Business model assessment

[IFRS 9.B4.1.2B, B4.1.2C, B4.1.4.A, B4.1.5]

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[b] considered includes:

- 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;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for 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[b] 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.B4.1.1–B4.1.2, Insights 7.4.70.30, 100]

The Group's retail and corporate banking business comprises primarily loans to customers that are held for collecting contractual cash flows. In the retail business the loans comprise mortgages, overdrafts, unsecured personal lending and credit card facilities. Sales of loans from these portfolios are very rare.

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.

Certain other 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 these liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual cash flows 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 these financial assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

The Group originates certain loans and advances to customers and investment securities for sale to securitisation vehicles that are not consolidated by the Group. Such financial assets are held within a business model whose objective is to realise cash flows through sale.

IFRS 9.B4.1.1–B4.1.2, Insights 7.4.70.30

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.

b. Entities disclose specific information about their business model assessment, including key judgements. Some examples of entity-specific information that may be relevant include:
   - how the Group has determined the appropriate level of aggregation at which the business model is applied;
   - how the entity determines whether the frequency and value of sales in prior periods and expected in future periods are infrequent/insignificant;
   - how the entity assesses whether sales from a held-to-collect portfolio are made due to an increase in the asset's credit risk or close to maturity, such that they are consistent with the held-to-collect business model; and
   - application to specific portfolios.

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[IFRS 9.B4.1.2]

Business model assessment (continued)

Certain non-trading loans and advances to customers held by the Group's investment banking business and debt securities held by the Group Central Treasury 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 asset's performance and to make decisions.

[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.

[IFRS 9.B4.1.7, B4.1.7A]

Assessment of 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.

IAS 1.123(d)

In assessing whether the contractual cash flows are SPPI, 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:[a]

- 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 loans); 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 SPPI 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.

Insights 7.4.255

The Group has granted loans that include features that change contractual cash flows based on the borrower meeting certain contractually specified environmental, social and governance (ESG) targets. For example, the contractual interest rate is reduced if the borrower meets specific targets for reducing carbon emissions. If the ESG feature could only have a *de minimis* effect on the contractual cash flows of the loan, then the feature does not affect the classification of the loan. However, if the effect of the ESG feature could be more than *de minimis*, then judgement is required about whether the feature would be consistent with a basic lending arrangement and meet the SPPI criterion. The Group considers that variability of the interest rate of up to 2bp is *de minimis*.

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a. Entities disclose significant judgements that they have made in determining whether the SPPI criterion is met for specific financial assets. The disclosures reflect the particular circumstances of the entity. For example, for some entities such judgements may include:
- how the entity carries out an assessment of whether a modified time value of money is consistent with the SPPI criterion;
- how the entity assesses whether a prepayment penalty substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for the early termination of the contract; and
- judgements made to determine whether a particular asset is a contractually linked instrument and whether it meets the SPPI criterion.

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ii. Classification (continued)

[IFRS 9.B4.1.7, B4.1.7A]

Assessment whether contractual cash flows are solely payments of principal and interest (continued)

In some cases, the ESG-linked adjustment to the contractual interest rate reflects compensation for a change in the credit risk of a loan and, therefore, does not prevent the loan from meeting the SPPI criterion. Where the ESG feature represents compensation for exposure to a particular ESG risk, the feature is not consistent with the SPPI criterion and the loan is measured at FVTPL.

Equity instruments have contractual cash flows that do not meet the SPPI criterion. Accordingly, all such financial assets are measured at FVTPL unless the FVOCI option is selected – see below.

Non-recourse loans

Insights 7.4.320.70

In some cases, loans made by the Group that are secured by collateral of the borrower limit the Group's claim to cash flows of the underlying collateral (non-recourse loans). The Group applies judgement in assessing whether the non-recourse loans meet the SPPI criterion. The Group typically considers the following information when making this judgement:

[IFRS 9.B4.1.21, B4.1.23–B4.1.25]

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Group's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Group will benefit from any upside from the underlying assets.

Contractually linked instruments

[IFRS 9.B4.1.21, B4.1.23–B4.1.25]

The Group has some investments in securitisations (see Note 38) that are considered contractually linked instruments. Contractually linked instruments each have a specified subordination ranking that determines the order in which any cash flows generated by the pool of underlying investments are allocated to the instruments. Such an instrument meets the SPPI criterion only if all of the following conditions are met:

- the contractual terms of the instrument itself give rise to cash flows that are SPPI without looking through to the underlying pool of financial instruments;
- the underlying pool of financial instruments (i) contains one or more instruments that give rise to cash flows that are SPPI; and (ii) may also contain instruments, such as derivatives, that reduce the cash flow variability of the instruments under (i) and the combined cash flows (of the instruments under (i) and (ii)) give rise to cash flows that are SPPI; or align the cash flows of the contractually linked instruments with the cash flows of the pool of underlying instruments under (i) arising as a result of differences in whether interest rates are fixed or floating or the currency or timing of cash flows; and
- the exposure to credit risk inherent in the contractually linked instruments is equal to or less than the exposure to credit risk of the underlying pool of financial instruments.

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.

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[IFRS 9.3.2.3–3.2.6]

iii. Derecognition

Financial assets

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[a] 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.

[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.

Any cumulative gain or 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.

[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.

[IFRS 9.B3.2.5(c)] When assets are sold to a third party with a concurrent total 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.

[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.

[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.

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, or other residual interests (retained interests). Retained interests are recognised as investment securities and measured as explained in (O).

Financial liabilities

[IFRS 9.3.3.1] The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Insights 7.10.700.20, 710.10

a. The definition of 'transfer' in IFRS 9 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.

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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, then the Group evaluates whether the cash flows of the modified asset are substantially different.

Insights 7.7.360.40

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 plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

– fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and

– other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification.[a] Any costs or fees incurred and modification fees received[b] adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

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 calculated using the effective interest rate method (see (C)).[c]

Insights 7.7.350.10–30

a. It appears that an entity may choose an accounting policy, to be applied consistently, to apply the guidance on floating-rate financial instruments (paragraph B5.4.5 of IFRS 9) to changes in cash flows resulting from the modification of a floating-rate component under the original contractual terms to a new rate of interest (whether floating or fixed) that reflects current market terms. We believe that under such a policy, the original effective interest rate of the financial asset should be revised, based on the new terms, to reflect changes in cash flows that reflect periodic changes in market rates. In some cases, the original contractual terms may facilitate a repricing of an otherwise fixed interest rate (or an otherwise fixed component of an interest rate) to reflect a change in periodic market rates of interest. In these cases, it appears that an entity may also choose an accounting policy, to be applied consistently, to apply paragraph B5.4.5 of IFRS 9 to a revision of such an interest rate (or a component of an interest rate) to a new current market rate of interest. We believe that such a policy cannot be applied if the pricing of the modified loan reflects the granting of a concession to the borrower or similar forbearance activity. The Group has elected to apply this guidance on floating-rate financial instruments.

Insights 7.7.352.20

b. It appears that an entity may choose one of the following approaches as its accounting policy on how to account for fees received by the lender from the borrower as part of a modification of a financial asset that does not result in derecognition:

– *Approach 1:* Include fees received in the calculation of the modification gain or loss.
– *Approach 2:* Adjust the gross carrying amount for the fees received.
– *Approach 3:* Adjust the gross carrying amount only for the fees received that have been charged by the lender to recover costs or fees incurred and recognise any excess as a modification gain or loss.
– The Group has elected Approach 2.

Insights 7.10.60.50

c. 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. Accordingly, an entity exercises judgement to determine an appropriate presentation for the gain or loss.

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iv. Modifications of financial assets and financial liabilities (continued)

Financial liabilities

[IFRS 9.3.3.2]

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 derecognised and the consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification.[a] Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Interest rate benchmark reform

[IFRS 9.5.4.7, 5.4.9]

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changes as a result of interest rate benchmark reform, then the Group updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

– the change is necessary as a direct consequence of the reform; and

– the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

If changes are made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, then the Group first updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Group applies the policies on accounting for modifications set out above to the additional changes.

[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 Standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

Insights 7.7.370.20

a. If the exchange or modification is not accounted for as a derecognition, then the requirements for measuring the amortised cost of a financial liability are consistent with the requirements for measuring the gross carrying amount of a financial asset. An entity applies the guidance in note (a) above to determine whether the effective interest rate of a modified financial liability may be revised. The Group has elected to apply paragraph B5.4.5 of IFRS 9 to a revision of a floating-rate interest rate (or a component of an interest rate) on a financial liability to a new current market rate of interest.

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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, 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 7.28(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 difference, 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.

vii. Impairment

See also Note 6(A)(iii).

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.

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vii. Impairment (continued)

IFRS 7.35F(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 6(A)(iii)).

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.[a]

IFRS 7.35F(a)(i), [IFRS 9.5.5.10, B5.5.22–B5.5.24]

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group does not apply the low credit risk exemption to any other financial instruments.

[IFRS 9.A]

12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which 12-month ECL are recognised are referred to as 'Stage 1 financial instruments'. Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which lifetime ECL are recognised but that are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as 'Stage 3 financial instruments'.

[IFRS 9.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.

When discounting future cash flows, the following discount rates are used:

- *financial assets other than purchased or originated credit-impaired (POCI) financial assets and lease receivables:* the original effective interest rate or an approximation thereof;
- *POCI assets:* a credit-adjusted effective interest rate;
- *lease receivables:* the discount rate used in measuring the lease receivable;
- *undrawn loan commitments:* the effective interest rate, or an approximation thereof, that will be applied to the financial asset resulting from the loan commitment; and
- *financial guarantee contracts issued:* the rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows.

See also Note 6(A)(iii).

Insights 7.8.390.10, [IFRS 9.5.5.15(b)]

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.

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46. Significant accounting policies (continued)

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J. Financial assets and financial liabilities (continued)

vii. Impairment (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 6(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 7.35F(d), [IFRS 9.A]

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost, debt financial assets carried at FVOCI and finance lease receivables are credit impaired (referred to as 'Stage 3 financial assets'). 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 credit-impaired even when the regulatory definition of default is different.

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 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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J. Financial assets and financial liabilities (continued)

vii. Impairment (continued)

[IFRS 9.A]

POCI financial assets

[IFRS 9.5.5.13–5.5.14, B5.4.7]

POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated into the calculation of the effective interest rate on initial recognition. Consequently, POCI assets do not carry an impairment allowance on initial recognition. The amount recognised as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

IFRS 7.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 retained earnings.

Write-off

IFRS 7.35F(e), [IFRS 9.5.4.4]

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. 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. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are recognised when cash is received and are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.[a]

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.

Financial guarantee contracts held

Insights 7.1.143.10

The Group assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Group considers when making this assessment include whether:

– the guarantee is implicitly part of the contractual terms of the debt instrument;

– the guarantee is required by laws and regulations that govern the contract of the debt instrument;

– the guarantee is entered into at the same time as and in contemplation of the debt instrument; and

– the guarantee is given by the parent of the borrower or another company within the borrower's group.

Insights 7.8.430.130

a. IFRS 9 does not provide guidance on the presentation of recoveries of amounts previously written off in a specific line item in the statement of profit or loss and OCI. It appears that an entity may (but is not required to) present such recoveries in the line item 'impairment losses, including reversals of impairment losses or impairment gains, determined in accordance with IFRS 9'. This is because these recoveries are similar in nature to reversals of impairment losses. When such amounts are material, we believe that they should be disclosed separately.

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J. Financial assets and financial liabilities (continued)

vii. Impairment (continued)

Financial guarantee contracts held (continued)

Insights 7.1.143.10

The Group assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Group considers when making this assessment include whether:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by the parent of the borrower or another company within the borrower's group.

If the Group determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Group considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Group determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised in 'other assets' (see Note 28). The Group presents[a] gains or losses on a compensation right in profit or loss in the line item 'impairment losses on financial instruments'.

viii. Designation at fair value through profit or loss

IFRS 7.21, B5(a), B5(aa)

Financial assets

On initial recognition, the Group has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, that would otherwise arise.

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 19 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.

Insights 7.1.143.10

a. It appears that an entity that accounts for a non-integral financial guarantee contract held by analogy to the guidance for reimbursements in IAS 37 should choose an accounting policy, to be applied consistently, to present gains or losses on a compensation right in profit or loss either:

- in the line item 'impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with IFRS 9'; or
- in another appropriate line item.

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Notes to the consolidated financial statements (continued)

46. Significant accounting policies (continued)

[IAS 7.46]

K. Cash and cash equivalents

'Cash and cash equivalents' include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the 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 7.21, [IFRS 9.A, B4.1.6]

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 7.21

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. All derivatives are measured at fair value in the statement of financial position.

The Group designates certain derivatives held for risk management as well as certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships.[b]

Policy applicable generally to hedging relationships

[IAS 39.88]

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 on inception of the hedging 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%. For a cash flow hedge of a forecast transaction, the Group makes an assessment 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.

[IAS 39.81, AG99E–AG99F]

The Group normally designates a portion of the cash flows of a financial instrument for cash flow or fair value changes attributable to a benchmark interest rate risk, if the portion is separately identifiable and reliably measurable.

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. The change in fair value of the hedged item attributable to the hedged risk is recognised in profit or loss. If the hedged item would otherwise be measured at cost or amortised cost, then its carrying amount is adjusted accordingly.

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.

[IFRS 9.7.2.21] b. 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.

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46. Significant accounting policies (continued)

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

Policy applicable generally to hedging relationships (continued)

i. Fair value hedges (continued)

[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 an adjustment to the recalculated effective interest rate of the item over its remaining life.

On hedge discontinuation, any hedging adjustment made previously to a hedged financial instrument for which the effective interest method is used is amortised to profit or loss by adjusting the effective interest rate of the hedged item from the date on which amortisation begins. If the hedged item is derecognised, then the adjustment is recognised immediately in profit or loss when the item is derecognised.

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 or highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in 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 the hedging reserve is reclassified from OCI 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. If the hedged cash flows are no longer expected to occur, then the Group immediately reclassifies the amount in the hedging reserve from OCI to profit or loss. For terminated hedging relationships, if the hedged cash flows are still expected to occur, then the amount accumulated in the hedging reserve is not reclassified until the hedged cash flows affect profit or loss; if the hedged cash flows are expected to affect profit or loss in multiple reporting periods, then the Group reclassifies the amount in the hedging reserve from OCI to profit or loss on a straight-line basis.

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 a derivative or the foreign exchange gains and losses of a non-derivative is recognised in OCI and presented in the translation reserve within equity. The effective portion of the change in fair value of the hedging instrument is computed with reference to the functional currency of the parent entity against whose functional currency the hedged risk is measured. Any ineffective portion of the changes in the fair value of the derivative or foreign exchange gains and losses on the non-derivative is recognised immediately in profit or loss. The amount recognised in OCI is fully or partially reclassified to profit or loss as a reclassification adjustment on disposal or partial disposal of the foreign operation, respectively.

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46. Significant accounting policies (continued)

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

Specific policies for hedges affected by IBOR reform

i. Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) issued in September 2019 (the Phase 1 amendments)

[IAS 39.102A]

If a hedging relationship is directly affected by IBOR reform, then the Group applies certain exceptions in the Phase 1 amendments to the general hedge accounting policy. The Group considers that a hedging relationship is directly affected by IBOR reform if it is subject to the following uncertainty arising from the reform:

– an interest rate benchmark subject to the reform is designated as the hedged risk, regardless of whether the rate is contractually specified; and/or

– the timing or amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument is uncertain.

[IAS 39.102J–102M]

When the uncertainty arising from IBOR reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item or hedging instrument or when the hedging relationship is discontinued, the Group ceases to apply the respective Phase 1 amendments.

However, when determining whether a previously designated forecast transaction is no longer expected to occur, the Group continues to assume that the hedged interest rate benchmark cash flows will not be altered as a result of IBOR reform in accordance with the Phase 1 exemption.

The Group has concluded that as at 31 December 2021 there is no uncertainty in relation to IBOR reform in respect of its hedging relationships.

ii. Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) issued in August 2020 (the Phase 2 amendments)

[IAS 39.102P]

When the basis for determining the contractual cash flows of the hedged item or hedging instrument changes as a result of IBOR reform and therefore there is no longer uncertainty arising about the cash flows of the hedged item or the hedging instrument, the Group amends the hedge documentation of that hedging relationship to reflect the change(s) required by IBOR reform (as defined in (J)(iv)). For this purpose, the hedge designation is amended only to make one or more of the following changes:

– designating an alternative benchmark rate as the hedged risk;

– updating the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged;

– updating the description of the hedging instrument; or

– updating the description of how the entity will assess hedge effectiveness.

[IAS 39.102Q]

The Group amends the description of the hedging instrument only if the following conditions are met:

– it makes a change required by IBOR reform by using an approach other than changing the basis for determining the contractual cash flows of the hedging instrument;

– the chosen approach is economically equivalent to changing the basis for determining the contractual cash flows of the original hedging instrument; and

– the original hedging instrument is not derecognised.

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46. Significant accounting policies (continued)

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

Specific policies for hedges affected by IBOR reform (continued)

ii. Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) issued in August 2020 (the Phase 2 amendments) (continued)

[IAS 39.102S]

The Group amends the formal hedge documentation by the end of the reporting period during which a change required by IBOR reform is made to the hedged risk, hedged item or hedging instrument. These amendments in the formal hedge documentation do not constitute the discontinuation of the hedging relationship or the designation of a new hedging relationship.

[IAS 39.102T]

If changes are made in addition to those economically equivalent changes required by IBOR reform described above, then the Group considers whether those additional changes result in the discontinuation of the hedge accounting relationship. If the additional changes do not result in the discontinuation of the hedge accounting relationship, then the Group amends the formal hedge documentation for changes required by IBOR reform as mentioned above.

[IAS 39.102Z1–102Z2]

Policies specific to non-contractually specified risk portions

When the Group designates an alternative benchmark rate as a hedged risk and the alternative benchmark rate is a non-contractually specified risk portion that is not separately identifiable at the date it is designated, the Group deems that the rate meets the separately identifiable criterion if it reasonably expects that the alternative benchmark rate will be separately identifiable within a 24-month period. The 24-month period applies on a rate-by-rate basis and starts from the date when the Group first designates the alternative benchmark rate as a hedged risk.

If the Group subsequently expects that a non-contractually specified alternative benchmark rate risk component will not be separately identifiable within the 24-month period, then it discontinues hedge accounting prospectively from the date of that reassessment for all hedging relationships in which the alternative benchmark rate is designated as a non-contractually specified risk portion.

Policies specific to cash flow hedges

[IAS 39.102W–102X]

When the interest rate benchmark on which the hedged future cash flows had been based is changed as required by IBOR reform, for the purpose of determining whether the hedged future cash flows are expected to occur, the Group deems that the hedging reserve recognised in OCI for that hedging relationship is based on the alternative benchmark rate on which the hedged future cash flows will be based.

Other non-trading derivatives

Other non-trading derivatives are recognised on balance sheet at fair value. If a derivative is not held for trading, and is not designated in a qualifying hedging 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.

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Notes to the consolidated financial statements (continued)

46. Significant accounting policies (continued)

IFRS 7.21

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

Embedded derivatives[a]

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.

The Group has issued a bond with contractual cash flows based on the Group meeting a certain minimum score in a voluntary ESG audit. The Group has determined that the variability in cash flows linked to the Group's ESG-related performance is a non-financial variable specific to the party to the contract and, therefore, in accordance with the Group's accounting policy the feature fails the definition of a derivative. Accordingly, the feature is not separated. Instead, it is included in the calculation of the effective interest rate of the bond.

IFRS 7.21

N. Loans and advances

The 'loans and advances to banks' caption in the statement of financial position includes loans and advances 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.

The 'loans and advances to customers' caption in the statement of financial position includes:

- 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
- 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 consideration paid is accounted for as a loan or advance, and the underlying asset is not recognised in the Group's financial statements.

IFRS 7.21

O. Investment securities

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.

Insights 7.2.380–390, 7.10.310

a. IFRS 9 does 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.

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Notes to the consolidated financial statements (continued)

46. Significant accounting policies (continued)

O. Investment securities (continued)

IFRS 7.21
[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 changes in the fair value of certain investments in equity instruments that are not held for trading in OCI. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

[IFRS 9.B5.7.1]

Fair value 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]

P. Property and equipment

i. Recognition and measurement

IAS 16.73(a)
[IAS 16.30]

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

[IAS 38.4]

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 and 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.

ii. Subsequent costs

[IAS 16.7, 12–13]

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with 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. Land is not depreciated.

IAS 16.73(c)

The estimated useful lives of property and equipment for the current and comparative periods 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.

[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)

46. Significant accounting policies (continued)

Q. Investment property

[IAS 40.7, 33, 35]

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 arising 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, 74] Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate: that the product is technically and commercially feasible, its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and that it 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 recognised in profit or loss as it is incurred.

IAS 38.97, 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.

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, 22, 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.

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Notes to the consolidated financial statements (continued)

46. Significant accounting policies (continued)

S. Impairment of non-financial assets (continued)

[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 7.21

T. Deposits, debt securities in issue and subordinated liabilities

Deposits, debt securities in issue 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 consideration received 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.

Deposits, debt securities in issue and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs. Subsequently, they are measured at their amortised cost using the effective interest method, except where the Group designates liabilities at FVTPL (see (J)(viii)).

IFRS 7.11(c), [IFRS 9.5.7.7, B5.7.5–B5.7.6]

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 the fair value of instruments whose characteristics are economically related to the characteristics of the liability.

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.

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Notes to the consolidated financial statements (continued)

46. Significant accounting policies (continued)

U. Financial guarantees and loan commitments

IFRS 7.21, [IFRS 9.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.

[IFRS 9.2.1(e), (g), 4.2.1(c)–(d), B2.5(a)]

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 (see (J)(vii)) and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15. Other loan commitments issued are measured at the sum of (i) the loss allowance determined in accordance with IFRS 9 (see (J)(vii)) and (ii) the amount of any fees received, less, if the commitment is unlikely to result in a specific lending arrangement, the cumulative amount of income recognised (see (D)). Derecognition policies in (J)(iii) are applied to loan commitments issued and held.

The Group has issued no loan commitments that are measured at FVTPL.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

V. Other provisions

[IAS 37.14, 45, 47, IFRIC 1.8]

Other 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 interest expense.

[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.
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.

W. Employee benefits

i. 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.

ii. Share-based payment transactions

[IFRS 2.14–15, 19–21, 21A]

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is recognised as personnel expense, with a corresponding increase in equity, over the vesting period of 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 is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

[IFRS 2.30, 32]

The fair value of the amount payable to employees in respect of SARs, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period during 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.

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Notes to the consolidated financial statements (continued)

46. Significant accounting policies (continued)

W. Employee benefits (continued)

iii. 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.

iv. 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.

v. 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.

vi. 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 settled wholly within 12 months of the reporting date, then they are discounted.

IFRS 7.21

X. Share capital, other equity and reserves

i. Other equity instruments

[IAS 12.57A, 58, 32.11, 15–16, 35]

The Group classifies instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The Group's other equity instruments are not redeemable by holders and bear an entitlement to coupons at the sole discretion of the board of directors. Accordingly, they are presented within equity. Distributions thereon are recognised in equity. Based on the Group's assessment of the terms of the instruments, the coupon payments meet the definition of dividends. Therefore, the related tax impacts are recognised in profit or loss in accordance with IAS 12, unless the transactions or events that generated those distributable profits were recognised outside profit or loss.

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.

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Notes to the consolidated financial statements (continued)

46. Significant accounting policies (continued)

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 8.5]

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

[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)

47. Standards issued but not yet effective

IAS 8.30–31

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however, the Group has not early adopted the new and amended standards in preparing these consolidated financial statements.

A. *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)*

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases. The amendments apply for annual reporting periods beginning on or after 1 January 2023. For leases, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

The Group accounts for deferred tax on leases applying the 'integrally linked' approach, resulting in a similar outcome to the amendments, except that the deferred tax impacts are presented net in the statement of financial position. Under the amendments, the Group will recognise a separate deferred tax asset and a deferred tax liability. As at 31 December 2021, the taxable temporary difference in relation to the right-of-use asset is €225 million (see Note 41(A)) and the deductible temporary difference in relation to the lease liability is €367 million (see Note 34), resulting in a net deferred tax asset of €49 million (see Note 18(D)). Under the amendments, the Group will present a separate deferred tax liability of €79 million and a deferred tax asset of €128 million. There will be no impact on retained earnings on adoption of the amendments.

B. Other standards[a]

The following new and amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

- *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).*
- *COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16).*[b]
- *Annual Improvements to IFRS Standards 2018–2020.*
- *Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).*
- *Reference to Conceptual Framework (Amendments to IFRS 3).*
- *Classification of Liabilities as Current or Non-current (Amendments to IAS 1).*[c]
- IFRS 17 *Insurance Contracts* and amendments to IFRS 17 *Insurance Contracts.*
- *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).*
- *Definition of Accounting Estimates (Amendments to IAS 8).*

IAS 1.31

a. Although new or amended standards that will have no or no material effect on the financial statements need not be provided, the Group has included all new or amended standards and their possible impact on the consolidated financial statements for illustrative purposes only.

b. For further information, see our web article and Leases – Rent concessions (May 2021).

c. The amendments to IAS 1, as issued in January 2020 (2020 amendments), are subject to future developments. Certain application issues resulting from the 2020 amendments have been raised with the IFRS Interpretations Committee, which referred them to the Board. In November 2021, the Board issued an exposure draft – *Non-current Liabilities with Covenants: Proposed amendments to IAS 1* that propose narrow-scope amendments to IAS 1. See our web article.

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APPENDICES

Appendix I

Presentation of comprehensive income – Two-statement approach

Consolidated income statement[a]

IAS 1.10(b), 10A, 29, 38–38A, 81A, 97, 113

For the year ended 31 December

Reference	*In millions of euro*	*Note*	2021	2020
IFRS 7.20(b), IAS 1.82(a)	Interest income calculated using the effective interest method	9	**3,319**	3,509
	Other interest income	9	**22**	19
IFRS 7.20(b), IAS 1.82(b)	Interest expense	9	**(1,409)**	(1,414)
	Net interest income		**1,932**	2,114
IFRS 7.20(c)	Fee and commission income	10	**854**	759
IFRS 7.20(c)	Fee and commission expense	10	**(179)**	(135)
	Net fee and commission income		**675**	624
IFRS 7.20(a)(i)	Net trading income	11	**1,434**	987
IFRS 7.20(a)(i)	Net income from other financial instruments at FVTPL	12	**77**	27
IFRS 7.20(a)(viii)	Other revenue	13	**79**	68
IFRS 7.20A, IAS 1.82(aa)	Net loss arising from derecognition of financial assets measured at amortised cost	14	**(9)**	-
IAS 1.82(a), 85	**Revenue**		**4,188**	3,820
	Other income		**21**	84
IAS 1.82(ba)	Impairment losses on financial instruments	6(A)	**(616)**	(448)
IAS 1.99	Personnel expenses	15	**(2,529)**	(2,301)
IAS 1.99, 38.118(d)	Depreciation and amortisation	26, 27	**(120)**	(113)
IAS 1.99	Other expenses	16	**(398)**	(585)
IAS 1.85	**Profit before tax**		**546**	457
IAS 1.82(d), 12.77	Income tax expense	18	**(123)**	(79)
IAS 1.81A(a)	**Profit for the period**		**423**	378
	Profit attributable to			
IAS 1.81B(a)(ii)	Holders of ordinary shares of the Bank		**383**	340
	Other equity holders		**20**	20
IAS 1.81B(a)(i)	Non-controlling interests		**20**	18
			423	378
IAS 33.4	**Earnings per share**			
IAS 33.66	Basic earnings per share (euro)	17	**0.22**	0.19
IAS 33.66	Diluted earnings per share (euro)	17	**0.22**	0.19

The notes on pages 20 to 231 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

IAS 1.10(b), 10A, 29, 38–38A, 81A, 97, 113

For the year ended 31 December

	In millions of euro	*Note*	2021	2020
IAS 1.10A	**Profit for the period**		**423**	378
	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)	*15*	**7**	9
IFRS 7.20(a)(vii)	Equity investments at FVOCI – net change in fair value		**2**	2
IFRS 7.20(a)(i)	Movement in liability credit reserve	*31*	**3**	1
IAS 1.91(b)	*Related tax*		**(4)**	(4)
			8	8
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 operations – foreign currency translation differences		**(45)**	(35)
IAS 21.52(b)	Net gain on hedges of net investments in foreign operations		**30**	31
	Movement in hedging reserve:			
IFRS 7.24C(b)(i)	Cash flow hedges – effective portion of changes in fair value		**(43)**	(22)
IFRS 7.24C(b)(iv), IAS 1.92	Cash flow hedges – reclassified to profit or loss		**6**	12
	Movement in fair value reserve (FVOCI debt instruments):			
IFRS 7.20(a)(viii)	Debt investments at FVOCI – net change in fair value		**(166)**	(160)
IFRS 7.20(a)(viii), IAS 1.92	Debt investments at FVOCI – reclassified to profit or loss		**129**	125
IAS 1.91(b)	*Related tax*		**25**	15
			(66)	(34)
IAS 1.81A(b)	**Other comprehensive income for the period, net of tax**		**(56)**	(26)
IAS 1.81A(c)	**Total comprehensive income for the period**		**367**	352
	Total comprehensive income attributable to			
IAS 1.81B(b)(ii)	Holders of ordinary shares of the Bank		**327**	314
	Other equity holders		**20**	20
IAS 1.81B(b)(i)	Non-controlling interests	*36(D)*	**20**	18
			367	352

The notes on pages 20 to 231 are an integral part of these consolidated financial statements.

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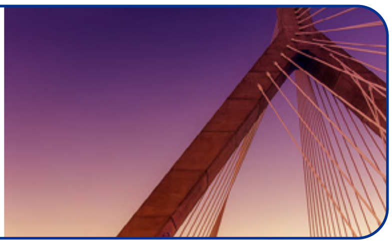

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