Deloitte.

International GAAP Bank Limited Illustrative disclosures under IFRS 7 as amended by IFRS 9

February 2019

Foreword

The introduction of IFRS 9 *Financial Instruments* has attracted a huge amount of interest, speculation and debate from investors, regulators and other users of financial statements.

Consistent themes have emerged from information published by banks since the standard was first applied last year in interim financial reports. Provision for loss allowances have gone up and are more sensitive to change in the future economic outlook than we have been used to in the past. Measurement in the year of transition has been complex and will continue to be so in the future as market practice evolves and provision methodologies are enhanced.

As loss allowances are based on a bank's expectation of future economic scenarios and how these might drive losses in their loan books, this directly drives financial performance and balance sheet strength. Understandably we are seeing much more attention than ever before being paid to the words, not just the numbers.

Often when large changes are made to accounting standards, the implementation of disclosures comes second to the recognition and measurement. It is clear that expectations of the relative importance of disclosure is different this time. Given provisioning is more forward-looking and so is more judgmental, expectations of users have increased. Users are demanding a greater knowledge of what underpins the expected credit loss allowance. Compliance with IFRS 7 *Financial Instruments: Disclosures* is the minimum, many banks are choosing to say more.

With one year down, and many more to go, the application of IFRS 9 has just started. Undoubtedly demands for what banks should disclose will change over time, largely in response to the economic environment, regulatory expectations and observations of good practice. Observations we have gathered from financial statements we have seen in 2018 have been reflected in this new edition.

I hope this publication helps you in setting your standard for implementing the disclosure requirements if you are a bank; or helps you consider what good may look like if you are an investor, auditor, or regulator. All feedback will be warmly received.

Andrew Spooner
Global IFRS Lead for Financial Instruments
February 2019

Key contacts

Global IFRS Leader
Veronica Poole
ifrsglobalofficeuk@deloitte.co.uk

Global IFRS Lead for Financial Instruments
Andrew Spooner
ifrsglobalofficeuk@deloitte.co.uk

IFRS centres of excellence

Americas		
Argentina	Fernando Lattuca	arifrscoe@deloitte.com
Canada	Karen Higgins	ifrs@deloitte.ca
LATCO	Miguel Millan	ifrs-LATCO@deloitte.com
United States	Robert Uhl	iasplus-us@deloitte.com
Asia-Pacific		
Australia	Anna Crawford	ifrs@deloitte.com.au
China	Stephen Taylor	ifrs@deloitte.com.cn
Japan	Shinya Iwasaki	ifrs@tohmatsu.co.jp
Singapore	James Xu	ifrs-sg@deloitte.com
Europe-Africa		
Belgium	Thomas Carlier	ifrs-belgium@deloitte.com
Denmark	Jan Peter Larsen	ifrs@deloitte.dk
France	Laurence Rivat	ifrs@deloitte.fr
Germany	Jens Berger	ifrs@deloitte.de
Italy	Massimiliano Semprini	ifrs-it@deloitte.it
Luxembourg	Eddy Termaten	ifrs@deloitte.lu
Netherlands	Ralph Ter Hoeven	ifrs@deloitte.nl
Russia	Maria Proshina	ifrs@deloitte.ru
South Africa	Nita Ranchod	ifrs@deloitte.co.za
Spain	Cleber Custodio	ifrs@deloitte.es
Switzerland	Nadine Kusche	ifrsdesk@deloitte.ch
United Kingdom	Elizabeth Chrispin	deloitteifrs@deloitte.co.uk

Acknowledgments

We would like to extend our thanks to Evi Chatzitsakou and the IFRS centres of excellence in France, Germany, United States, Canada and the United Kingdom for their review.

Deloitte's IAS Plus (**www.iasplus.com**) is one of the most comprehensive sources of global financial reporting news on the Web. It is a central repository for information about International Financial Reporting Standards (IFRSs) as well as the activities of the International Accounting Standards Board (IASB). The site, which is also available in German, includes portals tailored to the United Kingdom and the United States, each with a focus on local GAAP and jurisdiction-specific corporate reporting requirements. Canadian portals in English and French were added in 2015. They feature news and publications related to all Canadian financial reporting frameworks, including IFRS.

IAS Plus features:

- news about global financial reporting developments, presented intuitively with related news, publications, events and more;
- summaries of all standards, interpretations and projects, with complete histories of developments and standard-setter discussions together with related news and publications;
- rich jurisdiction-specific information, including background and financial reporting requirements, links to country-specific resources, related news and publications and a comprehensive history of the adoption of IFRSs around the world;
- detailed personalisation of the site, which is available by selecting particular topics of interest and viewing tailored views of the site;
- dedicated resource pages for research and education, sustainability and integrated reporting, accounting developments in Europe, global financial crisis, XBRL and Islamic accounting;
- important dates highlighted throughout the site for upcoming meetings, deadlines and more;
- a library of IFRS-related publications available for download and subscription including our popular *IFRS in Focus newsletter* and other publications;
- model IFRS financial statements and checklists, with many versions available tailored to specific jurisdictions;
- an extensive electronic library of both global and jurisdiction-specific IFRS resources;
- expert analysis and commentary from Deloitte subject matter experts, including webcasts, podcasts and interviews;
- e-learning modules for most International Accounting Standards (IASs) and IFRSs;
- enhanced search functionality, allowing easy access to topics of interest by tags, categories or free text searches, with search results intuitively presented by category with further filtering options;
- Deloitte comment letters to the IASB and numerous other bodies; and
- a mobile-friendly interface and updates through Twitter and RSS feeds.

Introduction

This publication includes illustrative financial instruments disclosures for banks applying IFRS 9. It is not a full set of financial statements. The illustrative disclosures outlined in this publication are in accordance with IFRSs, disclosures required by regulatory bodies have not been included. The relevant IFRS disclosure requirements are also included. Local regulatory requirements may limit the application of certain accounting policy choices or disclosures presented in this publication and preparers should tailor the disclosures they provide to their specific circumstances.

The illustrative disclosures are prepared assuming International GAAP Bank Limited ('the Group') already applies IFRS 9 and therefore the transitional disclosures are not included. It is assumed that IFRS 16 is not applied at the periods covered by the illustrative financial statements. This publication does not include consolidated statement of cash flows, because IFRS 9 did not introduce any changes to the statement of cash flows. This publication includes the following:

- a consolidated statement of profit or loss for the year ended 31 December 20XX;
- a consolidated statement of comprehensive income for the year ended 31 December 20XX;
- a consolidated statement of financial position for the year ended 31 December 20XX;
- a consolidated statement of changes in equity for the year ended 31 December 20XX;
- IFRS 7 disclosures in the notes of the financial statements as amended by IFRS 9; and
- comparative information in respect of the preceding period, i.e. the year ended 31 December 20YY.

To enhance understanding of the financial instruments specific disclosures some disclosures required by IAS 1 are also included, such as the disclosure of significant accounting policies and critical judgements and estimates. The entity only accounts for International GAAP Bank Limited have not been included as this publication aims to illustrate how the financial instruments disclosures of a banking group are affected by IFRS 9.

Contents

Glossary of abbreviations

ALCO	Asset and Liability Management Committee
Basel III	Basel III: International regulatory framework for banks
Bps	Basis points
CCP	Central Counterparty Clearing House
CDS	Credit default swap
CET1	Common Equity Tier 1
CVA	Credit valuation adjustment
DVA	Debit valuation adjustment
EAD	Exposure at default
ECL	Expected credit loss
EIR	Effective interest rate
FVA	Funding valuation adjustment
FVTOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
G7	The Group of Seven – an informal bloc of industrialized democracies – Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States
GDP	Gross domestic product
IAS 1	IAS 1 Presentation of Financial Statements
IFRS	International Financial Reporting Standards
IFRS 3	IFRS 3 Business Combinations
IFRS 7	IFRS 7 Financial Instruments: Disclosures
IFRS 9	IFRS 9 Financial Instruments
IFRS 13	IFRS 13 Fair Value Measurement
ISDA	International Swaps and Derivatives Association
LGD	Loss given default
LTV	Loan-to-value
NCI	Non-controlling interests
OCI	Other comprehensive income
OTC	Over the counter
PD	Probability of default
POCI	Purchased or originated credit-impaired
S&P	Standard & Poor’s
SPPI	Solely payments of principal and interest on the principal amount outstanding
VaR	Value at risk

Consolidated statement of profit or loss

IAS 1:10A An entity may present a single statement of profit or loss and other comprehensive income, with profit or loss and other comprehensive income presented in two sections. The sections should be presented together, with the profit or loss section presented first followed directly by the other comprehensive income section. An entity may present the profit or loss section in a separate income statement. If so, the separate income statement should immediately precede the statement presenting comprehensive income, which begins with profit or loss.

When two statements are presented, the information required in IAS 1:82(a) – (ea) and IAS 1:81B(a) (see below) should be presented in the separate income statement. Where the single statement is adopted, IAS 1:10A requires that the profit and loss section is presented first followed directly by the statement of comprehensive income section. Where two statements are presented, the income statement is presented immediately before the statement of comprehensive income. This publication illustrates the practice of two statements.

References in this commentary to inclusion of items in the income statement should be read as referring to inclusion in the statement of comprehensive income when the single statement approach is used.

IAS 1:81A The statement of profit or loss and other comprehensive income (statement of comprehensive income) should present, in addition to the profit or loss and other comprehensive income sections:

1 (a) profit or loss;

2 (b) total other comprehensive income; and

3 (c) comprehensive income for the period, being the total of profit or loss and other comprehensive income.

If an entity presents a separate income statement, it does not present the profit or loss section in the statement presenting comprehensive income.

IAS 1:81B The following items should also be disclosed in the income statement and statement of comprehensive income as allocations for the period:

(a) profit or loss attributable to:

4 • non-controlling interests; and

5 • owners of the parent.

(b) comprehensive income for the period attributable to:

6 • non-controlling interests; and

7 • owners of the parent.

If an entity presents profit or loss in a separate statement it presents (a) in that statement.

IAS 1:82 The profit or loss section or the income statement should include line items that present the following for the period:

8 (a) revenue, presenting separately interest revenue calculated using the effective interest method;

9 (aa) gains and losses arising from the derecognition of financial assets measured at amortised cost;

Consolidated statement of profit or loss

For the year ended 31 December 20XX

		Note	Year ended 20XX CUm	Year ended 20YY CUm
	Continuing operations			
8	Interest income	8	[X]	[X]
10	Interest expense	8	[X]	[X]
	Net interest Income		**[X]**	**[X]**
8,17	Fee and commission income	9	[X]	[X]
17	Fee and commission expense	9	[X]	[X]
	Net fee and commission income		**[X]**	**[X]**
14	Net trading income	10	[X]	[X]
14	Net income from other financial instruments at FVTPL	11	[X]	[X]
9,15	Net gain/(loss) from derecognition of financial assets measured at amortised cost	13	[X]	[X]
16	Net gain/(loss) from derecognition of financial assets measured at FVTOCI	13	[X]	[X]
	Net gain/(loss) from foreign exchange		[X]	[X]
	Other revenue	12	[X]	[X]
	Revenue		**[X]**	**[X]**
	Other income	12	[X]	[X]
11	Net impairment loss on financial assets	3	[X]	[X]
	Losses on modification of financial assets		[X]	[X]
	Personnel expenses		[X]	[X]
	Depreciation and amortisation		[X]	[X]
	Other expenses	12	[X]	[X]
12	Share of profit of associates and joint ventures accounted for using the equity method		[X]	[X]
	Profit before tax		**[X]**	**[X]**
13	Income tax expense		[X]	[X]
1	**Profit for the year**		**[X]**	**[X]**
	Attributable to:			
4	Owners of the Bank		[X]	[X]
5	Non-controlling interests		[X]	[X]
			[X]	**[X]**
	Earnings per share			
	From continuing operations			
	Basic		**[X]**	**[X]**
	Diluted		**[X]**	**[X]**
	From continuing and discontinued operations			
	Basic		**[X]**	**[X]**
	Diluted		**[X]**	**[X]**

Consolidated statement of profit or loss (continued)

10 (b) finance costs;

11 (ba) impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with **Section 5.5** of **IFRS 9**;

12 (c) share of profit or loss of associates and joint ventures accounted for using the equity method;

(ca) if a financial asset is reclassified out of the amortised cost measurement category so that it is measured at fair value through profit or loss, any gain or loss arising from a difference between the previous amortised cost of the financial asset and its fair value at the reclassification date (as defined in **IFRS 9**);

(cb) if a financial asset is reclassified out of the fair value through other comprehensive income measurement category so that it is measured at fair value through profit or loss, any cumulative gain or loss previously recognised in other comprehensive income that is reclassified to profit or loss;

13 (d) tax expense

(e) [deleted]

(ea) a single amount for the total of discontinued operations (see IFRS 5). [Refer: IFRS 5 paragraph 33]

(f)-(i) [deleted]

There were no reclassifications of the Group's financial assets during the current year or previous reporting periods, therefore the illustrative profit or loss statement does not include the line items relating to reclassifications of financial assets. When a reclassification of financial assets takes place, the gain/loss on reclassification of financial assets from amortised cost to FVTPL and the gain/loss on reclassification of financial assets from FVTOCI to FVTPL, should be presented at the face of the profit or loss as separate lines, in accordance with IAS 1:82 (ca) and (cb). In addition the disclosures required by IFRS 7: 12B to 12D should be provided. These disclosures are not included in this publication.

IAS 1:85 An entity shall present additional line items, headings and subtotals in the statement(s) presenting profit or loss and other comprehensive income when such presentation is relevant to an understanding of the entity's financial performance.

IAS 1:85A When an entity presents subtotals, those subtotals should:

- be comprised of line items made up of amounts recognised and measured in accordance with IFRS;
- be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable;
- be consistent from period to period; and
- not be displayed with more prominence than the subtotals and totals required in IFRS.

IAS 1:99 & 100 IAS 1 requires the presentation of an analysis of expenses based on either their nature (e.g. raw materials, employee benefit costs etc.) or function (e.g. cost of sales, administrative expenses etc.), whichever provides information that is reliable and more relevant. IAS 1 encourages the presentation of this analysis on the face of the income statement.

Consolidated statement of profit or loss (continued)

IFRS 7:20 (a) (i), (vi) and (vii) An entity shall disclose either in the statement of comprehensive income or in the notes, net gains or net losses on:

14 (i) financial assets or financial liabilities measured at fair value through profit or loss, showing separately those on financial assets or financial liabilities designated as such upon initial recognition or subsequently in accordance with **IFRS 9:6.7.1**, and those on financial assets or financial liabilities that are mandatorily measured at fair value in accordance with **IFRS 9** (e.g. financial liabilities that meet the definition of held for trading in **IFRS 9**). For financial liabilities designated as at fair value through profit or loss, an entity shall show separately the amount of gain or loss recognised in other comprehensive income and the amount recognised in profit or loss.

15 (vi) financial assets measured at amortised cost.

16 (viii) financial assets measured at fair value through other comprehensive income in accordance with **IFRS 9:4.1.A**, showing separately the amount of gain or loss recognised in other comprehensive income during the period and the amount reclassified upon derecognition from accumulated other comprehensive income to profit or loss for the period.

17 ***IFRS 7:20 (c)*** An entity shall disclose either in the statement of comprehensive income or in the notes, fee income and expense (other than amounts included in determining the effective interest rate) arising from:

(i) financial assets and financial liabilities that are not at fair value through profit or loss; and

(ii) trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions.

The Group has not designated any cash flow hedge of foreign currency risk hedging net positions. It is noted that in accordance with IFRS 9:B6.6.15 when items are hedged as a group and the group of items does have offsetting positions, the entity shall present the hedging gain/loss in a separate line in profit and loss or OCI.

Consolidated statement of comprehensive income

18 Format

IAS 1:10A IAS 1 allows companies to separate the presentation of all items of income and expense in the period between the income statement and the statement of comprehensive income or show all items in one statement. The former approach has been adopted here.

IAS 1:82A Irrespective of whether the one-statement or the two-statement approach is followed, IAS 1:82A The other comprehensive income section shall present line items for the amounts for the period of:

(a) items of other comprehensive income (excluding amounts in paragraph (b)), classified by nature and grouped into those that, in accordance with other IFRSs:

19 (i) will not be reclassified subsequently to profit or loss; and

20 (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

(b) the share of the other comprehensive income of associates and joint ventures accounted for using the equity method, separated into the share of items that, in accordance with other IFRSs:

21 (i) will not be reclassified subsequently to profit or loss; and

22 (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

IAS 1:7 The statement of comprehensive income should exclude transactions with equity holders acting in their capacity as equity holders such as dividends and subscriptions for new share capital, but include:

(a) changes in revaluation surplus;

23 (b) remeasurement of defined benefit schemes;

24 (c) gains and losses arising from translating the financial statements of a foreign operation;

25 (d) gains and losses from investments in equity instruments designated at fair value through other comprehensive income in accordance with **IFRS 9:5.7.5**;

26 (da) gains and losses on financial assets measured at fair value through other comprehensive income in accordance with **IFRS 9:4.1.2A**;

27 (e) the effective portion of gains and losses on hedging instruments in a cash flow hedge and the gains and losses on hedging instruments that hedge investments in equity instruments measured at fair value through other comprehensive income in accordance with **IFRS 9:5.7.5**;

28 (f) for particular liabilities designated as at fair value through profit or loss, the amount of the change in fair value that is attributable to changes in the liability's credit risk (see **IFRS 9:5.7.7**);

(g) changes in the value of the time value of options when separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the changes in the intrinsic value (see **Chapter 6 of IFRS 9**); and

29 (h) changes in the value of the forward elements of forward contracts when separating the forward element and spot element of a forward contract and designating as the hedging instrument only the changes in the spot element, and changes in the value of the foreign currency basis spread of a financial instrument when excluding it from the designation of that financial instrument as the hedging instrument (see **Chapter 6 of IFRS 9**).

Consolidated statement of comprehensive income

For the year ended 31 December 20XX

		Year ended 20XX		Year ended 20YY	
		CUm	CUm	CUm	CUm
18	**Profit for the year**		[X]		[X]
19	**Items that will not be reclassified subsequently to profit or loss:**				
23	Remeasurement of net defined benefit liability		[X]		[X]
25	Movement in investment revaluation reserve for equity instruments at FVTOCI		[X]		[X]
28	Movement in the fair value of own credit risk of financial liabilities designated at FVTPL		[X]		[X]
21	Share of other comprehensive income of associates		[X]		[X]
	Income tax relating to items that will not be reclassified subsequently to profit or loss		[X]		[X]
			[X]		**[X]**
20	**Items that may be reclassified subsequently to profit or loss:**				
26	Movement in investment revaluation reserve for debt instruments at FVTOCI:				
16	Gains/(losses) arising during the period	[X]		[X]	
	Reclassification of (gains)/losses included in profit or loss	[X]		[X]	
			[X]		[X]
27,30, 31	Cash flow hedges:				
	Gains/(losses) arising during the period	[X]		[X]	
	Reclassification of (gains)/losses to profit or loss	[X]		[X]	
			[X]		[X]
24,30	Exchange differences on currency translation of foreign operations				
	Foreign currency translation in foreign operation	[X]		[X]	
	Net (gains)/losses due to net investment hedge	[X]		[X]	
			[X]		[X]
29,32	Cost of hedging for forward element of a forward and currency basis spread when excluded from designation in a hedge relationship				
	Gains/(losses) arising during the period	[X]		[X]	
	Reclassification of (gains)/losses to profit or loss	[X]		[X]	
			[X]		[X]
22	Share of other comprehensive income of associates		[X]		[X]
	Income tax relating to items that may be reclassified subsequently to profit or loss		[X]		[X]
3	**Other comprehensive income for the year net of tax**		**[X]**		**[X]**
2	**Total comprehensive income for the year**		**[X]**		**[X]**
	Total comprehensive income attributable to:				
6	Owners of the Bank		[X]		[X]
7	Non-controlling interests		[X]		[X]
			[X]		**[X]**

Consolidated statement of comprehensive income (continued)

The Group has not designated investments in equities at FVTOCI as hedged items and does not apply hedge accounting with options, therefore the illustrative statement of comprehensive income does not include the line items required by IAS 1:7(e) and (g). In addition the Group does not apply hedge accounting with hedge items that result in non-financial items.

Transfers to/from equity

IFRS 7:24C(b) An entity shall disclose, in a tabular format, the following amounts separately by risk category for the types of hedges as follows:

(b) for cash flow hedges and hedges of a net investment in a foreign operation:

30 (i) hedging gains or losses of the reporting period that were recognised in other comprehensive income;

(ii) hedge ineffectiveness recognised in profit or loss;

(iii) the line item in the statement of comprehensive income that includes the recognised hedge ineffectiveness;

31 (iv) the amount reclassified from the cash flow hedge reserve or the foreign currency translation reserve into profit or loss as a reclassification adjustment (see **IAS 1**) (differentiating between amounts for which hedge accounting had previously been used, but for which the hedged future cash flows are no longer expected to occur, and amounts that have been transferred because the hedged item has affected profit or loss);

(v) the line item in the statement of comprehensive income that includes the reclassification adjustment (see **IAS 1**); and

(vi) for hedges of net positions, the hedging gains or losses recognised in a separate line item in the statement of comprehensive income (see **IFRS 9:6.6.4**).

The Group has not designated any hedge accounting relationships hedging net positions, therefore **IFRS 7:24C(b)(vi)** is not illustrated.

IFRS 7:24E An entity shall provide a reconciliation of each component of equity and an analysis of other comprehensive income in accordance with **IAS 1** that, taken together:

(a) differentiates, at a minimum, between the amounts that relate to the disclosures in paragraph **24C(b)(i)** and **(b)(iv)** as well as the amounts accounted for in accordance with **IFRS 9: 6.5.11(d)(i)** and **(d)(iii)**;

(b) differentiates between the amounts associated with the time value of options that hedge transaction related hedged items and the amounts associated with the time value of options that hedge time-period related hedged items when an entity accounts for the time value of an option in accordance with **IFRS 9: 6.5.15**; and

32 (c) differentiates between the amounts associated with forward elements of forward contracts and the foreign currency basis spreads of financial instruments that hedge transaction related hedged items, and the amounts associated with forward elements of forward contracts and the foreign currency basis spreads of financial instruments that hedge time-period related hedged items when an entity accounts for those amounts in accordance with **IFRS 9: 6.5.16.**

Consolidated statement of financial position

Format

33 ***IAS 1:54 & 55*** The illustrative balance sheet complies with the **IAS 1** requirement for line items to be presented on the face of the balance sheet. The standard does not prescribe the order in which items are presented and International GAAP Bank Limited has adopted a presentation based on decreasing liquidity because it provides more reliable information for banks, in line with the **Conceptual Framework** paragraphs QC6-QC11. Additional line items, headings and subtotals are required to be presented on the face of the balance sheet when relevant to an understanding of the entity's financial position.

Classification of assets and liabilities

34 ***IAS 1:60*** IAS 1 requires presentation of current and non-current assets, and current and non-current liabilities, as separate classifications on the face of the statement of financial position. An exception to this requirement is when a presentation based on liquidity provides information that is reliable and more relevant. When this exception applies (as is the case in these financial statements), **IAS 1** requires that all assets and liabilities are presented broadly in order of liquidity.

IAS 1:63 For some entities, such as financial institutions, a presentation of assets and liabilities in increasing or decreasing order of liquidity provides information that is reliable and more relevant than a current/non-current presentation because the entity does not supply goods or services within a clearly identifiable operating cycle.

IFRS 7:6 **IFRS 7** allows grouping of 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. Sufficient information should be given to permit reconciliation to the line items presented in the balance sheet.

IFRS 7:B2 In determining classes of financial instrument, an entity should, at a minimum:

(a) distinguish instruments measured at amortised cost from those measured at fair value; and

(b) treat as a separate class or classes those financial instruments outside the scope of **IFRS 7**.

Comparative information

35 ***IAS 1:38 – 40D*** **IAS 1** requires that except when IFRSs permit or require otherwise, an entity shall present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements. **IAS 1** requires a third statement financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements when:

a) an entity applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements; and

b) the retrospective application, retrospective restatement or the reclassification has a material effect on the information in the statement of financial position at the beginning of the preceding period.

Consolidated statement of financial position

For the year ended 31 December 20XX

33,34,35		Note	Year ended 20XX CUm	Year ended 20YY CUm
	Assets			
36	Cash and cash equivalents	14	[X]	[X]
37	Trading assets	15	[X]	[X]
37	Derivative financial instruments	16	[X]	[X]
37	Loans and advances to banks	17	[X]	[X]
37	Loans and advances to customers	18	[X]	[X]
37	Investment securities	19	[X]	[X]
	Investments in associates and join ventures		[X]	[X]
	Goodwill		[X]	[X]
	Property and equipment		[X]	[X]
	Intangible assets		[X]	[X]
	Deferred tax assets		[X]	[X]
	Other assets		[X]	[X]
	Total assets		**[X]**	**[X]**
	Liabilities		[X]	[X]
37	Trading liabilities	20	[X]	[X]
37	Derivative financial instruments	16	[X]	[X]
37	Deposits from banks	21	[X]	[X]
37	Deposits from customers	22	[X]	[X]
	Current tax liabilities		[X]	[X]
37	Debt securities in issue	23	[X]	[X]
37	Subordinated liabilities	24	[X]	[X]
	Provisions		[X]	[X]
	Deferred tax liabilities		[X]	[X]
	Other liabilities		[X]	[X]
	Total liabilities		**[X]**	**[X]**
	Equity		[X]	[X]
38	Share capital	25	[X]	[X]
	Share premium account	26	[X]	[X]
	Retained earnings	27	[X]	[X]
	Other reserves	28	[X]	[X]
	Equity attributable to owners of the Bank		**[X]**	**[X]**
	Non-controlling interests		[X]	[X]
	Total equity		**[X]**	**[X]**
	Total liabilities and equity		**[X]**	**[X]**

The financial statements were approved by the board of directors and authorised for issue on [date].
They were signed on its behalf by:

[*Signature*] Director
[*Name of signatory to be stated*]

Consolidated statement of financial position (continued)

36 Cash and cash equivalents

IAS 1:54(i) Requires cash and cash equivalents to be presented in a separate line in the statement of financial position. The items are presented in decreasing order of liquidity, therefore the first line item for assets is cash and cash equivalents.

37 Trading assets, derivative financial instruments, loans and advances to banks, loans and advances to customers, investment securities, trading liabilities, deposits from banks, deposits from customers, debt securities in issue and subordinated liabilities.

IAS 1:54(d), (m) IFRS 7:8 Under **IAS 1** there should be a separate line in the statement of financial position to present financial assets, as well as a separate line for financial liabilities. Under **IFRS 7:8** the carrying amounts of each of the following categories, as specified in IFRS 9, shall be disclosed either in the statement of financial position or in the notes:

(a) financial assets measured at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition or subsequently in accordance with **IFRS 9: 6.7.1** and (ii) those mandatorily measured at fair value through profit or loss in accordance with **IFRS 9**.

(b) to (d) [deleted]

(e) financial liabilities at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition or subsequently in accordance with **IFRS 9: 6.7.1** and (ii) those that meet the definition of held for trading in **IFRS 9**.

(f) financial assets measured at amortised cost.

(g) financial liabilities measured at amortised cost.

(h) financial assets measured at fair value through other comprehensive income, showing separately (i) financial assets that are measured at fair value through other comprehensive income in accordance with **IFRS 9: 4.1.2A**; and (ii) investments in equity instruments designated as such upon initial recognition in accordance with **IFRS 9: 5.7.5**.

There is no specific requirement for trading assets, derivative financial instruments, loans and advances to banks, loans and advances to customers, investment securities, trading liabilities, deposits from banks, deposits from customers, debt securities in issue and subordinated liabilities to be separately disclosed on the face of the balance sheet but if the balance is material to the financial statements separate disclosure would be appropriate.

38 Equity

IAS 1:54(r) Under IAS 1 there should be a separate line in the statement of financial position to present issued capital and reserves attributable to owners of the parent.

Consolidated statement of changes in equity

39 ***IAS 1:106*** The statement of changes in equity should present:

(a) total comprehensive income for the period showing separately the total amounts attributable to owners of the parent and non-controlling interests;

(b) for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with **IAS 8**; and

(c) for each component or equity, a reconciliation between the carrying amount at the beginning and end of the period, separately disclosing changes resulting from:

(i) profit or loss;

(ii) other comprehensive income; and

(iii) transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interest in subsidiaries that do not result in a loss of control.

IAS 1:106A For each component of equity, an analysis of other comprehensive income by item must be provided either in the statement of changes in equity or in the notes.

IAS 1:107 The amount of dividends recognised as distributions to the owners during the period and related amount of dividends per share should be presented either in the statement of changes in equity or in the notes.

IFRS 7:20(a)(i) For financial liabilities designated as at fair value through profit or loss, an entity shall show separately the amount of gain or loss recognised in other comprehensive income and the amount recognised in profit or loss.

IFRS 7:20(a)(vii) For investments in equity instruments designated at fair value through other comprehensive income in accordance with **IFRS 9:5.7.5**, disclosure is required of the net gains or losses recognised in other comprehensive income during the period.

IFRS 7:20(a)(viii) For financial assets measured at fair value through other comprehensive income in accordance with **IFRS 9:4.1.2A**, disclosure is required of the net gains or losses recognised in other comprehensive income during the period and the amount reclassified upon derecognition from accumulated other comprehensive income to profit or loss for the period.

IFRS 7:24C(b)(i)(iv) For cash flow hedges and hedges of a net investment in a foreign operation disclosure is required of hedging gains or losses of the reporting period that were recognised in other comprehensive income and the amount reclassified from the cash flow hedge reserve or the foreign currency translation reserve into profit or loss as a reclassification adjustment.

IFRS 7:24E An entity shall provide a reconciliation of each component of equity and an analysis of other comprehensive income in accordance with **IAS 1** that, taken together:

a) differentiates, at a minimum, between the amounts that relate to the disclosures in **paragraph 24C(b)(i) and (b)(iv)** as well as the amounts accounted for in accordance with **IFRS 9:6.5.11(d)(i)** and **IFRS 9:6.5.11(d)(iii)**;

b) differentiates between the amounts associated with the time value of options that hedge transaction related hedged items and the amounts associated with the time value of options that hedge time-period related hedged items when an entity accounts for the time value of an option in accordance with **IFRS 9:6.5.15**; and

c) differentiates between the amounts associated with forward elements of forward contracts and the foreign currency basis spreads of financial instruments that hedge transaction related hedged items, and the amounts associated with forward elements of forward contracts and the foreign currency basis spreads of financial instruments that hedge time-period related hedged items when an entity accounts for those amounts in accordance with **IFRS 9:6.5.16**.

The Group has not designated investments in equities at FVTOCI as hedged items and does not apply hedge accounting with options. In addition the Group does not apply hedge accounting with hedged items that result in the recognition of non-financial items.

Consolidated statement of changes in equity

For the year ended 31 December 20XX

Equity attributable to equity holders of the Bank

39	Share capital	Share premium	Investment revaluation reserve	Financial liabilities at FVTPL credit risk	Cash flow hedge	Cost of hedging	Currency retranslation reserve	Retained earnings	Other reserve	Total	Non-controlling interest	Total equity
	CUm	CUm	CUm	CUm	CUm	CUm	CUm	CUm	CUm	CUm	CUm	CUm
Balance at 1 January 20YY	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Effect of change in accounting policy for (insert as relevant)	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
As restated	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Profit for the period	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Other comprehensive income for the period												
Transfers within equity of the cumulative gain/(loss) attributable to the changes of the own credit risk of financial liabilities designated at FVTPL	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Fair value movement of investments in equity instruments designated as at FVTOCI	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Transfers within equity upon disposal of investments in equity instruments designated as at FVTOCI	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Fair value movements of debt instruments at FVTOCI	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Amounts reclassified to profit or loss for debt instruments at FVTOCI	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Other movements	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Total comprehensive income for the period	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Issue of share capital	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Treasury shares	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Dividends	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Other movements	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Balance at 31 December 20YY	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Profit for the period	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Other comprehensive income for the period												
Transfers within equity of the cumulative gain/loss attributable to the changes of the own credit risk of financial liabilities designated at FVTPL	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Fair value movement of investments in equity instruments designated as at FVTOCI	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Transfers within equity upon disposal of investments in equity instruments designated as at FVTOCI	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Fair value movements of debt instruments at FVTOCI	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Amounts reclassified to profit or loss for debt instruments at FVTOCI	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Other movements	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Total comprehensive income for the period	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Issue of share capital	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Dividends	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Treasury shares	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Other movements	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Balance at 31 December 20XX	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]

Notes to the consolidated financial statements

1. Significant accounting policies

40 **Accounting policies**

IAS 1:10(e), IAS 1:112(a), IAS 1:117(b), IAS 1:119, IAS 1:120, IAS 1:122 The notes, comprising a summary of significant accounting policies and other explanatory notes, represent a required component of a complete set of IFRS financial statements.

Comparative information in respect of the preceding period for all amounts reported in the current period is also required as specified in **IAS 1:38** & **38A** to **38D**.

41 **Compliance with IFRSs and Fair presentation**

IAS 1:16 The financial statements should disclose the fact that they comply with International Financial Reporting Standards (IFRSs).

42 **Basis of accounting**

IAS 1:112(a) The notes to the financial statements should present information about the basis of preparation of the financial statements and the specific accounting policies used.

IAS 1:117 The accounting policies section of the notes should disclose the measurement basis (or bases) used in preparing the financial statements, and the other accounting policies used that are relevant to an understanding of the financial statements.

43 **Basis of consolidation**

This policy note should cover the basis of consolidation and the treatment of subsidiaries acquired or disposed of during the year.

Notes to the consolidated financial statements

For the year ended 31 December 20XX

40 1. Significant accounting policies

41,42 Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

43 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries) made up to 31 December each year. Control is achieved when the Bank:

- has the power over the investee;
- is exposed, or has rights, to variable return from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the consolidated profit or loss account from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the owners of the Bank and to the non-controlling interests (NCI). Total comprehensive income of the subsidiaries is attributed to the owners of the Bank and to the NCI even if this results in the NCI having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation, with the exception of foreign currency gains and losses on intragroup monetary items denominated in a foreign currency of at least one of the parties.

NCI in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the NCI's proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other NCI are initially measured at fair value. Subsequent to acquisition, the carrying amount of NCI is the amount of those interests at initial recognition plus the NCI's share of subsequent changes in equity.

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

44 **Foreign currencies**

IAS 21 *The Effects of Changes in Foreign Exchange Rates* prescribes the accounting for transactions and balances in foreign currencies (except derivative transactions and balances that are within the scope of IFRS 9), the translation of results and financial position of foreign operations included in the financial statements, and the translation of the entity's results and financial position into a presentational currency.

IAS 21:21 A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

IAS 21:23 at the end of each reporting period:

(a) foreign currency monetary items shall be translated using the closing rate;

(b) non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and

(c) non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was measured.

IFRS 9:B5.7.2 An entity applies **IAS 21** to financial assets and financial liabilities that are monetary items in accordance with IAS 21 and denominated in a foreign currency. **IAS 21** requires any foreign exchange gains and losses on monetary assets and monetary liabilities to be recognised in profit or loss. An exception is a monetary item that is designated as a hedging instrument in a cash flow hedge, a hedge of a net investment or a fair value hedge of an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income.

IFRS 9:4.1.2A For the purpose of recognising foreign exchange gains and losses under **IAS 21**, a financial asset measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A is treated as a monetary item. Accordingly, such a financial asset is treated as an asset measured at amortised cost in the foreign currency. Exchange differences on the amortised cost are recognised in profit or loss and other changes in the carrying amount are recognised in accordance with paragraph 5.7.10.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

1. Significant accounting policies (continued)

Basis of consolidation (continued)

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the NCI are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the NCI are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Bank.

When the Group loses control of a subsidiary, the gain/loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any NCI. All amounts previously recognised in OCI in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

44 **Foreign currencies**

For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in CU which is the functional currency of the Bank, and the presentation currency for the consolidated financial statements.

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on transactions entered into to hedge certain foreign currency risks (see below under Derivative financial instruments and Hedge accounting); and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future (therefore forming part of the net investment in the foreign operation), which are recognised initially in OCI and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in OCI and accumulated in a separate component of equity (attributed to NCI if appropriate).

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

45 **Net interest income**

According to **IAS 1:82(a)** the statement of profit or loss shall include line items that present revenue, presenting separately interest revenue calculated using the effective interest method.

IFRS 9: Appendix A The Effective Interest Rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. When calculating the effective interest rate, an entity shall estimate the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but shall not consider the expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

IFRS 9:5.4.1 Interest revenue shall be calculated by using the effective interest method. This shall be calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

(a) purchased or originated credit-impaired financial assets. For those financial assets, the entity shall apply the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.

(b) financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the entity shall apply the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

IFRS 9:5.4.2 An entity that, in a reporting period, calculates interest revenue by applying the effective interest method to the amortised cost of a financial asset in accordance with paragraph 5.4.1(b), shall, in subsequent reporting periods, calculate the interest revenue by applying the effective interest rate to the gross carrying amount if the credit risk on the financial instrument improves so that the financial asset is no longer credit-impaired and the improvement can be related objectively to an event occurring after the requirements in paragraph 5.4.1(b) were applied (such as an improvement in the borrower's credit rating).

IFRS 9:B5.4.7 In some cases a financial asset is considered credit-impaired at initial recognition because the credit risk is very high, and in the case of a purchase it is acquired at a deep discount. An entity is required to include the initial expected credit losses in the estimated cash flows when calculating the credit-adjusted effective interest rate for financial assets that are considered to be purchased or originated credit-impaired at initial recognition. However, this does not mean that a credit-adjusted effective interest rate should be applied solely because the financial asset has high credit risk at initial recognition.

IFRS 9:B5.4.2 Fees that are an integral part of the effective interest rate of a financial instrument include:

(a) origination fees received by the entity relating to the creation or acquisition of a financial asset. Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction. These fees are an integral part of generating an involvement with the resulting financial instrument.

(b) commitment fees received by the entity to originate a loan when the loan commitment is not measured in accordance with paragraph 4.2.1(a) and it is probable that the entity will enter into a specific lending arrangement. These fees are regarded as compensation for an ongoing involvement with the acquisition of a financial instrument. If the commitment expires without the entity making the loan, the fee is recognised as revenue on expiry.

(c) origination fees paid on issuing financial liabilities measured at amortised cost. These fees are an integral part of generating an involvement with a financial liability. An entity distinguishes fees and costs that are an integral part of the effective interest rate for the financial liability from origination fees and transaction costs relating to the right to provide services, such as investment management services.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

1. Significant accounting policies (continued)

Foreign currencies (continued)

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest become a financial asset), all of the exchange differences accumulated in a separate component of equity in respect of that operation attributable to the owners of the Bank are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to NCI and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

45 **Net Interest Income**

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at FVTPL are recognised in 'Net interest income' as 'Interest income' and 'Interest expense' in the profit or loss account using the effective interest method. Interest on financial instruments measured as at FVTPL is included within the fair value movement during the period, see 'Net trading income' and 'Net income from other financial instruments at FVTPL'.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognised in profit or loss at initial recognition.

The interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)). For financial assets originated or purchased credit-impaired (POCI) the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

Interest income and expense in the Group's consolidated statement of profit or loss also includes the effective portion of fair value changes of derivatives designated as hedging instruments in cash flow hedges of interest rate risk. For fair value hedges of interest rate risk interest income and expense, the effective portion of fair value changes of the designated derivatives as well as the fair value changes of the designated risk of the hedged item are also included in interest income and expense.

46 **Net fee and commission Income**

Fee and commission income and expense include fees other than those that are an integral part of EIR (see above). The fees included in this part of the Group's consolidated statement of profit or loss include among other things fees charged for servicing a loan, non-utilisation fees relating to loan commitments when it is unlikely that these will result in a specific lending arrangement and loan syndication fees.

Fee and commission expenses with regards to services are accounted for as the services are received.

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

IFRS 7:B5(e) Requires an entity to diclose their accounting policy about how net gains or net losses on each category of financial instrument are determined, for example whether the net gains or net losses on items at fair value through profit or loss include interest or dividend income.

46 **Net fee and commission Income**

IFRS 9:B5.4.2 Fees that are not an integral part of the effective interest rate of a financial instrument and are accounted for in accordance with IFRS 15 *Revenue from Contracts with Customers* include:

(a) fees charged for servicing a loan;

(b) commitment fees to originate a loan when the loan commitment is not measured in accordance with paragraph 4.2.1(a) and it is unlikely that a specific lending arrangement will be entered into; and

(c) loan syndication fees received by an entity that arranges a loan and retains no part of the loan package for itself (or retains a part at the same effective interest rate for comparable risk as other participants).

47 **Net trading income, Net income from other financial instruments at FVTPL, Dividend Income**

IFRS 7:B5 (e) Paragraph 21 requires disclosure of the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements. For financial instruments, such disclosure may include how net gains or net losses on each category of financial instrument are determined (see paragraph 20(a)), for example, whether the net gains or net losses on items at fair value through profit or loss include interest or dividend income.

48 **Financial instruments**

IFRS 7:21, In accordance with **IAS 1:117**, an entity discloses its significant accounting policies, comprising the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.

IFRS 7:B5 Paragraph 21 requires disclosure of the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements. For financial instruments, such disclosure may include:

(a) for financial liabilities designated as at fair value through profit or loss:

i. the nature of the financial liabilities the entity has designated as at fair value through profit or loss;

ii. the criteria for so designating such financial liabilities on initial recognition; and

iii. how the entity has satisfied the conditions in **IFRS 9:4.2.2** for such designation.

(aa) for financial assets designated as measured at fair value through profit or loss:

i. the nature of the financial assets the entity has designated as measured at fair value through profit or loss; and

ii. how the entity has satisfied the criteria in **IFRS 9:4.1.5** for such designation.

(b) [deleted]

(c) whether regular way purchases and sales of financial assets are accounted for at trade date or at settlement date (see **IFRS 9:3.1.2**).

(d) [deleted]

(e) how net gains or net losses on each category of financial instrument are determined (see paragraph 20(a)), for example, whether the net gains or net losses on items at fair value through profit or loss include interest or dividend income.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

1. Significant accounting policies (continued)

47 **Net trading Income**

Net trading income includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading. The Group has elected to present the full fair value movement of trading assets and liabilities in trading income, including any related interest income, expense and dividends.

47 **Net income from other financial instruments at FVTPL**

Net income from other financial instruments at FVTPL includes all gains and losses from changes in the fair value of financial assets and financial liabilities at FVTPL except those that are held for trading. The Group has elected to present the full fair value movement of assets and liabilities at FVTPL in this line, including the related interest income, expense and dividends.

The fair value movement on derivatives held for economic hedging where hedge accounting is not applied are presented in 'Net income from other financial instruments at FVTPL'. However, for designated and effective fair value hedge accounting relationships the gains and losses on the hedging instrument are presented in the same line in the profit and loss as the hedged item. For designated and effective cash flow and net investment hedge accounting relationships, the gains and losses of the hedging instrument, including any hedging ineffectiveness included in profit or loss, are presented in the same line as the hedged item that affects profit or loss.

47 **Dividend Income**

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

The presentation of dividend income in the consolidated statement of profit or loss depends on the classification and measurement of the equity investment, i.e.:

- for equity instruments which are held for trading, dividend income is presented as trading income;
- for equity instruments designated at FVTOCI dividend income is presented in other income unless the dividend clearly represents a recovery of part of the cost of the investment; and
- for equity instruments not designated at FVTOCI and not held for trading, dividend income is presented as net income from other instruments at FVTPL.

48 **Financial instruments**

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

49 If the transaction price differs from fair value at initial recognition, the Group will account for such difference as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss);
- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

49 ***IFRS 7:28*** In some cases, an entity does not recognise a gain or loss on initial recognition of a financial asset or financial liability because the fair value is neither evidenced by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets. In such cases, the entity shall disclose by class of financial asset or financial liability:

(a) its accounting policy for recognising in profit or loss the difference between the fair value at initial recognition and the transaction price to reflect a change in factors (including time) that market participants would take into account when pricing the asset or liability.

(b) the aggregate difference yet to be recognised in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference.

(c) why the entity concluded that the transaction price was not the best evidence of fair value, including a description of the evidence that supports the fair value.

IFRS 9:B5.1.2A(b) Regardless of whether the deferred gain or loss is recognised separately or as an adjustment to the financial asset or liability, after initial recognition, the entity shall recognise that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

50 **Financial assets**

IFRS 9:4.1.2 A financial asset shall be measured at amortised cost if both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

IFRS 9:4.1.2A A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

IFRS 9:4.1.4 A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. However an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

IFRS 9:4.1.5 An entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

1. Significant accounting policies (continued)

50 **Financial assets**

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss. For all financial assets the amount presented on the statement of financial position represent all amounts receivable including interest accruals.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;

- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVTOCI;

- all other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

However, the Group may make the following irrevocable election / designation at initial recognition of a financial asset on an asset-by-asset basis:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in OCI; and

- the Group may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Debt instruments at amortised cost or at FVTOCI

The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are SPPI.

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

51 **Reclassifications**

IFRS 9:4.4.1 When, and only when, an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. In accordance with **IFRS 9:5.6.1** if an entity reclassifies financial assets, it shall apply the reclassification prospectively from the reclassification date, defined as the first day of the first reporting period following the change in business model that results in the entity reclassifying financial assets in **IFRS 9:Appendix A**. The entity shall not restate any previously recognised gains, losses (including impairment gains or losses) or interest.

There were no reclassifications of the Group's financial assets during the current year or previous reporting periods, therefore the illustrative profit or loss statement and SOCI do not include the line items relating to reclassifications of financial assets. When reclassifications of financial assets take place, the disclosures required by **IFRS 7: 12B** to **12D** should be prepared. These disclosures are not included in this publication.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

1. Significant accounting policies (continued)

Debt instruments at amortised cost or at FVTOCI (continued)

The Group has more than one business model for managing its financial instruments which reflect how the Group manages its financial assets in order to generate cash flows. The Group's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Group considers all relevant information available when making the business model assessment. However this assessment is not performed on the basis of scenarios that the Group does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. The Group takes into account all relevant evidence available such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and

- how managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the Group determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the Group has not identified a change in its business models.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment. See note 3.

In the current and prior reporting period the Group has applied the fair value option and so has designated debt instruments that meet the amortised cost or FVTOCI criteria as measured at FVTPL because doing so significantly reduced an accounting mismatch. See note 19.

Financial assets at FVTPL

Financial assets at FVTPL are:

- assets with contractual cash flows that are not SPPI; or/and

- assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or

- assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 7.

51 **Reclassifications**

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Group holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on *Modification and derecognition of financial assets* described below.

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

52 **Impairment**

IFRS 9:5.5.1 Defines the scope of the impairment model, stating that an entity shall recognise a loss allowance for expected credit losses on a financial asset that is measured in accordance with **IFRS 9:4.1.2** or **4.1.2A** (i.e. financial assets measures at amortised cost or FVTOCI), a lease receivable, a contract asset or an issued loan commitment and an issued financial guarantee contract.

IFRS 9:5.5.15 Despite **IFRS 9:5.5.3** and **5.5.5**, an entity shall always measure the loss allowance at an amount equal to lifetime expected credit losses for: trade receivables or contract assets that result from transactions that are within the scope of **IFRS 15**, and that: do not contain a significant financing component in accordance with **IFRS 15** (or when the entity applies the practical expedient in accordance with **IFRS 15:63**); or contain a significant financing component in accordance with **IFRS 15**, if the entity chooses as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses. That accounting policy shall be applied to all such trade receivables or contract assets but may be applied separately to trade receivables and contract assets.

IFRS 9:5.5.16 An entity may select its accounting policy for trade receivables, lease receivables and contract assets independently of each other.

In the illustrative disclosures only the accounting policy for lease receivables is outlined because trade receivables and contract assets are not material balances for the Group.

IFRS 7:B8E For loan commitments and financial guarantee contracts the loss allowance is recognised as a provision. An entity should disclose information about the changes in the loss allowance for financial assets separately from those for loan commitments and financial guarantee contracts. However, if a financial instrument includes both a loan (i.e. financial asset) and an undrawn commitment (i.e. loan commitment) component and the entity cannot separately identify the expected credit losses on the loan commitment component from those on the financial asset component, the expected credit losses on the loan commitment should be recognised together with the loss allowance for the financial asset. To the extent that the combined expected credit losses exceed the gross carrying amount of the financial asset, the expected credit losses should be recognised as a provision.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

1. Significant accounting policies (continued)

44 **Foreign exchange gains and losses**

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically:

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the 'other income' line item;
- for debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in profit or loss in the 'other income' line item. Other exchange differences are recognised in OCI in the investments revaluation reserve;
- for financial assets measured at FVTPL that are not part of a designated hedge accounting relationship, exchange differences are recognised in profit or loss either in 'net trading income', if the asset is held for trading, or in 'net income from other financial instruments at FVTPL' if otherwise held at FVTPL; and
- for equity instruments measured at FVTOCI, exchange differences are recognised in OCI in the investments revaluation reserve.

52 **Impairment**

The Group recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- loans and advances to banks;
- loans and advances to customers;
- debt investment securities;
- lease receivables;
- loan commitments issued; and
- financial guarantee contracts issued.

No impairment loss is recognised on equity investments.

With the exception of POCI financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL. More details on the determination of a significant increase in credit risk are provided in note 3.

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

53 **Credit-impaired financial assets**

IFRS 9: Appendix A A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired.

IFRS 7:35F(e) Disclose information about how an entity determined that financial assets are credit-impaired financial assets.

54 **Purchased or originated credit-impaired (POCI) financial assets**

IFRS 9:5.5.13 and 5.5.14 For POCI an entity shall only recognise the cumulative changes in lifetime expected credit losses since initial recognition. At each reporting date, an entity shall recognise in profit or loss the amount of the change in lifetime expected credit losses as an impairment gain or loss. An entity shall recognise favourable changes in lifetime expected credit losses as an impairment gain, even if the lifetime expected credit losses are less than the amount of expected credit losses that were included in the estimated cash flows on initial recognition.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

1. Significant accounting policies (continued)

Impairment (continued)

The Group's policy is always to measure loss allowances for lease receivables as lifetime ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

- for undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and

- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

More information on measurement of ECLs is provided in note 3, including details on how instruments are grouped when they are assessed on a collective basis.

53 **Credit-impaired 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. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;

- a breach of contract such as a default or past due event;

- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;

- the disappearance of an active market for a security because of financial difficulties; or

- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding .

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikeliness to pay indicators and a back-stop if amounts are overdue for 90 days or more.

54 **Purchased or originated credit-impaired (POCI) financial assets**

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

55 **Definition of default**

IFRS 9:B5.5.37 When defining default for the purposes of determining the risk of a default occurring, an entity shall apply a default definition that is consistent with the definition used for internal credit risk management purposes for the relevant financial instrument and consider qualitative indicators (for example, financial covenants) when appropriate. However, there is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless an entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. The definition of default used for these purposes shall be applied consistently to all financial instruments unless information becomes available that demonstrates that another default definition is more appropriate for a particular financial instrument.

IFRS 7:35F(b) An entity shall explain its credit risk management practices and how they relate to the recognition and measurement of expected credit losses. To meet this objective an entity shall disclose information that enables users of financial statements to understand and evaluate an entity's definitions of default, including the reasons for selecting those definitions.

The term 'default' is not defined in **IFRS 9** and an entity will have to establish its own policy for what it considers a default, and apply a definition consistent with that used for internal credit risk management purposes for the relevant financial instrument. This should consider qualitative indicators (e.g. financial covenants) when appropriate. The Standard includes a rebuttable presumption that a default does not occur later than when a financial asset is 90 days past due unless an entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. In **IFRS 9:B5.5.37** it is stated that the definition of default used for these purposes should be applied consistently to all financial instruments unless information becomes available that demonstrates that another default definition is more appropriate for a particular financial instrument.

We note that banking regulators have different definitions of default and banks should ensure that they comply with the relevant definition for each reporting purpose. Banks may wish to consider providing qualitative disclosures explaining whether there are any differences between the definition of default used for accounting , internal credit risk and regulatory purposes. In addition banks may wish to highlight material differences between the definition of default and the definition of credit impaired financial assets.

56 **Significant increase in credit risk**

IFRS 7:35F An entity shall explain its credit risk management practices and how they relate to the recognition and measurement of expected credit losses. To meet this objective an entity shall disclose information that enables users of financial statements to understand and evaluate:

(a) how an entity determined whether the credit risk of financial instruments has increased significantly since initial recognition, including, if and how:

   (i) financial instruments are considered to have low credit risk, including the classes of financial instruments to which it applies; and

   (ii) the presumption that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has been rebutted;

(b) an entity's definitions of default, including the reasons for selecting those definitions;

(c) how the instruments were grouped if expected credit losses were measured on a collective basis;

(d) how an entity determined that financial assets are credit-impaired financial assets;

(e) an entity's write-off policy, including the indicators that there is no reasonable expectation of recovery and information about the policy for financial assets that are written-off but are still subject to enforcement activity; and

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

1. Significant accounting policies (continued)

55 **Definition of default**

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk (see note 3).

The Group considers the following as constituting an event of default:

- the borrower is past due more than 90 days on any material credit obligation to the Group; or
- the borrower is unlikely to pay its credit obligations to the Group in full.

This definition of default is used by the Group for accounting purposes as well as for internal credit risk management purposes and is broadly aligned to the regulatory definition of default. The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess default which are either developed internally or obtained from external sources. More details are provided in note 3. As noted in the definition of credit impaired financial assets above, default is evidence that an asset is credit impaired. Therefore credit impaired assets will include defaulted assets, but will also include other non-defaulted given the definition of credit impaired is broader than the definition of default.

56 **Significant increase in credit risk**

The Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL. The Group's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result the Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to impairment for significant increase in credit risk.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information. See note 3 for more details about forward-looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

(f) how the requirements in **IFRS 9:5.5.12** for the modification of contractual cash flows of financial assets have been applied, including how an entity:

(i) determines whether the credit risk on a financial asset that has been modified while the loss allowance was measured at an amount equal to lifetime expected credit losses, has improved to the extent that the loss allowance reverts to being measured at an amount equal to 12-month expected credit losses in accordance with **IFRS 9:5.5.5**; and

(ii) monitors the extent to which the loss allowance on financial assets meeting the criteria in (i) is subsequently remeasured at an amount equal to lifetime expected credit losses in accordance with **IFRS 9:5.5.3**.

IFRS 9:5.5.10 An entity may assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

This means that as a practical expedient, IFRS 9 allows an entity to assume that the credit risk on a financial instrument has not increased significantly if it is determined to have a 'low' credit risk at the reporting date.

However we note that the Basel Committee on Banking Supervision expects that use of this exemption by internationally active banks should be limited. In particular, it expects banks to conduct timely assessment of significant increases in credit risk for all lending exposures.

IFRS 7:35G(b) An entity shall explain the inputs, assumptions and estimation techniques used to apply the requirements in Section 5.5 of IFRS 9. For this purpose an entity shall disclose how forward-looking information has been incorporated into the determination of expected credit losses, including the use of macroeconomic information.

57 **Modification and derecognition of financial assets**

IFRS 9:32.3 An entity shall derecognise a financial asset when, and only when:

(a) the contractual rights to the cash flows from the financial asset expire, or

(b) it transfers the financial asset as set out in paragraphs 3.2.4 and 3.2.5 and the transfer qualifies for derecognition in accordance with paragraph 3.2.6.

IFRS 9 only provides guidance for modifications of financial liabilities in **IFRS 9.3.3.2** saying that "[...] a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability." Therefore, in absence of guidance for a broader context of modifications or renegotiation of financial assets, an entity should select an accounting policy to assess whether a modification or renegotiation of a financial asset gives rise to derecognition. The illustrative disclosures set out the Group's accounting policy on modification of financial assets. Each entity should disclose their own policy on this matter.

IFRS 7:35F(f) An entity shall explain its credit risk management practices and how they relate to the recognition and measurement of expected credit losses. To meet this objective an entity shall disclose information that enables users of financial statements to understand and evaluate how the requirements in **IFRS 9:5.5.12** for the modification of contractual cash flows of financial assets have been applied, including how an entity:

i) determines whether the credit risk on a financial asset that has been modified while the loss allowance was measured at an amount equal to lifetime expected credit losses, has improved to the extent that the loss allowance reverts to being measured at an amount equal to 12-month expected credit losses in accordance with **IFRS 9:5.5.5**; and

ii) monitors the extent to which the loss allowance on financial assets meeting the criteria in (i) is subsequently remeasured at an amount equal to lifetime expected credit losses in accordance with **IFRS 9:5.5.3**.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

1. Significant accounting policies (continued)

Significant increase in credit risk (continued)

For corporate lending, forward-looking information includes the future prospects of the industries in which the Group's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail, lending forward-looking information includes the same economic forecasts as corporate lending with additional forecasts of local economic indicators, particularly for regions with a concentration to certain industries, as well as internally generated information of customer payment behaviour. The Group allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

- the remaining lifetime PD at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

The PDs used are forward-looking and the Group uses the same methodologies and data used to measure the loss allowance for ECL (please refer to note 3).

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However the Group still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated. For retail lending the Group considers the expectation of forbearance and payment holidays, credit scores and events such as unemployment, bankruptcy, divorce or death.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

As a back-stop when an asset becomes 30 days past due, the Group considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL. In addition loans that are individually assessed and are included on a watch list are in stage 2 of the impairment model. As noted if there is evidence of credit-impairment the assets are at stage 3 of the impairment model.

More information about significant increase in credit risk is provided in note 3.

57 **Modification and derecognition of financial assets**

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Group renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants. The Group has an established forbearance policy which applies for corporate and retail lending.

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

Banks may wish to consider providing information about how forbearances are treated under IFRS 9, including their procedures for transferring such exposures back to stage 1 where the borrower's condition has recovered or the problems with the exposure have been cured. Information about when forborne exposures are considered credit-impaired and the criteria the criteria used to assess whether they are no longer credit impaired are also useful disclosures.

IFRS 7:B8B To assist users of financial statements in evaluating an entity's restructuring and modification policies, **IFRS 7:35F(f)** (ii) requires the disclosure of information about how an entity monitors the extent to which the loss allowance on financial assets previously disclosed in accordance with **IFRS 7:35F(f)(i)** are subsequently measured at an amount equal to lifetime expected credit losses in accordance with **IFRS 9:5.5.3**. Quantitative information that will assist users in understanding the subsequent increase in credit risk of modified financial assets may include information about modified financial assets meeting the criteria in **IFRS 7:35F(f)(i)** for which the loss allowance has reverted to being measured at an amount equal to lifetime expected credit losses (i.e. a deterioration rate).

IFRS 9:5.4.3 When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, an entity shall recalculate the gross carrying amount of the financial asset and shall recognise a modification gain or loss in profit or loss. The gross carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets) or, when applicable, the revised effective interest rate calculated in accordance with IFRS 9:6.5.10. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

A Bank shall include additional line items in their statement of profit or loss when it is necessary to explain the elements of financial performance, in accordance with **IAS 1:86**. This means that if the modification gain/loss for financial assets is material it should be presented on a separate line in the profit or loss account.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

1. Significant accounting policies (continued)

Modification and derecognition of financial assets (continued)

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or when rights to cash flows between the original counterparties expire because a new debtor replaces the original debtor (unless both debtors are under common control), the extent of change in interest rates, and maturity. If these do not clearly indicate a substantial modification, then;

- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is greater than 10% the Group deems the arrangement is substantially different leading to derecognition. When performing a quantitative assessment of a modification or renegotiation of a credit-impaired financial asset or a purchased or originated credit-impaired financial asset that was subject to a write-off, the group considers the expected (rather than the contractual) cash flows before modification or renegotiation and compares those with the contractual cash flows after modification or renegotiation.

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated-credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Group monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with

- the remaining lifetime PD at the reporting date based on the modified terms.

For financial assets modified as part of the Group's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Group's ability to collect the modified cash flows taking into account the Group's previous experience of similar forbearance action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL. If a forborne loan is credit impaired due to the existence of evidence of credit impairment (see above), the Group performs an ongoing assessment to ascertain if the problems of the exposure are cured, to determine if the loan is no longer credit-impaired. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the Group calculates the modification loss by comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Modification losses for financial assets are included in the profit or loss account in 'Losses on modification of financial assets'. Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

58 **Write-off**

IFRS 7:35F(e) An entity shall explain its credit risk management practices and how they relate to the recognition and measurement of expected credit losses. To meet this objective an entity shall disclose information that enables users of financial statements to understand and evaluate an entity's write-off policy, including the indicators that there is no reasonable expectation of recovery and information about the policy for financial assets that are written-off but are still subject to enforcement activity.

IFRS 9:5.4.4 An entity shall directly reduce the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. A write-off constitutes a derecognition event.

Subsequent recoveries of amounts written off under **IFRS 9:5.4.4** can be presented either in the impairment line or as a separate line item in the statement of profit or loss. Entities should apply their accounting policy choice consistently.

59 **Presentation of allowance for ECL in the statement of financial position**

IAS 1:54, IAS 1:58 IAS 1:82(ba), IFRS9:5.5.2, IFRS 7:16A For financial assets measured at amortised cost, any loss allowance is included in the measurement of amortised cost. However, in contrast to the clear requirement of **IFRS 9:5.5.2** and **IFRS 7:16A** prohibiting the separate presentation in the statement of financial position of the loss allowance arising on financial assets measured at fair value through other comprehensive income, neither **IFRS 9** nor **IFRS 7** provide explicit guidance regarding the presentation of the loss allowance in the statement of financial position for financial assets measured at amortised cost. The requirement to show impairment losses as a separate line item in the statement of profit or loss was introduced to **IAS 1**, as **IAS 1:82(ba)**, when **IFRS 9** was issued. However, no such consequential amendment to **IAS 1** was introduced regarding a separate line item for the loss allowance in the statement of financial position. Consequently, the loss allowance is not included in the list of line items in **IAS 1:54** required to be presented separately in the statement of financial position. **IAS 1:55** requires an entity to consider whether separate presentation is relevant to an understanding of the entity's financial position and **IAS 1:58** requires an entity to apply its judgement in deciding whether such separate presentation is considered necessary.

Therefore, an entity may judge that it is necessary to present additional information on the face of the financial statements and disaggregate the gross carrying amount and loss allowance components of the amortised cost balance. This judgement relates only to what is presented on the face of the statement of financial position because **IFRS 7:16A**, **IFRS 7:35H** and **IFRS 7:35I** have specific requirements regarding the disclosure of the loss allowance in the notes to the financial statements.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

1. Significant accounting policies (continued)

Modification and derecognition of financial assets (continued)

The Group derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain/loss allocated to it that had been recognised in OCI is recognised in profit or loss. A cumulative gain/loss that had been recognised in OCI is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

58 **Write-off**

Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is 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. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains, which will be presented in 'net impairment loss on financial assets' in the statement of profit or loss.

59 **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:

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve (see note 28);
- for loan commitments and financial guarantee contracts: as a provision; and
- 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.

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

60 **Financial liabilities**

IFRS 9:4.2.1 An entity shall classify all financial liabilities as subsequently measured at amortised cost, except for:

(a) financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value;

(b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;

(c) financial guarantee contracts. After initial recognition, an issuer of such a contract shall subsequently measure it at the higher of:

(i) the amount of the loss allowance determined in accordance with Section 5.5 (impairment) and

(ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of **IFRS 15**;

(d) commitments to provide a loan at a below-market interest rate. An issuer of such a commitment shall subsequently measure it at the higher of:

(i) the amount of the loss allowance determined in accordance with Section 5.5; and

(ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of **IFRS 15**;

(e) contingent consideration recognised by an acquirer in a business combination to which **IFRS 3** applies. Such contingent consideration shall subsequently be measured at fair value with changes recognised in profit or loss.

IFRS 9:4.2.2 An entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when permitted by paragraph 4.3.5, or when doing so results in more relevant information, because either:

(a) It eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or

(b) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

IFRS 9:4.3.5 If a contract contains one or more embedded derivatives and the host is not an asset within the scope of this Standard, an entity may designate the entire hybrid contract as at fair value through profit or loss unless:

(a) the embedded derivative(s) do(es) not significantly modify the cash flows that otherwise would be required by the contract; or

(b) it is clear with little or no analysis when a similar hybrid instrument is first considered that separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortised cost.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

1. Significant accounting policies (continued)

Financial liabilities and equity

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group or a contract that will or may be settled in the Group's own equity instruments and is a non-derivative contract for which the Group is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Group's own equity instruments.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognised and deducted directly in equity. No gain/loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Compound instruments

The component parts of compound instruments (e.g. convertible notes) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. In the case where there are non-closely related embedded derivatives these are separated first with the remainder of the financial liability being recorded on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

A conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share capital and share premium. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to retained profits. No gain/loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the life of the convertible notes using the effective interest method.

60 **Financial liabilities**

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. For all financial liabilities the amount presented on the statement of financial position represent all amounts payable including interest accruals.

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

IFRS 9:5.7.7 and IFRS 9:5.7.8 Gains or losses on a financial liability (other than a loan commitment or a financial guarantee contract) designated as at FVTPL are required to be presented as follows:

(a) the amount of the change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability should be presented in other comprehensive income; and

(b) the remainder of the change in the fair value of the liability should be presented in profit or loss unless the treatment of the effects of changes in the liability's credit risk described in (a) would create or enlarge an accounting mismatch in profit or loss (in which case all gains or losses are recognised in profit or loss).

IFRS 9:5.7.9 All gains and losses on loan commitments and financial guarantee contracts that are designated as at FVTPL are recognised in profit or loss.

IFRS 9:B5.7.6 In making the determination of whether recognising changes in the liability's credit risk in other comprehensive income will create or enlarge an accounting mismatch in profit or loss an entity must assess whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at fair value through profit or loss. Such an expectation must be based on an economic relationship between the characteristics of the liability and the characteristics of the other financial instrument.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

1. Significant accounting policies (continued)

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a hybrid (combined) contract, containing one or more embedded derivatives that significantly modifies the cash flows of the contract, or it is clear with little or no analysis that separation of the embedded derivative is not prohibited.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'net income from other financial instruments at FVTPL' line item in the profit or loss account.

However, for non-derivative financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

For issued loan commitments and financial guarantee contracts that are designated as at FVTPL all gains and losses are recognised in profit or loss.

In making the determination of whether recognising changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Group assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. This determination is made at initial recognition. Such financial liabilities are detailed in note 3.

Fair value is determined in the manner described in note 7.

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

61 **Modification and derecognition of financial liabilities**

IFRS 9:3.3.1 An entity shall remove a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires.

IFRS 9:3.3.2 When the existing borrower and lender exchange instruments with terms that are substantially different, the exchange is accounted for as an extinguishment of the original liability and recognition of a new liability. Similarly, modification of the terms of a liability is accounted for as an extinguishment of the original liability and recognition of a new liability when the modification is substantial.

IFRS 9:B3.3.6 The terms are deemed to be substantially different if the net present value of the cash flows under the new liability, including any fees paid and received, is at least 10 per cent different from the net present value of the remaining cash flows of the existing liability, both discounted at the original effective interest rate of the original liability. Similarly, modification is deemed to be substantial if the net present value of the cash flows under the modified terms, including any fees paid or received, is at least 10 per cent different from the net present value of the remaining cash flows of the liability prior to the modification, both discounted at the original effective interest rate of the liability prior to the modification.

In March 2017, the IFRS Interpretations Committee discussed a request regarding the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in the derecognition of the financial liability. More specifically, the request asked whether, applying **IFRS 9**, an entity recognises any adjustment to the amortised cost of the financial liability arising from such a modification or exchange in profit or loss at the date of the modification or exchange. The Committee noted that the requirements in ***IFRS 9:B5.4.6*** apply to all revisions of estimated payments or receipts, including changes in cash flows arising from a modification or exchange of a financial liability that does not result in the derecognition of the financial liability. This is consistent with the requirements **IFRS 9** for modifications of financial assets that do not result in derecognition, and with the definition of amortised cost in **IFRS 9:Appendix A** that applies to both financial assets and financial liabilities.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

1. Significant accounting policies (continued)

60 **Other financial liabilities**

Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. For details on EIR see the "net interest income section" above.

61 **Modification and derecognition of financial liabilities**

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. To determine if the modified terms of a liability are substantially different to the original terms a similar process with modification of financial assets is followed. The modification is assessed at first on a qualitative basis, factors such as a change in currency or the introduction of a non-closely related embedded derivative that significantly modifies the cash flows are regarded as substantially different. If it is not clear from the qualitative assessment that a modification has resulted in a substantial change in a financial liability, a quantitative assessment is applied. It is assumed that the terms of the financial liability are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification is not substantial, the Group recalculates the amortised cost of the modified financial liability by discounting the modified contractual cash flows using the original effective interest rate. The Group recognises any adjustment to the amortised cost of the financial liability in profit or loss as income or expense at the date of the modification. The financial liability modification gain/loss is not significant for the Group. Modification gains are presented in 'other income' and modification losses are presented in 'other expenses' in the profit or loss account.

Derivative financial instruments

The Group enters into a variety of derivative financial instruments some of which are held for trading while others are held to manage its exposure to interest rate risk; credit risk; and foreign exchange rate risk. Derivative held include foreign exchange forward contracts, interest rate swaps, cross currency interest rate swaps and credit default swaps. Further details of derivative financial instruments are disclosed in note 16.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain/loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations (net investment hedges).

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

62 **Embedded derivatives**

IFRS 9:4.3.3 If a hybrid contract contains a host that is not a financial asset, an embedded derivative shall be separated from the host and accounted for as a derivative at FVTPL, if and only if:

(a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host;

(b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

(c) the hybrid contract is not measured at fair value with changes in fair value recognised in profit or loss (i.e. a derivative that is embedded in a financial liability at fair value through profit or loss is not separated.

63 **Financial guarantee contracts**

IFRS 9:Appendix A defines a financial guarantee as a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

IFRS 9:4.2.1 (c) After initial recognition, an issuer of such a contract shall (unless paragraph 4.2.1(a) or (b) applies) subsequently measure it at the higher of:

i) the amount of the loss allowance determined in accordance with Section 5.5; and

ii) the amount initially recognised (see paragraph 5.1.1) less, when appropriate, the cumulative amount of income recognised in accordance with the principles of **IFRS 15**.

64 **Commitments to provide a loan at a below-market interest rate**

IFRS 9:4.2.1 (d) An issuer of such a commitment shall (unless paragraph 4.2.1(a) applies) subsequently measure it at the higher of:

i) the amount of the loss allowance determined in accordance with Section 5.5 and

ii) the amount initially recognised (see paragraph 5.1.1) less, when appropriate, the cumulative amount of income recognised in accordance with the principles of **IFRS 15**.

65 **Hedge accounting**

IFRS 9:BC6.104 The hedge accounting disclosure requirements set out in IFRS 7 apply equally to entities choosing to use the hedge accounting requirements in IFRS 9 and those that on adoption of IFRS 9 elect to continue to apply the hedge accounting requirements of IAS 39.

The content of the disclosures is different when an entity continue to apply the hedge accounting requirements of IAS 39 due to the fact that the requirements are different to the ones of IFRS 9.

IFRS 7:21A An entity shall apply the disclosure requirements in paragraphs 21B–24F for those risk exposures that an entity hedges and for which it elects to apply hedge accounting. Hedge accounting disclosures shall provide information about:

(a) an entity's risk management strategy and how it is applied to manage risk;

(b) how the entity's hedging activities may affect the amount, timing and uncertainty of its future cash flows; and

(c) the effect that hedge accounting has had on the entity's statement of financial position, statement of comprehensive income and statement of changes in equity.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

1. Significant accounting policies (continued)

62 **Embedded derivatives**

Derivatives embedded in financial liabilities or other non-financial asset host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 months. Other embedded derivatives are presented as current assets or current liabilities.

61 **Financial guarantee contracts**

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Group's revenue recognition policies.

Financial guarantee contracts not designated at FVTPL are presented as provisions on the consolidated statement of financial position and the remeasurement is presented in other revenue.

The Group has not designated any financial guarantee contracts as at FVTPL.

64 **Commitments to provide a loan at a below-market interest rate**

Commitments to provide a loan at a below-market interest rate are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Group's revenue recognition policies.

Commitments to provide a loan below market rate not designated at FVTPL are presented as provisions in the consolidated statement of financial position and the remeasurement is presented in other revenue.

The Group has not designated any commitments to provide a loan below market rate designated at FVTPL.

65 **Hedge accounting**

The Group designates certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges, cash flow hedges, or hedges of net investments in foreign operations as appropriate. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges. The Group does not apply fair value hedge accounting of portfolio hedges of interest rate risk. In addition the Group does not use the exemption to continue using IAS 39 hedge accounting rules, i.e. the Group applies IFRS 9 hedge accounting rules in full.

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

IFRS 9:6.4.1 In order to apply hedge accounting, the following criteria must be met from inception of the hedge and on an ongoing basis:

- the hedging relationship consists only of eligible hedging instruments and eligible hedged items;
- at inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge;
- the hedging relationship meets all of the hedge effectiveness requirements, i.e.:
  - there is an economic relationship between the hedged item and the hedging instrument;
  - the effect of credit risk does not dominate the value changes that result from that economic relationship; and
  - the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness (irrespective of whether recognised or not) that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

The hedge accounting disclosure requirements set out in **IFRS 7**, as amended by **IFRS 9 (2014)**, apply equally to entities choosing to use the hedge accounting requirements in **IFRS 9** and those that on adoption of IFRS 9 elect to continue to apply the hedge accounting requirements of **IAS 39**.

If an entity chooses to continue to apply the hedge accounting requirements of IAS 39 and so does not the hedge accounting requirements of IFRS 9, the disclosure requirements introduced to IFRS 7 when IFRS 9 was issued will nonetheless apply.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

1. Significant accounting policies (continued)

Hedge accounting (continued)

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

The Group rebalances a hedging relationship in order to comply with the hedge ratio requirements when necessary. In such cases discontinuation may apply to only part of the hedging relationship. For example, the hedge ratio might be adjusted in such a way that some of the volume of the hedged item is no longer part of a hedging relationship, hence hedge accounting is discontinued only for the volume of the hedged item that is no longer part of the hedging relationship.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

In some hedge relationships the Group designates only the intrinsic value of options. In this case the fair value change of the time value component of the option contract is deferred in OCI, over the term of the hedge, to the extent that it relates to the hedged item and is reclassified from equity to profit or loss when the hedged item does not result in the recognition of a non-financial item. The Group's risk management policy does not include hedges of items that result in the recognition of non-financial items, because the Group's risk exposures relate to financial items only.

The hedged items designated by the Group are time-period related hedged items, which means that the amount of the original time value of the option that relates to the hedged item is amortised from equity to profit or loss on a rational basis (e.g. straight-line) over the term of the hedging relationship.

In some hedge relationships the Group excludes from the designation the forward element of forward contracts or the currency basis spread of cross currency hedging instruments. In this case a similar treatment is applied to the one applied for the time value of options. The treatment for the forward element of a forward and the currency basis element is optional and the option is applied on a hedge by hedge basis, unlike the treatment for the time value of the options which is mandatory. For hedge relationships with forwards or foreign currency derivatives such as cross currency interest rate swaps, where the forward element or the currency basis spread is excluded from the designation the Group generally recognises the excluded element in OCI.

Note 16 sets out details of the fair values of the derivative instruments used for hedging purposes and the movements in the hedging reserve in equity.

Fair value hedges

The fair value change on qualifying hedging instruments is recognised in profit or loss except when the hedging instrument hedges an equity instrument designated at FVTOCI in which case it is recognised in OCI. The Group has not designated fair value hedge relationships where the hedging instrument hedges an equity instrument designated at FVTOCI.

The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss. For debt instruments measured at FVTOCI, the carrying amount is not adjusted as it is already at fair value, but the part of the fair value gain or loss on the hedged item associated with the hedged risk is recognised in profit or loss instead of OCI. When the hedged item is an equity instrument designated at FVTOCI, the hedging gain/loss remains in OCI to match that of the hedging instrument.

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

1. Significant accounting policies (continued)

Fair value hedges (continued)

Where hedging gains/losses are recognised in profit or loss, they are recognised in the same line as the hedged item.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. The fair value adjustment to the carrying amount of hedged items for which the EIR method is used (i.e. debt instruments measured at amortised cost or at FVTOCI) arising from the hedged risk is amortised to profit or loss commencing no later than the date when hedge accounting is discontinued.

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in the cash flow hedging reserve, a separate component of OCI, limited to the cumulative change in fair value of the hedged item from inception of the hedge less any amounts recycled to profit or loss.

Amounts previously recognised in OCI and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. If the Group no longer expects the transaction to occur that amount is immediately reclassified to profit or loss.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised, or where the occurrence of the designated hedged forecast transaction is no longer considered to be highly probable. The discontinuation is accounted for prospectively. Any gain/loss recognised in OCI and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain/loss accumulated in equity is reclassified and recognised immediately in profit or loss.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain/loss on the hedging instrument relating to the effective portion of the hedge is recognised in OCI and accumulated in the foreign currency translation reserve.

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the foreign currency translation reserve are reclassified to profit or loss in the same way as exchange differences relating to the foreign operation as described above.

Notes to the consolidated financial statements (continued)

2. Critical accounting judgements and key sources of estimation uncertainty

66 The following are examples of the types of disclosures that might be required in this area limited to financial instruments given the nature of this publication. The matters disclosed will be dictated by the circumstances of the individual entity, and by the significance of judgements and estimates made to the performance and financial position of the entity.

IAS 1:122 The judgements that management have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements should be disclosed.

IAS 1:125 Key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year should be disclosed.

In respect of those assets and liabilities, the nature and carrying amount as at the balance sheet date should be disclosed in the notes.

IAS 1:128 The disclosures in paragraph 125 are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the end of the reporting period, they are measured at fair value based on a quoted price in an active market for an identical asset or liability. Such fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty at the end of the reporting period.

Although inputs to the estimation of ECL may be commercially sensitive, **IAS 1:129** requires disclosures to be made of the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including quantification of sensitivities. For illustrative purposes, this publication includes quantitative sensitivity disclosure relation to ECLs in Note 3. The nature and content of the disclosures will be specific to the reporting entity's circumstances and it is unlikely that the illustrative disclosures would be appropriate other than in rare circumstances. It is likely that separate disclosure would be made of sensitivities relating to individually assessed assets and assets assessed on a collective basis.

It is noteworthy that **IAS 1:BC81** states that the disclosures would be made "in respect of relatively few assets and liabilities (or classes of them)" because they relate only to the most difficult, subjective or complex judgements. It is also important to understand that the scope of the disclosure is limited to items that have a significant risk of causing material adjustment to the carrying amount of assets or liabilities "within the next financial year". **IAS 1:BC84** explains that the longer the future period to which the disclosures relate, the greater the range of items that would qualify for disclosure and the less specific those disclosures could be made. Therefore, the IASB decided to limit the scope of the requirement in this way, noting that a period longer than the next financial year might obscure the most relevant information with other disclosures.

The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures an entity makes in accordance with **IAS 1:129** are:

- the nature of the assumption or other estimation uncertainty;
- the sensitivity of the carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;
- the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and
- an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

66 2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

- Business model assessment: Classification and measurement of financial assets depends on the results of the SPPI and the business model test (please see financial assets sections of note 1). The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance is measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

- Significant increase of credit risk: As explained in note 1, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information. Refer to note 1 and note 3 for more details.

- Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to note 3 for details of the characterics considered in this judgement. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

- Models and assumptions used: The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note 1 and note 3 for more details on ECL and note 7 for more details on fair value measurement.

- Determination of life of revolving credit facilities: The Group measures ECL considering the risk of default over the maximum contractual period. However, for financial instruments such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, 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. For such financial instruments the Group measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period, see note 3 for more details.

Notes to the consolidated financial statements (continued)

2. Critical accounting judgements and key sources of estimation uncertainty (continued)

However, the Standard confirms in **IAS 1:130** that it is not necessary to disclose budget information or forecasts in making these disclosures.

IAS 1:131 states that it may be impracticable to disclose the extent of the possible effects of an assumption or another key source of estimation uncertainty at the end of the reporting period. In this case, the entity discloses that it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the affected asset or liability. In all cases, the nature and the carrying amount of the specific asset or liability (or class of assets or liabilities) is disclosed.

Some other IFRSs include specific requirements for disclosures that would otherwise be required by **IAS 1**. The following examples are given in **IAS 1:**

- Provisions, Contingent Liabilities and Contingent Assets requires disclosures, in specified circumstances, of major assumptions concerning future events affecting classes of provisions; and

- **IFRS 13** requires the disclosure of significant assumptions (including the valuation technique(s) and inputs) the entity uses when measuring the fair values of assets and liabilities that are carried at fair value.

Banks should consider clearly differentiating the disclosures required by IAS 1.129(b) by any other sensitivity analysis; this could be achieved by clearly signposting to the specific sensitivity analysis that is relevant to the key sources of estimation uncertainty.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

2. Critical accounting judgements and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty

The following are key estimations that the directors have used in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward-looking information relevant to each scenario: When measuring ECL the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Refer to note 3 for more details, including analysis of the sensitivity of the reported ECL to changes in estimated forward-looking information.

- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. See note 3 for more details, including analysis of the sensitivity of the reported ECL to changes in PD resulting from changes in economic drivers.

- Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. See note 3 for more details, including analysis of the sensitivity of the reported ECL to changes in LGD resulting from changes in economic drivers.

- Fair value measurement and valuation process: In estimating the fair value of a financial asset or a liability, the Group uses market-observable data to the extent it is available. Where such Level 1 inputs are not available the Group uses valuation models to determine the fair value of its financial instruments. Refer to note 7 for more details on fair value measurement.

Notes to the consolidated financial statements (continued)

67 **3. Credit risk**

Nature and extent of risks arising from financial instruments

IFRS 7:7 An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance.

IFRS 7:31 An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period.

IFRS 7:32 The disclosures required by paragraphs 33–42 focus on the risks that arise from financial instruments and how they have been managed. These risks typically include, but are not limited to, credit risk, liquidity risk and market risk.

IFRS 7:32A Providing qualitative disclosures in the context of quantitative disclosures enables users to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial instruments. The interaction between qualitative and quantitative disclosures contributes to disclosure of information in a way that better enables users to evaluate an entity's exposure to risks.

IFRS 7:33 For each type of risk arising from financial instruments, an entity shall disclose:

(a) the exposures to risk and how they arise;

(b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and

(c) any changes in (a) or (b) from the previous period.

IFRS 7:34 For each type of risk arising from financial instruments, an entity shall disclose:

(a) summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to key management personnel of the entity, for example the entity's board of directors or chief executive officer;

(b) the disclosures required by paragraphs 35A–42, to the extent not provided in accordance with (a); and

(c) concentrations of risk if not apparent from the disclosures made in accordance with (a) and (b).

IFRS 7:35 If the quantitative data disclosed as at the end of the reporting period are unrepresentative of an entity's exposure to risk during the period, the entity shall provide further information that is representative.

This was not the case for the Group – the data disclosed at the year end were representative of the Group's exposures during the reporting period.

IFRS 7:B8 Disclosures of concentrations of risk shall include:

(a) a description of how management determines concentrations;

(b) a description of the shared characteristics that identifies each concentration (e.g. counterparty, geographical area, currency or market); and

(c) the amount of the risk exposure associated with all financial instruments sharing that characteristic.

68 **Credit risk**

IFRS 7:35A An entity shall apply the disclosure requirements in paragraphs 35F–35N to financial instruments to which the impairment requirements in **IFRS 9** are applied. However:

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk

67,68 Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's main income generating activity is lending to customers and therefore credit risk is a principal risk. Credit risk mainly arises from loans and advances to customers and other banks (including related commitments to lend such as loan or credit card facilities), investments in debt securities and derivatives that are an asset position. The Group considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

Credit risk management

69 The Group's credit committee is responsible for managing the Group's credit risk by:

- Ensuring that the Group has appropriate credit risk practices, including an effective system of internal control, to consistently determine adequate allowances in accordance with the Group's stated policies and procedures, IFRS and relevant supervisory guidance.
- Identifying, assessing and measuring credit risk across the Group, from an individual instrument to a portfolio level.
- Creating credit policies to protect the Group against the identified risks including the requirements to obtain collateral from borrowers, to perform robust ongoing credit assessment of borrowers and to continually monitor exposures against internal risk limits.
- Limiting concentrations of exposure by type of asset, counterparties, industry, credit rating, geographic location etc.
- Establishing a robust control framework regarding the authorisation structure for the approval and renewal of credit facilities.
- Developing and maintaining the Group's risk grading to categorise exposures according to the degree of risk of default. Risk grades are subject to regular reviews.
- Developing and maintaining the Group's processes for measuring ECL including monitoring of credit risk, incorporation of forward-looking information and the method used to measure ECL.
- Ensuring that the Group has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.
- Establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for ECL. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

The internal audit function performs regular audits making sure that the established controls and procedures are adequately designed and implemented.

Significant increase in credit risk

54,70 As explained in note 1 the Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

(a) for trade receivables, contract assets and lease receivables, paragraph 35J applies to those trade receivables, contract assets or lease receivables on which lifetime expected credit losses are recognised in accordance with paragraph 5.5.15 of IFRS 9, if those financial assets are modified while more than 30 days past due; and

(b) paragraph 35K(b) does not apply to lease receivables.

IFRS 7:35B (b),(c) The credit risk disclosures made in accordance with paragraphs 35F–35N shall enable users of financial statements to understand the effect of credit risk on the amount, timing and uncertainty of future cash flows. To achieve this objective, credit risk disclosures shall provide:

(b) quantitative and qualitative information that allows users of financial statements to evaluate the amounts in the financial statements arising from expected credit losses, including changes in the amount of expected credit losses and the reasons for those changes; and

(c) information about an entity's credit risk exposure (i.e. the credit risk inherent in an entity's financial assets and commitments to extend credit) including significant credit risk concentrations.

IFRS 7:35C An entity need not duplicate information that is already presented elsewhere, provided that the information is incorporated by cross-reference from the financial statements to other statements, such as a management commentary or risk report that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

IFRS 7:35D To meet the objectives in paragraph 35B, an entity shall (except as otherwise specified) consider how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, the appropriate level of aggregation or disaggregation, and whether users of financial statements need additional explanations to evaluate the quantitative information disclosed.

IFRS 7:35E If the disclosures provided in accordance with paragraphs 35F–35N are insufficient to meet the objectives in paragraph 35B, an entity shall disclose additional information that is necessary to meet those objectives.

69 **Credit risk management**

IFRS 7:35B(a) The credit risk disclosures shall enable users of financial statements to understand the effect of credit risk on the amount, timing and uncertainty of future cash flows. To achieve this objective, credit risk disclosures shall provide:

(a) information about an entity's credit risk management practices and how they relate to the recognition and measurement of expected credit losses, including the methods, assumptions and information used to measure expected credit losses.

70 **Significant increase in credit risk**

IFRS 7:35F(a) An entity shall explain its credit risk management practices and how they relate to the recognition and measurement of expected credit losses. To meet this objective an entity shall disclose information that enables users of financial statements to understand and evaluate how an entity determined whether the credit risk of financial instruments has increased significantly since initial recognition, including, if and how:

(i) financial instruments are considered to have low credit risk in accordance with **IFRS 9:5.5.10**, including the classes of financial instruments to which it applies; and

(ii) the presumption in **IFRS 9:5.5.11**, that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has been rebutted.

Banks may wish to provide disclosures explaining how ECL requirements, estimates and sensitivities are used in credit risk management and if other metrics are also used explain what these are.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

71 **Internal credit risk ratings**

IFRS 7:35G (a) An entity shall explain the inputs, assumptions and estimation techniques used to apply the requirements for impairment (in **Section 5.5 of IFRS 9**). For this purpose an entity shall disclose the basis of inputs and assumptions and the estimation techniques used to:

i) measure the 12-month and lifetime expected credit losses;

ii) determine whether the credit risk of financial instruments have increased significantly since initial recognition; and

iii) determine whether a financial asset is a credit-impaired financial asset.

IFRS 9:B5.5.17 The following non-exhaustive list of information may be relevant in assessing changes in credit risk:

(a) significant changes in internal price indicators of credit risk as a result of a change in credit risk since inception, including, but not limited to, the credit spread that would result if a particular financial instrument or similar financial instrument with the same terms and the same counterparty were newly originated or issued at the reporting date.

(b) other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated or issued at the reporting date (such as more stringent covenants, increased amounts of collateral or guarantees, or higher income coverage) because of changes in the credit risk of the financial instrument since initial recognition.

(c) significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instruments with the same expected life. Changes in market indicators of credit risk include, but are not limited to:

   i. the credit spread;

   ii. the credit default swap prices for the borrower;

   iii. the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost; and

   iv. other market information related to the borrower, such as changes in the price of a borrower's debt and equity instruments.

(d) an actual or expected significant change in the financial instrument's external credit rating.

(e) an actual or expected internal credit rating downgrade for the borrower or decrease in behavioural scoring used to assess credit risk internally. Internal credit ratings and internal behavioural scoring are more reliable when they are mapped to external ratings or supported by default studies.

(f) existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its debt obligations, such as an actual or expected increase in interest rates or an actual or expected significant increase in unemployment rates.

(g) an actual or expected significant change in the operating results of the borrower. Examples include actual or expected declining revenues or margins, increasing operating risks, working capital deficiencies, decreasing asset quality, increased balance sheet leverage, liquidity, management problems or changes in the scope of business or organisational structure (such as the discontinuance of a segment of the business) that results in a significant change in the borrower's ability to meet its debt obligations.

(h) significant increases in credit risk on other financial instruments of the same borrower.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

Significant increase in credit risk (continued)

71 **Internal credit risk ratings**

In order to minimise credit risk, the Group has tasked its credit management committee to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The Group's credit risk grading framework comprises ten categories. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure. The following data are typically used to monitor the Group's exposures:

- Payment record, including payment ratios and ageing analysis;
- Extent of utilisation of granted limit;
- Forbearances (both requested and granted);
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies;
- For retail exposures: internally generated data of customer behaviour, affordability metrics etc.; and
- For corporate exposures: information obtained by periodic review of customer files including audited financial statements review, market data such as prices of credit default swaps (CDS) or quoted bonds where available, changes in the financial sector the customer operates etc.

The Group uses credit risk grades as a primary input into the determination of the term structure of the 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. The information used is both internal and external depending on the portfolio assessed. The table below provides a mapping of the Group's internal credit risk grades to external ratings.

Group Rating	S&P rating	Description	PD range
1	AAA	Low to fair risk	0-0.02
2	AA+ to AA	Low to fair risk	0.02-0.05
3	A+ to A	Low to fair risk	0.05-0.12
4	BBB+ to BBB	Watch list	0.12-0.68
5	BB+ to BB	Watch list	0.68-2.40
6	B+to B	Watch list	2.40-11.60
7	CCC+	Substandard	11.60-18.01
8	CCC	Substandard	18.01-22.4
9	CC+ to CC-	Doubtful	22.4-99
10	C, D	Impaired	Insolvency

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

(i) an actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations, such as a decline in the demand for the borrower's sales product because of a shift in technology;

(j) significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements, which are expected to reduce the borrower's economic incentive to make scheduled contractual payments or to otherwise have an effect on the probability of a default occurring. For example, if the value of collateral declines because house prices decline, borrowers in some jurisdictions have a greater incentive to default on their mortgages;

(k) a significant change in the quality of the guarantee provided by a shareholder (or an individual's parents) if the shareholder (or parents) have an incentive and financial ability to prevent default by capital or cash infusion;

(l) significant changes, such as reductions in financial support from a parent entity or other affiliate or an actual or expected significant change in the quality of credit enhancement, that are expected to reduce the borrower's economic incentive to make scheduled contractual payments. Credit quality enhancements or support include the consideration of the financial condition of the guarantor and/or, for interests issued in securitisations, whether subordinated interests are expected to be capable of absorbing expected credit losses (for example, on the loans underlying the security);

(m) expected changes in the loan documentation including an expected breach of contract that may lead to covenant waivers or amendments, interest payment holidays, interest rate step-ups, requiring additional collateral or guarantees, or other changes to the contractual framework of the instrument;

(n) significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group (for example, an increase in the expected number or extent of delayed contractual payments or significant increases in the expected number of credit card borrowers who are expected to approach or exceed their credit limit or who are expected to be paying the minimum monthly amount);

(o) changes in the entity's credit management approach in relation to the financial instrument; i.e. based on emerging indicators of changes in the credit risk of the financial instrument, the entity's credit risk management practice is expected to become more active or to be focused on managing the instrument, including the instrument becoming more closely monitored or controlled, or the entity specifically intervening with the borrower;

(p) past due information, including the rebuttable presumption as set out in paragraph 5.5.11.

The disclosure of how a bank manages credit risk should be entity specific and tailored to the bank's risk management policies. For example the band of 10 credit risk grades is used as an illustration and it might be low in comparison to the number of credit risk grades of a typical bank and the disclosure about the assessment of significant increase in credit risk per class of assets might be more disaggregated.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

Significant increase in credit risk (continued)

Group Rating	Exposure at default Year ended 20XX	Average PD Year ended 20XX	Average LGD Year ended 20XX	Exposure at default Year ended 20YY	Average PD Year ended 20YY	Average LGD Year ended 20YY
1	[X]	[X]	[X]%	[X]	[X]	[X]%
2	[X]	[X]	[X]%	[X]	[X]	[X]%
3	[X]	[X]	[X]%	[X]	[X]	[X]%
4	[X]	[X]	[X]%	[X]	[X]	[X]%
5	[X]	[X]	[X]%	[X]	[X]	[X]%
6	[X]	[X]	[X]%	[X]	[X]	[X]%
7	[X]	[X]	[X]%	[X]	[X]	[X]%
8	[X]	[X]	[X]%	[X]	[X]	[X]%
9	[X]	[X]	[X]%	[X]	[X]	[X]%
10	[X]	[X]	[X]%	[X]	[X]	[X]%

The Group analyses all data collected using statistical models and estimates the remaining lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as GDP growth, unemployment, benchmark interest rates and house prices. The Group generates a 'base case' scenario of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Group then uses these forecasts, which are probability-weighted, to adjust its estimates of PDs.

The Group uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both quantitative changes in PDs as well as qualitative. The table below summarises per type of asset the range above which an increase in lifetime PD is determined to be significant, as well as some indicative qualitative indicators assessed.

	% of increase in lifetime PD	Qualitative indicators assessed
Loans and advances to banks: Reverse sale and repurchase agreements	[X]%	[e.g. CDS spread, external credit rating etc.]
Loans and advances to banks: Securities borrowing	[X]%	[e.g. CDS spread, external credit rating etc.]
Loans and advances to customers: Mortgages	[X]%	[e.g. internal rating downgrade, LTV ratio etc.]
Loans and advances to customers: Personal loans (unsecured)	[X]%	[e.g. internal rating downgrade, changes in performance behaviour of borrower or portfolio etc.]
Loans and advances to customers: Credit cards	[X]%	[e.g. adverse change in economic conditions, increase in credit risk of other financial instruments of the borrower, extent of facility usage etc.]
Loans and advances to customers: Corporate lending	[X]%	[e.g. significant change in operating results of the borrower, significant adverse change in regulatory, economic or technological environment etc.]
Debt investment securities: Sovereign	[X]%	[e.g. CDS spread, external credit rating, significant change in economic environment etc.]
Debt investment securities: Corporate	[X]%	[e.g. external credit rating, adverse changes in business, financial or economic conditions etc.]
Financial guarantee contracts	[X]%	[e.g. increase in credit risk of other financial instruments of the borrower etc.]

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

72 **Incorporation of forward-looking information**

IFRS 7:35G (b) and (c) An entity shall explain the inputs, assumptions and estimation techniques used to apply the requirements for impairment (in **Section 5.5 of IFRS 9**). For this purpose an entity shall disclose:

(b) how forward-looking information has been incorporated into the determination of expected credit losses, including the use of macroeconomic information; and

(c) changes in the estimation techniques or significant assumptions made during the reporting period and the reasons for those changes.

The economic scenarios included in the illustrative disclosure are indicative and not exhaustive.

Banks may wish to disclose:

- how alternative economic assumptions are selected;
- what assumptions are made in relation to time periods beyond the forecast horizon used internally for planning and the basis on which those assumptions are made;
- how scenario weightings are determined; and
- how material non-linear relationships between economic factors and credit losses are reflected in the estimate.

Banks using approaches based on discrete scenarios may wish to provide quantitative disclosures of the weightings assigned to each scenario and explanations of the period on period changes in scenario weightings.

Banks using a Monte Carlo approach, may wish to disclose how the approach is used along with period on period changes in its use, providing quantitative data when appropriate.

Banks may wish to provide qualitative information with regards to significant changes in the central scenario in comparison to the prior period, with explanation for the reason of these changes.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

Loan commitments are assessed along with the category of loan the Group is committed to provide, i.e. commitments to provide mortgages are assessed using similar criteria to mortgage loans, while commitments to provide a corporate loan are assessed using similar criteria to corporate loans.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group has monitoring procedures in place to make sure that the criteria used to identify significant increases in credit are effective, meaning that significant increase in credit risk is identified before the exposure is defaulted or when the asset becomes 30 days past due. The Group performs periodic back-testing of its ratings to consider whether the drivers of credit risk that led to default were accurately reflected in the rating in a timely manner.

The Group has controls and procedures in place to identify when the credit risk of an asset improves and the definition of significant increase in credit risk is no longer met. When this is the case the asset may move back to stage 1 from stage 2, subject to payments being up to date and the ability of the borrower to make future payments on time.

72 **Incorporation of forward-looking information**

The Group uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Group employs experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Group uses multiple scenarios to model the non-linear impact of assumptions about macroeconomic factors on ECL. The Group applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Group for strategic planning and budgeting. The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Group has not made changes in the estimation techniques or significant assumptions made during the reporting period. In addition to the base case scenario the Group uses [X] upside and [X] downside scenarios, with associated probability weightings. The probability weighting is such that the base scenario has the highest weighting, since it is the most likely outcome and the weighting of the upside and downside scenarios depend on the probability of the scenario.

The table below summarises the principal macroeconomic indicators included in the economic scenarios used at 31 December 20XX for the years 20XX+1 to 20XX+5, for country A which is the country where the Group operates and therefore is the country that has a material impact in ECLs.

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

	20XX+1	20XX+2	20XX+3	20XX+4	20XX+5
GDP growth					
• Base scenario	[X]	[X]	[X]	[X]	[X]
• Range of upside scenarios	[X]	[X]	[X]	[X]	[X]
• Range of downside scenarios	[X]	[X]	[X]	[X]	[X]
Unemployment rates					
• Base scenario	[X]	[X]	[X]	[X]	[X]
• Range of upside scenarios	[X]	[X]	[X]	[X]	[X]
• Range of downside scenarios	[X]	[X]	[X]	[X]	[X]
Benchmark interest rates					
• Base scenario	[X]	[X]	[X]	[X]	[X]
• Range of upside scenarios	[X]	[X]	[X]	[X]	[X]
• Range of downside scenarios	[X]	[X]	[X]	[X]	[X]
Inflation					
• Base scenario	[X]	[X]	[X]	[X]	[X]
• Range of upside scenarios	[X]	[X]	[X]	[X]	[X]
• Range of downside scenarios	[X]	[X]	[X]	[X]	[X]
House prices/commercial property indices					
• Base scenario	[X]	[X]	[X]	[X]	[X]
• Range of upside scenarios	[X]	[X]	[X]	[X]	[X]
• Range of downside scenarios	[X]	[X]	[X]	[X]	[X]

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 [X] years.

The most significant changes in the base scenario in comparison to the financial year ended 20YY are:

[List changes providing an explanation for the reason of the change]

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

73 **Measurement of ECL**

IFRS 9:B5.5.28 Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. Because expected credit losses consider the amount and timing of payments, a credit loss arises even if the entity expects to be paid in full but later than when contractually due.

IFRS 9:B5.5.29 For financial assets, a credit loss is the present value of the difference between:

(a) the contractual cash flows that are due to an entity under the contract; and

(b) the cash flows that the entity expects to receive.

IFRS 9:5.5.19 The maximum period to consider when measuring expected credit losses is the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if that longer period is consistent with business practice.

IFRS 9:5.5.20 However, some financial instruments include both a loan and an undrawn commitment component and the entity's contractual ability to demand repayment and cancel the undrawn commitment does not limit the entity's exposure to credit losses to the contractual notice period. For such financial instruments, and only those financial instruments, the entity shall measure expected credit losses over the period that the entity is exposed to credit risk and expected credit losses would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period.

IFRS 7:35F(c) An entity shall explain its credit risk management practices and how they relate to the recognition and measurement of expected credit losses. To meet this objective an entity shall disclose information that enables users of financial statements to understand and evaluate how the instruments were grouped if expected credit losses were measured on a collective basis.

Banks may wish to consider disclosing an explanation for each material post-model adjustment or overlay made, along with the reason for the adjustment, how the amount is determined, the approach used for the estimation and the amount of each material post-model adjustment.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

Incorporation of forward-looking information (continued)

The Group has performed a sensitivity analysis on how ECL on the main portfolios will change if the key assumptions used to calculate ECL change by [X]%. The table below outlines the total ECL per portfolio as at 31 December 20XX, if the assumptions used to measure ECL remain as expected (amount as presented in the statement of financial position), as well as if each of the key assumptions used change by plus or minus [X]%. The changes are applied in isolation for illustrative purposes, and are applied to each probability weighted scenarios used to develop the estimate of expected credit losses. In reality there will be interdependencies between the various economic inputs and the exposure to sensitivity will vary across the economic scenarios.

[Portfolio 1]		Average PD	Average LGD	ECL
				Cum
	As expected	[X]	[X]	[X]
GDP growth	+[X]%	[X]	[X]	[X]
	-[X]%	[X]	[X]	[X]
Unemployment rates	+[X]%	[X]	[X]	[X]
	-[X]%	[X]	[X]	[X]
Benchmark interest rates	+[X]%	[X]	[X]	[X]
	-[X]%	[X]	[X]	[X]
Inflation	+[X]%	[X]	[X]	[X]
	-[X]%	[X]	[X]	[X]
House prices	+[X]%	[X]	[X]	[X]
	-[X]%	[X]	[X]	[X]

The bank is not able to estimate the impact on ECL of the following uncertain events/factors, despite best efforts, due to lack of reasonable and supportable information:

- [add description of event/factor]
- [add description of event/factor]

The following information has been excluded from the determination of ECL:

- [add description of information]
- [add description of information]

73 **Measurement of ECL**

The key inputs used for measuring ECL are:

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

As explained above these figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

Measurement of ECL (continued)

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral, cross-collateralisation and seniority of claim, cost of realisation of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default. The Group uses EAD models that reflect the characteristics of the portfolios.

The Group measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contact extension or renewal is common business practice. However, for financial instruments such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, 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. For such financial instruments the Group measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Group does not enforce in the normal day-to-day management the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are canceled 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 to mitigate ECL, e.g. reduction in limits or cancellation of the loan commitment.

The ECL calculation for accounting purposes is different to the ECL calculation for regulatory purposes, although many inputs used are similar. The Group has ensured that the appropriate methodology is used when calculating ECL for both accounting and regulatory purposes. The main differences between the methodologies used to measure ECL in accordance with IFRS 9 versus the ones applied for regulatory purposes are:

- [Add details, e.g. discount factors used]
- [Add details, e.g. time horizons]
- [Add details, e.g. use of floors]

The measurement of ECL is based on probability weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis (although measurement on a collective basis is more practical for large portfolios of items). In relation to the assessment of whether there has been a significant increase in credit risk it can be necessary to perform the assessment on a collective basis as noted below.

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

74 **Groupings based on shared risk characteristics**

IFRS 9:B5.5.5 For the purpose of determining significant increases in credit risk and recognising a loss allowance on a collective basis, an entity can group financial instruments on the basis of shared credit risk characteristics with the objective of facilitating an analysis that is designed to enable significant increases in credit risk to be identified on a timely basis. The entity should not obscure this information by grouping financial instruments with different risk characteristics. Examples of shared credit risk characteristics may include, but are not limited to, the:

(a) instrument type;

(b) credit risk ratings;

(c) collateral type;

(d) date of initial recognition;

(e) remaining term to maturity;

(f) industry;

(g) geographical location of the borrower; and

(h) the value of collateral relative to the financial asset if it has an impact on the probability of a default occurring (for example, non-recourse loans in some jurisdictions or loan-to-value ratios).

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

74 **Groupings based on shared risks characteristics**

When ECL are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, such as:

- instrument type;
- credit risk grade;
- collateral type;
- date of initial recognition;
- remaining term to maturity;
- industry;
- geographic location of the borrower;
- income bracket of the borrower; and
- the value of collateral relative to the financial asset if it has an impact on the probability of a default occurring (loan-to-value (LTV) ratios).

The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

The Group uses external benchmark information for portfolios with limited historical data. The table below depicts the portfolios for which external benchmark information represents a significant input into measurement of ECL.

	Exposure	External benchmark PD	External benchmark LGD
Portfolio 1	[add details]	[add details]	[add details]
Portfolio 2	[add details]	[add details]	[add details]

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

75 **Credit quality**

IFRS 7:6 When this IFRS requires disclosures by class of financial instrument, an entity shall group 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. An entity shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position.

For illustrative purposes the note for provisions has not been included. This note would include the carrying value of issued loan commitments and financial guarantee contracts.

76 ***IFRS 7:34*** For each type of risk arising from financial instruments, an entity shall disclose:

(a) summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to key management personnel of the entity, for example the entity's board of directors or chief executive officer.

(b) the disclosures required by paragraphs 35A–42, to the extent not provided in accordance with (a); and

(c) concentrations of risk if not apparent from the disclosures made in accordance with (a) and (b).

The risk concentration disclosures should be entity-specific and tailored to the bank's risk concentration. This means that a different level of disaggregation might be provided by different banks.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

Credit quality

The Group monitors credit risk per class of financial instrument. The table below outlines the classes identified, as well as the financial statement line item and the note that provides an analysis of the items included in the financial statement line for each class of financial instrument.

Class of financial instrument	Financial statement line	Note
Loans and advances to banks at amortised cost	Loans and advances to banks	Note 17
Loans and advances to customers at amortised cost	Loans and advances to customers	Note 18
Debt investment securities at amortised cost	Investment securities	Note 19
Debt investment securities at FVTOCI	Investment securities	Note 19
Lease receivables	Loans and advances to customers	Note 18
Loan commitments and financial guarantee contracts	Provisions	Note [X]

An analysis of the Group's **credit risk concentrations** per class of financial asset is provided in the following tables. 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.

Loans and advances to banks at amortised cost	Year ended 20XX CUm	Year ended 20YY CUm
Concentration by sector		
Central banks	[X]	[X]
Other banks	[X]	[X]
Total	**[X]**	**[X]**
Concentration by region	[X]	[X]
Europe	[X]	[X]
America	[X]	[X]
Middle East and Africa	[X]	[X]
Asia	[X]	[X]
Total	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

Credit quality (continued)

Loans and advances to customers at amortised cost	Year ended 20XX CUm	Year ended 20YY CUm
Concentration by sector		
Retail:		
Mortgages	[X]	[X]
Unsecured lending	[X]	[X]
Corporate:		
Innovation and technology		
Real estate	[X]	[X]
Energy	[X]	[X]
Leisure and services	[X]	[X]
Other	[X]	[X]
Total	**[X]**	**[X]**
Concentration by region	[X]	[X]
Europe	[X]	[X]
America	[X]	[X]
Middle East and Africa	[X]	[X]
Asia	[X]	[X]
Total	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

Credit quality (continued)

Debt investment securities at amortised cost	Year ended 20XX CUm	Year ended 20YY CUm
Concentration by sector		
Sovereign	[X]	[X]
Banking	[X]	[X]
Corporate:		
Innovation and technology	[X]	[X]
Real estate	[X]	[X]
Energy	[X]	[X]
Leisure and services	[X]	[X]
Other	[X]	[X]
Total	**[X]**	**[X]**
Concentration by region		
Europe	[X]	[X]
America	[X]	[X]
Middle East and Africa	[X]	[X]
Asia	[X]	[X]
Total	**[X]**	**[X]**

Debt investment securities at FVTOCI	Year ended 20XX CUm	Year ended 20YY CUm
Concentration by sector		
Sovereign	[X]	[X]
Banking		
Bonds	[X]	[X]
Asset backed securities	[X]	[X]
Corporate:		
Innovation and technology	[X]	[X]
Real estate	[X]	[X]
Energy	[X]	[X]
Leisure and services	[X]	[X]
Other	[X]	[X]
Total	**[X]**	**[X]**
Concentration by region		
Europe	[X]	[X]
America	[X]	[X]
Middle East and Africa	[X]	[X]
Asia	[X]	[X]
Total	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

Credit quality (continued)

Loan commitments	**Year ended 20XX CUm**	**Year ended 20YY CUm**
Concentration by sector		
Retail:		
Mortgages	[X]	[X]
Unsecured lending (including credit cards)	[X]	[X]
Corporate:		
Innovation and technology	[X]	[X]
Real estate	[X]	[X]
Energy	[X]	[X]
Leisure and services	[X]	[X]
Other	[X]	[X]
Total	**[X]**	**[X]**
Concentration by region		
Europe	[X]	[X]
America	[X]	[X]
Middle East and Africa	[X]	[X]
Asia	[X]	[X]
Total	**[X]**	**[X]**

Financial guarantee contracts	**Year ended 20XX CUm**	**Year ended 20YY CUm**
Concentration by sector		
Retail:		
Mortgages	[X]	[X]
Unsecured lending	[X]	[X]
Corporate:		
Innovation and technology	[X]	[X]
Real estate	[X]	[X]
Energy	[X]	[X]
Leisure and services	[X]	[X]
Other	[X]	[X]
Total	**[X]**	**[X]**
Concentration by region		
Europe	[X]	[X]
America	[X]	[X]
Middle East and Africa	[X]	[X]
Asia	[X]	[X]
Total	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

77 ***IFRS 7:35M*** To enable users of financial statements to assess an entity's credit risk exposure and understand its significant credit risk concentrations, an entity shall disclose, by credit risk rating grades, the gross carrying amount of financial assets and the exposure to credit risk on loan commitments and financial guarantee contracts. This information shall be provided separately for financial instruments:

(a) for which the loss allowance is measured at an amount equal to 12-month expected credit losses;

(b) for which the loss allowance is measured at an amount equal to lifetime expected credit losses and that are:

- (i) financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets;

- (ii) financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired); and

- (iii) trade receivables, contract assets or lease receivables for which the loss allowances are measured in accordance with paragraph 5.5.15 of IFRS 9.

(c) that are purchased or originated credit-impaired financial assets.

POCI is a category that is relevant for financial assets, therefore it does not apply to loan commitments and financial guarantee contracts.

Banks that adopt cure concepts in their staging criteria may wish to provide qualitative disclosure of stage 3 financial assets that are in a cure period before they can move to stage 2.

Banks that use a non-performing loan or similar concept may wish to explain how this is determined and provide a reconciliation between this population and stage 3 financial assets when needed.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

Credit quality (continued)

Lease receivables	Year ended 20XX CUm	Year ended 20YY CUm
Concentration by sector		
Corporate:		
Innovation and technology	[X]	[X]
Real estate	[X]	[X]
Energy	[X]	[X]
Leisure and services	[X]	[X]
Other	[X]	[X]
Total	**[X]**	**[X]**
Concentration by region		
Europe	[X]	[X]
America	[X]	[X]
Middle East and Africa	[X]	[X]
Asia	[X]	[X]
Total	**[X]**	**[X]**

There are no lease receivable exposures to retail.

77 An analysis of the Group's **credit risk exposure per class of financial asset, internal rating and "stage"** without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. 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.

	Year ended 20XX					Year Ended 20YY
Loans and advances to banks at amortised cost	**Stage 1 12-month ECL CUm**	**Stage 2 Lifetime ECL CUm**	**Stage 3 Lifetime ECL CUm**	**POCI CUm**	**Total CUm**	**Total CUm**
Grades 1-3: Low to fair risk	[X]	[X]	[X]	[X]	**[X]**	[X]
Grades 4-6: Monitoring	[X]	[X]	[X]	[X]	**[X]**	[X]
Grades 7-8: Substandard	[X]	[X]	[X]	[X]	**[X]**	[X]
Grade 9: Doubtful	[X]	[X]	[X]	[X]	**[X]**	[X]
Grade 10: Impaired	[X]	[X]	[X]	[X]	**[X]**	[X]
Total gross carrying amount	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**
Loss allowance	[X]	[X]	[X]	[X]	**[X]**	[X]
Carrying amount	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

Credit quality (continued)

Loans and advances to customers at amortised cost	Year ended 20XX Stage 1 12-month ECL CUm	Stage 2 Lifetime ECL CUm	Stage 3 Lifetime ECL CUm	POCI CUm	Total CUm	Year Ended 20YY Total CUm
Grades 1-3: Low to fair risk	[X]	[X]	[X]	[X]	**[X]**	[X]
Grades 4-6: Monitoring	[X]	[X]	[X]	[X]	**[X]**	[X]
Grades 7-8: Substandard	[X]	[X]	[X]	[X]	**[X]**	[X]
Grade 9: Doubtful	[X]	[X]	[X]	[X]	**[X]**	[X]
Grade 10: Impaired	[X]	[X]	[X]	[X]	**[X]**	[X]
Total gross carrying amount	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**
Loss allowance	[X]	[X]	[X]	[X]	**[X]**	[X]
Carrying amount	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

Debt investment securities at amortised cost	Year ended 20XX Stage 1 12-month ECL CUm	Stage 2 Lifetime ECL CUm	Stage 3 Lifetime ECL CUm	POCI CUm	Total CUm	Year Ended 20YY Total CUm
Grades 1-3: Low to fair risk	[X]	[X]	[X]	[X]	**[X]**	[X]
Grades 4-6: Monitoring	[X]	[X]	[X]	[X]	**[X]**	[X]
Grades 7-8: Substandard	[X]	[X]	[X]	[X]	**[X]**	[X]
Grade 9: Doubtful	[X]	[X]	[X]	[X]	**[X]**	[X]
Grade 10: Impaired	[X]	[X]	[X]	[X]	**[X]**	[X]
Total gross carrying amount	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**
Loss allowance	[X]	[X]	[X]	[X]	**[X]**	[X]
Carrying amount	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

78 **Credit quality (continued)**

Debt investment securities at FVTOCI	Year ended 20XX Stage 1 12-month ECL CUm	Stage 2 Lifetime ECL CUm	Stage 3 Lifetime ECL CUm	POCI CUm	Total CUm	Year Ended 20YY Total CUm
Grades 1-3: Low to fair risk	[X]	[X]	[X]	[X]	**[X]**	[X]
Grades 4-6 Monitoring	[X]	[X]	[X]	[X]	**[X]**	[X]
Grades 7-8: Substandard	[X]	[X]	[X]	[X]	**[X]**	[X]
Grade 9: Doubtful	[X]	[X]	[X]	[X]	**[X]**	[X]
Grade 10: Impaired	[X]	[X]	[X]	[X]	**[X]**	[X]
Total carrying amount	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**
Loss allowance	[X]	[X]	[X]	[X]	**[X]**	[X]

78 No loss allowance is recognised in the statement of financial position for debt instruments measured at FVTOCI as the carrying amount is at fair value (see note 1 Presentation of allowance for ECL).

Loan commitments	Year ended 20XX Stage 1 12-month ECL CUm	Stage 2 Lifetime ECL CUm	Stage 3 Lifetime ECL CUm	Total CUm	Year Ended 20YY Total CUm
Grades 1-3: Low to fair risk	[X]	[X]	[X]	**[X]**	[X]
Grades 4-6: Monitoring	[X]	[X]	[X]	**[X]**	[X]
Grades 7-8: Substandard	[X]	[X]	[X]	**[X]**	[X]
Grade 9: Doubtful	[X]	[X]	[X]	**[X]**	[X]
Grade 10: Impaired	[X]	[X]	[X]	**[X]**	[X]
79 Total amount committed	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**
Loss allowance	[X]	[X]	[X]	**[X]**	[X]

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

Credit quality (continued)

	Year ended 20XX				
Financial guarantee contracts	**Stage 1 12-month ECL CUm**	**Stage 2 Lifetime ECL CUm**	**Stage 3 Lifetime ECL CUm**	**Total CUm**	**Year Ended 20YY Total CUm**
Grades 1-3: Low to fair risk	[X]	[X]	[X]	**[X]**	[X]
Grades 4-6: Monitoring	[X]	[X]	[X]	**[X]**	[X]
Grades 7-8: Substandard	[X]	[X]	[X]	**[X]**	[X]
Grade 9: Doubtful	[X]	[X]	[X]	**[X]**	[X]
Grade 10: Impaired	[X]	[X]	[X]	**[X]**	[X]
Total amount guaranteed	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**
Loss allowance	[X]	[X]	[X]	**[X]**	[X]

Lease receivables	**Stage 2 Lifetime ECL CUm**	**Stage 3 Lifetime ECL CUm**	**POCI CUm**	**Total CUm**	**Year Ended 20YY Total CUm**
Grades 1-3: Low to fair risk	[X]	[X]	[X]	**[X]**	[X]
Grades 4-6: Monitoring	[X]	[X]	[X]	**[X]**	[X]
Grades 7-8: Substandard	[X]	[X]	[X]	**[X]**	[X]
Grade 9: Doubtful	[X]	[X]	[X]	**[X]**	[X]
Grade 10: Impaired	[X]	[X]	[X]	**[X]**	[X]
Total gross carrying amount	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**
Loss allowance	[X]	[X]	[X]	**[X]**	[X]
Carrying amount	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

There are no lease receivables at stage 1, because the Group's accounting policy is to measure lifetime credit losses on lease receivables (see note 1).

The carrying amount of the Group's financial assets at FVTPL as disclosed in notes 16 and 17 best represents the assets' maximum exposure to credit risk.

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

78 ***IFRS 7:36 (a)*** For all financial instruments within the scope of this IFRS, but to which the impairment requirements in **IFRS 9** are not applied, an entity shall disclose by class of financial instrument the amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements (e.g. netting agreements that do not quality for offset in accordance with **IAS 32**); this disclosure is not required for financial instruments whose carrying amount best represents the maximum exposure to credit risk.

IFRS 7:9 If the entity has designated as measured at fair value through profit or loss a financial asset that would otherwise be measured at fair value through other comprehensive income or amortised cost, it shall disclose:

(a) the maximum exposure to credit risk of the financial asset (or group of financial assets) at the end of the reporting period;

(b) the amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk;

(c) the amount of change, during the period and cumulatively, in the fair value of the financial asset determined either: i) as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk; or ii) using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the asset. Changes in market conditions that give rise to market risk include changes in an observed (benchmark) interest rate, commodity price, foreign exchange rate or index of prices or rates;

(d) the amount of the change in the fair value of any related credit derivatives or similar instruments that has occurred during the period and cumulatively since the financial asset was designated.

IFRS 7:10A If an entity has designated a financial liability as at fair value through profit or loss in accordance with **IFRS 9:4.2.2** and is required to present all changes in the fair value of that liability (including the effects of changes in the credit risk of the liability) in profit or loss (see **IFRS 9:5.7.7** and **5.7.8**), it shall disclose:

(a) the amount of change, during the period and cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability; and

(b) the difference between the financial liability's carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.

IFRS 7:11 (c) The entity shall disclose a detailed description of the methodology or methodologies used to determine whether presenting the effects of changes in a liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss (see **IFRS 9:5.7.7** and **5.7.8**). If an entity is required to present the effects of changes in a liability's credit risk in profit or loss (see **IFRS 9: 5.7.8**), the disclosure must include a detailed description of the economic relationship described in **IFRS 9: B5.7.6**.

IFRS 7:24G If an entity designated a financial instrument, or a proportion of it, as measured at fair value through profit or loss because it uses a credit derivative to manage the credit risk of that financial instrument it shall disclose:

(a) for credit derivatives that have been used to manage the credit risk of financial instruments designated as measured at fair value through profit or loss in accordance with **IFRS 9: 6.7.1**, a reconciliation of each of the nominal amount and the fair value at the beginning and at the end of the period;

(b) the gain or loss recognised in profit or loss on designation of a financial instrument, or a proportion of it, as measured at fair value through profit or loss in accordance with **IFRS 9: 6.7.1**; and

(c) on discontinuation of measuring a financial instrument, or a proportion of it, at fair value through profit or loss, that financial instrument's fair value that has become the new carrying amount in accordance with **IFRS 9: 6.7.4** and the related nominal or principal amount.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

78 **Loans and advances to customers designated at FVTPL**

The maximum exposure to credit risk of the loans and advances to customers designated at FVTPL (which do not include loan commitments) is their carrying amount, which amounts to CU[X]m at 31 December 20XX (20YY: CU[X]m). The Group has entered into credit derivatives in order to mitigate the credit risk exposure on some of these loans and advances to customers. At 31 December 20XX, these derivative contracts provided notional principal protection of CU[X]m (20YY: CU[X]m).

The change in fair value due to credit risk for the loans and advances to customers designated at FVTPL is CU[X]m for the year and CU[X]m on a cumulative basis as of December 31, 20XX (20YY: CU[X]m for the year and CU[X] on a cumulative basis). For the related credit derivatives the full change in fair value as of December 31, 20XX is CU[X]m for the year and CU[X]m on a cumulative basis (20YY: CU[X]m for the year and CU[X] on a cumulative basis).

The Group uses the changes in the prices of credit-default swaps referenced to similar obligations of the same borrower when such prices are observable to determine the change in fair value attributable to changes in credit risk of its loans and advances to customers designated at FVTPL. 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.

78 **Investment securities designated at FVTPL**

The maximum exposure to credit risk of the investment securities designated at FVTPL is their carrying amount, which amounts to CU[X]m at 31 December 20XX (20YY: CU[X]m). The Group entered to credit derivatives in order to mitigate the credit risk exposure on some of these investment securities. At 31 December 20XX, these derivative contracts provided notional principal protection of CU[X]m (20YY: CU[X]m).

The change in fair value due to credit risk for the investment securities designated at FVTPL is CU[X]m for the year and CU[X]m on a cumulative basis at 31 December 20XX (20YY: CU[X]m for the year and CU[X] on a cumulative basis). For the related credit derivatives the full change in fair value at 31 December 20XX is CU[X]m for the year and CU[X]m on a cumulative basis (20YY: CU[X]m for the year and CU[X] on a cumulative basis).

The Group determines the fair value changes attributable to credit risk of its investment securities designated at FVTPL in the same way as described above for the loans and advances to customers designated at FVTPL.

79 This table summarises the loss allowance as of the year end by class of exposure/asset.

Loss allowance by classes	Year ended 20XX CUm	Year ended 20YY CUm
Loans and advances to banks at amortised cost	[X]	[X]
Loans and advances to customers at amortised cost	[X]	[X]
Debt investment securities at amortised cost	[X]	[X]
Debt investment securities at FVTOCI	[X]	[X]
Loan commitments	[X]	[X]
Financial guarantee contracts	[X]	[X]
Lease receivable	[X]	[X]
	[X]	**[X]**

No loss allowance is recognised in the statement of financial position for debt instruments measured at FVTOCI as the carrying amount is at fair value (see note 1 presentation of allowance for ECL).

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

79 ***IFRS 7:35H*** To explain the changes in the loss allowance and the reasons for those changes, an entity shall provide, by class of financial instrument, a reconciliation from the opening balance to the closing balance of the loss allowance, in a table, showing separately the changes during the period for:

(a) the loss allowance measured at an amount equal to 12-month expected credit losses;

(b) the loss allowance measured at an amount equal to lifetime expected credit losses for:

- (i) financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets;
- (ii) financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired); and
- (iii) trade receivables, contract assets or lease receivables for which the loss allowances are measured in accordance with **IFRS 9: 5.5.15**.

(c) financial assets that are purchased or originated credit-impaired. In addition to the reconciliation, an entity shall disclose the total amount of undiscounted expected credit losses at initial recognition on financial assets initially recognised during the reporting period.

Banks may wish to provide quantitative information to enable the users of the financial statements to understand what are the main factors causing amounts disclosed at each stage to change. This can be done in the form of commentary of the tables demonstrating the quantitative changes.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

Credit quality (continued)

79 The tables below analyse the movement of the loss allowance during the year per class of assets.

Loss allowance – Loans and advances to banks at amortised cost	Stage 1 12-month ECL CUm	Stage 2 Lifetime ECL CUm	Stage 3 Lifetime ECL CUm	POCI CUm	Total CUm
Loss allowance as at 31 December 20YY	[X]	[X]	[X]	[X]	**[X]**
Restatement of the prior year	[X]	[X]	[X]	[X]	**[X]**
Loss allowance as at 1 January 20XX	[X]	[X]	[X]	[X]	**[X]**
Changes in the loss allowance					
– Transfer to stage 1	[X]	[X]	[X]	[X]	**[X]**
– Transfer to stage 2	[X]	[X]	[X]	[X]	**[X]**
– Transfer to stage 3	[X]	[X]	[X]	[X]	**[X]**
– Increases due to change in credit risk	[X]	[X]	[X]	[X]	**[X]**
– Decreases due to change in credit risk	[X]	[X]	[X]	[X]	**[X]**
– Write-offs	[X]	[X]	[X]	[X]	**[X]**
– Changes due to modifications that did not result in derecognition	[X]	[X]	[X]	[X]	**[X]**
New financial assets originated or purchased	[X]	[X]	[X]	[X]	**[X]**
Financial assets that have been derecognised	[X]	[X]	[X]	[X]	**[X]**
Changes in models/risk parameters	[X]	[X]	[X]	[X]	**[X]**
Foreign exchange and other movements	[X]	[X]	[X]	[X]	**[X]**
Loss allowance as at 31 December 20XX	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

Loss allowance – Loans and advances to banks at amortised cost	Stage 1 12-month ECL CUm	Stage 2 Lifetime ECL CUm	Stage 3 Lifetime ECL CUm	POCI CUm	Total CUm
Loss allowance as at 31 December 20ZZ	[X]	[X]	[X]	[X]	**[X]**
Restatement of the prior year	[X]	[X]	[X]	[X]	**[X]**
Loss allowance as at 1 January 20YY	[X]	[X]	[X]	[X]	**[X]**
Changes in the loss allowance					
– Transfer to stage 1	[X]	[X]	[X]	[X]	**[X]**
– Transfer to stage 2	[X]	[X]	[X]	[X]	**[X]**
– Transfer to stage 3	[X]	[X]	[X]	[X]	**[X]**
– Increases due to change in credit risk	[X]	[X]	[X]	[X]	**[X]**
– Decreases due to change in credit risk	[X]	[X]	[X]	[X]	**[X]**
– Write-offs	[X]	[X]	[X]	[X]	**[X]**
– Changes due to modifications that did not result in derecognition	[X]	[X]	[X]	[X]	**[X]**
New financial assets originated or purchased	[X]	[X]	[X]	[X]	**[X]**
Financial assets that have been derecognised	[X]	[X]	[X]	[X]	**[X]**
Changes in models/risk parameters	[X]	[X]	[X]	[X]	**[X]**
Foreign exchange and other movements	[X]	[X]	[X]	[X]	**[X]**
Loss allowance as at 31 December 20YY	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

Credit quality (continued)

Loss allowance – Loans and advances to customers at amortised cost	**Stage 1 12-month ECL CUm**	**Stage 2 Lifetime ECL CUm**	**Stage 3 Lifetime ECL CUm**	**POCI CUm**	**Total CUm**
Loss allowance as at 31 December 20YY	[X]	[X]	[X]	[X]	**[X]**
Restatement of the prior year	[X]	[X]	[X]	[X]	**[X]**
Loss allowance as at 1 January 20XX	[X]	[X]	[X]	[X]	**[X]**
Changes in the loss allowance					
– Transfer to stage 1	[X]	[X]	[X]	[X]	**[X]**
– Transfer to stage 2	[X]	[X]	[X]	[X]	**[X]**
– Transfer to stage 3	[X]	[X]	[X]	[X]	**[X]**
– Increases due to change in credit risk	[X]	[X]	[X]	[X]	**[X]**
– Decreases due to change in credit risk	[X]	[X]	[X]	[X]	**[X]**
– Write-offs	[X]	[X]	[X]	[X]	**[X]**
– Changes due to modifications that did not result in derecognition	[X]	[X]	[X]	[X]	**[X]**
New financial assets originated or purchased	[X]	[X]	[X]	[X]	**[X]**
Financial assets that have been derecognised	[X]	[X]	[X]	[X]	**[X]**
Changes in models/risk parameters	[X]	[X]	[X]	[X]	**[X]**
Foreign exchange and other movements	[X]	[X]	[X]	[X]	**[X]**
Loss allowance as at 31 December 20XX	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

Loss allowance – Loans and advances to customers at amortised cost	**Stage 1 12-month ECL CUm**	**Stage 2 Lifetime ECL CUm**	**Stage 3 Lifetime ECL CUm**	**POCI CUm**	**Total CUm**
Loss allowance as at 31 December 20ZZ	[X]	[X]	[X]	[X]	**[X]**
Restatement of the prior year	[X]	[X]	[X]	[X]	**[X]**
Loss allowance as at 1 January 20YY	[X]	[X]	[X]	[X]	**[X]**
Changes in the loss allowance					
– Transfer to stage 1	[X]	[X]	[X]	[X]	**[X]**
– Transfer to stage 2	[X]	[X]	[X]	[X]	**[X]**
– Transfer to stage 3	[X]	[X]	[X]	[X]	**[X]**
– Increases due to change in credit risk	[X]	[X]	[X]	[X]	**[X]**
– Decreases due to change in credit risk	[X]	[X]	[X]	[X]	**[X]**
– Write-offs	[X]	[X]	[X]	[X]	**[X]**
– Changes due to modifications that did not result in derecognition	[X]	[X]	[X]	[X]	**[X]**
New financial assets originated or purchased	[X]	[X]	[X]	[X]	**[X]**
Financial assets that have been derecognised	[X]	[X]	[X]	[X]	**[X]**
Changes in models/risk parameters	[X]	[X]	[X]	[X]	**[X]**
Foreign exchange and other movements	[X]	[X]	[X]	[X]	**[X]**
Loss allowance as at 31 December 20YY	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

Credit quality (continued)

Loss allowance – Debt investment securities at amortised cost	Stage 1 12-month ECL CUm	Stage 2 Lifetime ECL CUm	Stage 3 Lifetime ECL CUm	POCI CUm	Total CUm
Loss allowance as at 31 December 20YY	[X]	[X]	[X]	[X]	**[X]**
Restatement of the prior year	[X]	[X]	[X]	[X]	**[X]**
Loss allowance as at 1 January 20XX	[X]	[X]	[X]	[X]	**[X]**
Changes in the loss allowance					
– Transfer to stage 1	[X]	[X]	[X]	[X]	**[X]**
– Transfer to stage 2	[X]	[X]	[X]	[X]	**[X]**
– Transfer to stage 3	[X]	[X]	[X]	[X]	**[X]**
– Increases due to change in credit risk	[X]	[X]	[X]	[X]	**[X]**
– Decreases due to change in credit risk	[X]	[X]	[X]	[X]	**[X]**
– Write-offs	[X]	[X]	[X]	[X]	**[X]**
– Changes due to modifications that did not result in derecognition	[X]	[X]	[X]	[X]	**[X]**
New financial assets originated or purchased	[X]	[X]	[X]	[X]	**[X]**
Financial assets that have been derecognised	[X]	[X]	[X]	[X]	**[X]**
Changes in models/risk parameters	[X]	[X]	[X]	[X]	**[X]**
Foreign exchange and other movements	[X]	[X]	[X]	[X]	**[X]**
Loss allowance as at 31 December 20XX	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

Loss allowance – Debt investment securities at amortised cost	Stage 1 12-month ECL CUm	Stage 2 Lifetime ECL CUm	Stage 3 Lifetime ECL CUm	POCI CUm	Total CUm
Loss allowance as at 31 December 20ZZ	[X]	[X]	[X]	[X]	**[X]**
Restatement of the prior year	[X]	[X]	[X]	[X]	**[X]**
Loss allowance as at 1 January 20YY	[X]	[X]	[X]	[X]	**[X]**
Changes in the loss allowance					
– Transfer to stage 1	[X]	[X]	[X]	[X]	**[X]**
– Transfer to stage 2	[X]	[X]	[X]	[X]	**[X]**
– Transfer to stage 3	[X]	[X]	[X]	[X]	**[X]**
– Increases due to change in credit risk	[X]	[X]	[X]	[X]	**[X]**
– Decreases due to change in credit risk	[X]	[X]	[X]	[X]	**[X]**
– Write-offs	[X]	[X]	[X]	[X]	**[X]**
– Changes due to modifications that did not result in derecognition	[X]	[X]	[X]	[X]	**[X]**
New financial assets originated or purchased	[X]	[X]	[X]	[X]	**[X]**
Financial assets that have been derecognised	[X]	[X]	[X]	[X]	**[X]**
Changes in models/risk parameters	[X]	[X]	[X]	[X]	**[X]**
Foreign exchange and other movements	[X]	[X]	[X]	[X]	**[X]**
Loss allowance as at 31 December 20YY	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

Credit quality (continued)

Loss allowance – Debt investment securities at FVTOCI	Stage 1 12-month ECL CUm	Stage 2 Lifetime ECL CUm	Stage 3 Lifetime ECL CUm	POCI CUm	Total CUm
Loss allowance as at 31 December 20YY	[X]	[X]	[X]	[X]	**[X]**
Restatement of the prior year	[X]	[X]	[X]	[X]	**[X]**
Loss allowance as at 1 January 20XX	[X]	[X]	[X]	[X]	**[X]**
Changes in the loss allowance					
– Transfer to stage 1	[X]	[X]	[X]	[X]	**[X]**
– Transfer to stage 2	[X]	[X]	[X]	[X]	**[X]**
– Transfer to stage 3	[X]	[X]	[X]	[X]	**[X]**
– Increases due to change in credit risk	[X]	[X]	[X]	[X]	**[X]**
– Decreases due to change in credit risk	[X]	[X]	[X]	[X]	**[X]**
– Write-offs	[X]	[X]	[X]	[X]	**[X]**
– Changes due to modifications that did not result in derecognition	[X]	[X]	[X]	[X]	**[X]**
New financial assets originated or purchased	[X]	[X]	[X]	[X]	**[X]**
Financial assets that have been derecognised	[X]	[X]	[X]	[X]	**[X]**
Changes in models/risk parameters	[X]	[X]	[X]	[X]	**[X]**
Foreign exchange and other movements	[X]	[X]	[X]	[X]	**[X]**
Loss allowance as at 31 December 20XX	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

Loss allowance – Debt investment securities at FVTOCI	Stage 1 12-month ECL CUm	Stage 2 Lifetime ECL CUm	Stage 3 Lifetime ECL CUm	POCI CUm	Total CUm
Loss allowance as at 31 December 20ZZ	[X]	[X]	[X]	[X]	**[X]**
Restatement of the prior year	[X]	[X]	[X]	[X]	**[X]**
Loss allowance as at 1 January 20YY	[X]	[X]	[X]	[X]	**[X]**
Changes in the loss allowance					
– Transfer to stage 1	[X]	[X]	[X]	[X]	**[X]**
– Transfer to stage 2	[X]	[X]	[X]	[X]	**[X]**
– Transfer to stage 3	[X]	[X]	[X]	[X]	**[X]**
– Increases due to change in credit risk	[X]	[X]	[X]	[X]	**[X]**
– Decreases due to change in credit risk	[X]	[X]	[X]	[X]	**[X]**
– Write-offs	[X]	[X]	[X]	[X]	**[X]**
– Changes due to modifications that did not result in derecognition	[X]	[X]	[X]	[X]	**[X]**
New financial assets originated or purchased	[X]	[X]	[X]	[X]	**[X]**
Financial assets that have been derecognised	[X]	[X]	[X]	[X]	**[X]**
Changes in models/risk parameters	[X]	[X]	[X]	[X]	**[X]**
Foreign exchange and other movements	[X]	[X]	[X]	[X]	**[X]**
Loss allowance as at 31 December 20YY	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

No loss allowance is recognised in the statement of financial position for debt instruments measured at FVTOCI as the carrying amount is at fair value (see note 1 Presentation of allowance for ECL).

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

Credit quality (continued)

Loss allowance – Loan commitments	Stage 1 12-month ECL CUm	Stage 2 Lifetime ECL CUm	Stage 3 Lifetime ECL CUm	Total CUm
Loss allowance as at 31 December 20YY	[X]	[X]	[X]	**[X]**
Restatement of the prior year	[X]	[X]	[X]	**[X]**
Loss allowance as at 1 January 20XX	[X]	[X]	[X]	**[X]**
Changes in the loss allowance				
– Transfer to stage 1	[X]	[X]	[X]	**[X]**
– Transfer to stage 2	[X]	[X]	[X]	**[X]**
– Transfer to stage 3	[X]	[X]	[X]	**[X]**
– Increases due to change in credit risk	[X]	[X]	[X]	**[X]**
– Decreases due to change in credit risk	[X]	[X]	[X]	**[X]**
– Write-offs	[X]	[X]	[X]	**[X]**
– Changes due to modifications that did not result in derecognition	[X]	[X]	[X]	**[X]**
New loan commitments originated or purchased	[X]	[X]	[X]	**[X]**
Changes in models/risk parameters	[X]	[X]	[X]	**[X]**
Foreign exchange and other movements	[X]	[X]	[X]	**[X]**
Loss allowance as at 31 December 20XX	**[X]**	**[X]**	**[X]**	**[X]**

Loss allowance – Loan commitments	Stage 1 12-month ECL CUm	Stage 2 Lifetime ECL CUm	Stage 3 Lifetime ECL CUm	Total CUm
Loss allowance as at 31 December 20ZZ	[X]	[X]	[X]	**[X]**
Restatement of the prior year	[X]	[X]	[X]	**[X]**
Loss allowance as at 1 January 20YY	[X]	[X]	[X]	**[X]**
Changes in the loss allowance				
– Transfer to stage 1	[X]	[X]	[X]	**[X]**
– Transfer to stage 2	[X]	[X]	[X]	**[X]**
– Transfer to stage 3	[X]	[X]	[X]	**[X]**
– Increases due to change in credit risk	[X]	[X]	[X]	**[X]**
– Decreases due to change in credit risk	[X]	[X]	[X]	**[X]**
– Write-offs	[X]	[X]	[X]	**[X]**
– Changes due to modifications that did not result in derecognition	[X]	[X]	[X]	**[X]**
New loan commitments originated or purchased	[X]	[X]	[X]	**[X]**
Changes in models/risk parameters	[X]	[X]	[X]	**[X]**
Foreign exchange and other movements	[X]	[X]	[X]	**[X]**
Loss allowance as at 31 December 20YY	**[X]**	**[X]**	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

Credit quality (continued)

Loss allowance – Financial guarantee contracts	Stage 1 12-month ECL CUm	Stage 2 Lifetime ECL CUm	Stage 3 Lifetime ECL CUm	Total CUm
Loss allowance as at 31 December 20YY	[X]	[X]	[X]	**[X]**
Restatement of the prior year	[X]	[X]	[X]	**[X]**
Loss allowance as at 1 January 20XX	[X]	[X]	[X]	**[X]**
Changes in the loss allowance				
– Transfer to stage 1	[X]	[X]	[X]	**[X]**
– Transfer to stage 2	[X]	[X]	[X]	**[X]**
– Transfer to stage 3	[X]	[X]	[X]	**[X]**
– Increases due to change in credit risk	[X]	[X]	[X]	**[X]**
– Decreases due to change in credit risk	[X]	[X]	[X]	**[X]**
– Write-offs	[X]	[X]	[X]	**[X]**
– Changes due to modifications that did not result in derecognition	[X]	[X]	[X]	**[X]**
New financial guarantees	[X]	[X]	[X]	**[X]**
Changes in models/risk parameters	[X]	[X]	[X]	**[X]**
Foreign exchange and other movements	[X]	[X]	[X]	**[X]**
Loss allowance as at 31 December 20XX	**[X]**	**[X]**	**[X]**	**[X]**

Loss allowance – Financial guarantee contracts	Stage 1 12-month ECL CUm	Stage 2 Lifetime ECL CUm	Stage 3 Lifetime ECL CUm	Total CUm
Loss allowance as at 31 December 20ZZ	[X]	[X]	[X]	**[X]**
Restatement of the prior year	[X]	[X]	[X]	**[X]**
Loss allowance as at 1 January 20YY	[X]	[X]	[X]	**[X]**
Changes in the loss allowance				
– Transfer to stage 1	[X]	[X]	[X]	**[X]**
– Transfer to stage 2	[X]	[X]	[X]	**[X]**
– Transfer to stage 3	[X]	[X]	[X]	**[X]**
– Increases due to change in credit risk	[X]	[X]	[X]	**[X]**
– Decreases due to change in credit risk	[X]	[X]	[X]	**[X]**
– Write-offs	[X]	[X]	[X]	**[X]**
– Changes due to modifications that did not result in derecognition	[X]	[X]	[X]	**[X]**
New financial guarantees	[X]	[X]	[X]	**[X]**
Changes in models/risk parameters	[X]	[X]	[X]	**[X]**
Foreign exchange and other movements	[X]	[X]	[X]	**[X]**
Loss allowance as at 31 December 20YY	**[X]**	**[X]**	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

Credit quality (continued)

Loss allowance – Lease receivables	Stage 2 Lifetime ECL CUm	Stage 3 Lifetime ECL CUm	POCI CUm	Total CUm
Loss allowance as at 31 December 20YY	[X]	[X]	[X]	**[X]**
Restatement of the prior year	[X]	[X]	[X]	**[X]**
Loss allowance as at 1 January 20XX	[X]	[X]	[X]	**[X]**
Changes in the loss allowance				
– Transfer to stage 1	[X]	[X]	[X]	**[X]**
– Transfer to stage 2	[X]	[X]	[X]	**[X]**
– Transfer to stage 3	[X]	[X]	[X]	**[X]**
– Increases due to change in credit risk	[X]	[X]	[X]	**[X]**
– Decreases due to change in credit risk	[X]	[X]	[X]	**[X]**
– Write-offs	[X]	[X]	[X]	**[X]**
– Changes due to modifications that did not result in derecognition	[X]	[X]	[X]	**[X]**
New financial assets originated or purchased	[X]	[X]	[X]	**[X]**
Financial assets that have been derecognised	[X]	[X]	[X]	**[X]**
Changes in models/risk parameters	[X]	[X]	[X]	**[X]**
Foreign exchange and other movements	[X]	[X]	[X]	**[X]**
Loss allowance as at 31 December 20XX	**[X]**	**[X]**	**[X]**	**[X]**

Loss allowance – Lease receivables	Stage 2 Lifetime ECL CUm	Stage 3 Lifetime ECL CUm	POCI CUm	Total CUm
Loss allowance as at 31 December 20ZZ	[X]	[X]	[X]	**[X]**
Restatement of the prior year	[X]	[X]	[X]	**[X]**
Loss allowance as at 1 January 20YY	[X]	[X]	[X]	**[X]**
Changes in the loss allowance				
– Transfer to stage 1	[X]	[X]	[X]	**[X]**
– Transfer to stage 2	[X]	[X]	[X]	**[X]**
– Transfer to stage 3	[X]	[X]	[X]	**[X]**
– Increases due to change in credit risk	[X]	[X]	[X]	**[X]**
– Decreases due to change in credit risk	[X]	[X]	[X]	**[X]**
– Write-offs	[X]	[X]	[X]	**[X]**
– Changes due to modifications that did not result in derecognition	[X]	[X]	[X]	**[X]**
New financial assets originated or purchased	[X]	[X]	[X]	**[X]**
Financial assets that have been derecognised	[X]	[X]	[X]	**[X]**
Changes in models/risk parameters	[X]	[X]	[X]	**[X]**
Foreign exchange and other movements	[X]	[X]	[X]	**[X]**
Loss allowance as at 31 December 20ZZ	**[X]**	**[X]**	**[X]**	**[X]**

There are no lease receivables at stage 1, because the Group's accounting policy is to measure lease receivables as lifetime credit losses (see note 1).

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

80 ***IFRS 7:B8D*** In accordance with paragraph 35H, an entity is required to explain the reasons for the changes in the loss allowance during the period. In addition to the reconciliation from the opening balance to the closing balance of the loss allowance, it may be necessary to provide a narrative explanation of the changes. This narrative explanation may include an analysis of the reasons for changes in the loss allowance during the period, including:

(a) the portfolio composition;

(b) the volume of financial instruments purchased or originated; and

(c) the severity of the expected credit losses.

IFRS 7:35K (a) To enable users of financial statements to understand the effect of collateral and other credit enhancements on the amounts arising from expected credit losses, an entity shall disclose by class of financial instrument the amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements (e.g. netting agreements that do not qualify for offset in accordance with **IAS 32**).

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

Credit quality (continued)

The total amount of undiscounted ECL at initial recognition on POCI financial assets initially recognised during the reporting period of CU [X]m (20YY: CU [X]m) was related to loans and advances to customers. The Group did not recognise any other class of POCI financial assets during the period.

80 Significant changes in the gross carrying amount of financial assets that contributed to changes in the loss allowance were:

- The acquisition of portfolio 1 increased loans and advances to customers by [X] per cent, with a corresponding increase in the loss allowance measured on a 12-month basis.

- Excluding acquisitions from portfolio 1 the Group originated CU[X]m of new lending in the period. This led to an increase in the loss allowance of CU[X]m arising on initial recognition of these loans.

- The write-off of the CU[X]m portfolio 2 following the deterioration of the local economy reduced the loss allowance for loans and advances to customers with objective evidence of impairment by CU[X]m.

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

81 ***IFRS 7:35I*** To enable users of financial statements to understand the changes in the loss allowance disclosed in accordance with paragraph 35H, an entity shall provide an explanation of how significant changes in the gross carrying amount of financial instruments during the period contributed to changes in the loss allowance. The information shall be provided separately for financial instruments that represent the loss allowance as listed in paragraph 35H(a)–(c) and shall include relevant qualitative and quantitative information. Examples of changes in the gross carrying amount of financial instruments that contributed to the changes in the loss allowance may include:

(a) changes because of financial instruments originated or acquired during the reporting period;

(b) the modification of contractual cash flows on financial assets that do not result in a derecognition of those financial assets in accordance with **IFRS 9**;

(c) changes because of financial instruments that were derecognised (including those that were written-off) during the reporting period; and

(d) changes arising from whether the loss allowance is measured at an amount equal to 12-month or lifetime expected credit losses.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

Credit quality (continued)

81 More information about the significant changes in the gross carrying amount of financial assets during the period that contributed to changes in the loss allowance, is provided at the table below:

Loans and advances to banks at amortised cost	Stage 1 12-month ECL CUm	Stage 2 Lifetime ECL CUm	Stage 3 Lifetime ECL CUm	POCI CUm	Total CUm
Gross carrying amount as at 31 December 20YY	[X]	[X]	[X]	[X]	**[X]**
Restatement of the prior year	[X]	[X]	[X]	[X]	**[X]**
Gross carrying amount as at 1 January 20XX	[X]	[X]	[X]	[X]	**[X]**
Changes in the gross carrying amount					
– Transfer to stage 1	[X]	[X]	[X]	[X]	**[X]**
– Transfer to stage 2	[X]	[X]	[X]	[X]	**[X]**
– Transfer to stage 3	[X]	[X]	[X]	[X]	**[X]**
– Changes due to modifications that did not result in derecognition	[X]	[X]	[X]	[X]	**[X]**
New financial assets originated or purchased	[X]	[X]	[X]	[X]	**[X]**
Financial assets that have been derecognised	[X]	[X]	[X]	[X]	**[X]**
Write-offs	[X]	[X]	[X]	[X]	**[X]**
Other changes	[X]	[X]	[X]	[X]	**[X]**
Gross carrying amount as at 31 December 20XX	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**
Loss allowance as at 31 December 20XX	[X]	[X]	[X]	[X]	**[X]**

Loans and advances to banks at amortised cost	Stage 1 12-month ECL CUm	Stage 2 Lifetime ECL CUm	Stage 3 Lifetime ECL CUm	POCI CUm	Total CUm
Gross carrying amount as at 31 December 20ZZ	[X]	[X]	[X]	[X]	**[X]**
Restatement of the prior year	[X]	[X]	[X]	[X]	**[X]**
Gross carrying amount as at 1 January 20YY	[X]	[X]	[X]	[X]	**[X]**
Changes in the gross carrying amount					
– Transfer to stage 1	[X]	[X]	[X]	[X]	**[X]**
– Transfer to stage 2	[X]	[X]	[X]	[X]	**[X]**
– Transfer to stage 3	[X]	[X]	[X]	[X]	**[X]**
– Changes due to modifications that did not result in derecognition	[X]	[X]	[X]	[X]	**[X]**
New financial assets originated or purchased	[X]	[X]	[X]	[X]	**[X]**
Financial assets that have been derecognised	[X]	[X]	[X]	[X]	**[X]**
Write-offs	[X]	[X]	[X]	[X]	**[X]**
Other changes	[X]	[X]	[X]	[X]	**[X]**
Gross carrying amount as at 31 December 20YY	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**
Loss allowance as at 31 December 20YY	[X]	[X]	[X]	[X]	**[X]**

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

Credit quality (continued)

Loans and advances to customers at amortised cost	Stage 1 12-month ECL CUm	Stage 2 Lifetime ECL CUm	Stage 3 Lifetime ECL CUm	POCI CUm	Total CUm
Gross carrying amount as at 31 December 20YY	[X]	[X]	[X]	[X]	**[X]**
Restatement of the prior year	[X]	[X]	[X]	[X]	**[X]**
Gross carrying amount as at 1 January 20XX	[X]	[X]	[X]	[X]	**[X]**
Changes in the gross carrying amount					
– Transfer to stage 1	[X]	[X]	[X]	[X]	**[X]**
– Transfer to stage 2	[X]	[X]	[X]	[X]	**[X]**
– Transfer to stage 3	[X]	[X]	[X]	[X]	**[X]**
– Changes due to modifications that did not result in derecognition	[X]	[X]	[X]	[X]	**[X]**
New financial assets originated or purchased	[X]	[X]	[X]	[X]	**[X]**
Financial assets that have been derecognised	[X]	[X]	[X]	[X]	**[X]**
Write-offs	[X]	[X]	[X]	[X]	**[X]**
Other changes	[X]	[X]	[X]	[X]	**[X]**
Gross carrying amount as at 31 December 20XX	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**
Loss allowance as at 31 December 20XX	[X]	[X]	[X]	[X]	**[X]**

Loans and advances to customers at amortised cost	Stage 1 12-month ECL CUm	Stage 2 Lifetime ECL CUm	Stage 3 Lifetime ECL CUm	POCI CUm	Total CUm
Gross carrying amount as at 31 December 20ZZ	[X]	[X]	[X]	[X]	**[X]**
Restatement of the prior year	[X]	[X]	[X]	[X]	**[X]**
Gross carrying amount as at 1 January 20YY	[X]	[X]	[X]	[X]	**[X]**
Changes in the gross carrying amount					
– Transfer to stage 1	[X]	[X]	[X]	[X]	**[X]**
– Transfer to stage 2	[X]	[X]	[X]	[X]	**[X]**
– Transfer to stage 3	[X]	[X]	[X]	[X]	**[X]**
– Changes due to modifications that did not result in derecognition	[X]	[X]	[X]	[X]	**[X]**
New financial assets originated or purchased	[X]	[X]	[X]	[X]	**[X]**
Financial assets that have been derecognised	[X]	[X]	[X]	[X]	**[X]**
Write-offs	[X]	[X]	[X]	[X]	**[X]**
Other changes	[X]	[X]	[X]	[X]	**[X]**
Gross carrying amount as at 31 December 20YY	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**
Loss allowance as at 31 December 20YY	[X]	[X]	[X]	[X]	**[X]**

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

Credit quality (continued)

Debt investment securities at amortised cost	Stage 1 12-month ECL CUm	Stage 2 Lifetime ECL CUm	Stage 3 Lifetime ECL CUm	POCI CUm	Total CUm
Gross carrying amount as at 31 December 20YY	[X]	[X]	[X]	[X]	**[X]**
Restatement of the prior year	[X]	[X]	[X]	[X]	**[X]**
Gross carrying amount as at 1 January 20XX	[X]	[X]	[X]	[X]	**[X]**
Changes in the gross carrying amount					
– Transfer to stage 1	[X]	[X]	[X]	[X]	**[X]**
– Transfer to stage 2	[X]	[X]	[X]	[X]	**[X]**
– Transfer to stage 3	[X]	[X]	[X]	[X]	**[X]**
– Changes due to modifications that did not result in derecognition	[X]	[X]	[X]	[X]	**[X]**
New financial assets originated or purchased	[X]	[X]	[X]	[X]	**[X]**
Financial assets that have been derecognised	[X]	[X]	[X]	[X]	**[X]**
Write-offs	[X]	[X]	[X]	[X]	**[X]**
Other changes	[X]	[X]	[X]	[X]	**[X]**
Gross carrying amount as at 31 December 20XX	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**
Loss allowance as at 31 December 20XX	[X]	[X]	[X]	[X]	**[X]**

Debt investment securities at amortised cost	Stage 1 12-month ECL CUm	Stage 2 Lifetime ECL CUm	Stage 3 Lifetime ECL CUm	POCI CUm	Total CUm
Gross carrying amount as at 31 December 20ZZ	[X]	[X]	[X]	[X]	**[X]**
Restatement of the prior year	[X]	[X]	[X]	[X]	**[X]**
Gross carrying amount as at 1 January 20YY	[X]	[X]	[X]	[X]	**[X]**
Changes in the gross carrying amount					
– Transfer to stage 1	[X]	[X]	[X]	[X]	**[X]**
– Transfer to stage 2	[X]	[X]	[X]	[X]	**[X]**
– Transfer to stage 3	[X]	[X]	[X]	[X]	**[X]**
– Changes due to modifications that did not result in derecognition	[X]	[X]	[X]	[X]	**[X]**
New financial assets originated or purchased	[X]	[X]	[X]	[X]	**[X]**
Financial assets that have been derecognised	[X]	[X]	[X]	[X]	**[X]**
Write-offs	[X]	[X]	[X]	[X]	**[X]**
Other changes	[X]	[X]	[X]	[X]	**[X]**
Gross carrying amount as at 31 December 20YY	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**
Loss allowance as at 31 December 20YY	[X]	[X]	[X]	[X]	**[X]**

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

Credit quality (continued)

Debt investment securities at FVTOCI	**Stage 1 12-month ECL CUm**	**Stage 2 Lifetime ECL CUm**	**Stage 3 Lifetime ECL CUm**	**POCI CUm**	**Total CUm**
Carrying amount as at 31 December 20YY	[X]	[X]	[X]	[X]	**[X]**
Restatement of the prior year	[X]	[X]	[X]	[X]	**[X]**
Carrying amount as at 1 January 20XX	[X]	[X]	[X]	[X]	**[X]**
Changes in the carrying amount					
– Transfer to stage 1	[X]	[X]	[X]	[X]	**[X]**
– Transfer to stage 2	[X]	[X]	[X]	[X]	**[X]**
– Transfer to stage 3	[X]	[X]	[X]	[X]	**[X]**
– Changes due to modifications that did not result in derecognition	[X]	[X]	[X]	[X]	**[X]**
New financial assets originated or purchased	[X]	[X]	[X]	[X]	**[X]**
Financial assets that have been derecognised	[X]	[X]	[X]	[X]	**[X]**
Write-offs	[X]	[X]	[X]	[X]	**[X]**
Other changes	[X]	[X]	[X]	[X]	**[X]**
Carrying amount as at 31 December 20XX	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

Debt investment securities at FVTOCI	**Stage 1 12-month ECL CUm**	**Stage 2 Lifetime ECL CUm**	**Stage 3 Lifetime ECL CUm**	**POCI CUm**	**Total CUm**
Carrying amount as at 31 December 20ZZ	[X]	[X]	[X]	[X]	**[X]**
Restatement of the prior year	[X]	[X]	[X]	[X]	**[X]**
Carrying amount as at 1 January 20YY	[X]	[X]	[X]	[X]	**[X]**
Changes in the carrying amount					
– Transfer to stage 1	[X]	[X]	[X]	[X]	**[X]**
– Transfer to stage 2	[X]	[X]	[X]	[X]	**[X]**
– Transfer to stage 3	[X]	[X]	[X]	[X]	**[X]**
– Changes due to modifications that did not result in derecognition	[X]	[X]	[X]	[X]	**[X]**
New financial assets originated or purchased	[X]	[X]	[X]	[X]	**[X]**
Financial assets that have been derecognised	[X]	[X]	[X]	[X]	**[X]**
Write-offs	[X]	[X]	[X]	[X]	**[X]**
Other changes	[X]	[X]	[X]	[X]	**[X]**
Carrying amount as at 31 December 20YY	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

No loss allowance is recognised in the statement of financial position for debt instruments measured at FVTOCI as the carrying amount is at fair value (see note 1 presentation of allowance for ECL).

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

Credit quality (continued)

Loan commitments	Stage 1 12-month ECL CUm	Stage 2 Lifetime ECL CUm	Stage 3 Lifetime ECL CUm	Total CUm
Total amount committed as at 31 December 20YY	[X]	[X]	[X]	**[X]**
Changes in the amount committed				
– Transfer to stage 1	[X]	[X]	[X]	**[X]**
– Transfer to stage 2	[X]	[X]	[X]	**[X]**
– Transfer to stage 3	[X]	[X]	[X]	**[X]**
– Changes due to modifications	[X]	[X]	[X]	**[X]**
New loan commitments originated or purchased	[X]	[X]	[X]	**[X]**
Write-offs	[X]	[X]	[X]	**[X]**
Other changes	[X]	[X]	[X]	**[X]**
Total amount committed as at 31 December 20XX	**[X]**	**[X]**	**[X]**	**[X]**
Loss allowance as at 31 December 20XX	[X]	[X]	[X]	**[X]**

Loan commitments	Stage 1 12-month ECL CUm	Stage 2 Lifetime ECL CUm	Stage 3 Lifetime ECL CUm	Total CUm
Total amount committed as at 31 December 20ZZ	[X]	[X]	[X]	**[X]**
Changes in the amount committed				
– Transfer to stage 1	[X]	[X]	[X]	**[X]**
– Transfer to stage 2	[X]	[X]	[X]	**[X]**
– Transfer to stage 3	[X]	[X]	[X]	**[X]**
– Changes due to modifications	[X]	[X]	[X]	**[X]**
New loan commitments originated or purchased	[X]	[X]	[X]	**[X]**
Write-offs	[X]	[X]	[X]	**[X]**
Other changes	[X]	[X]	[X]	**[X]**
Total amount committed as at 31 December 20YY	**[X]**	**[X]**	**[X]**	**[X]**
Loss allowance as at 31 December 20YY	[X]	[X]	[X]	**[X]**

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

Credit quality (continued)

Financial guarantee contracts	Stage 1 12-month ECL CUm	Stage 2 Lifetime ECL CUm	Stage 3 Lifetime ECL CUm	Total CUm
Total amount guaranteed as at 31 December 20YY	[X]	[X]	[X]	**[X]**
Changes in the amount guaranteed				
– Transfer to stage 1	[X]	[X]	[X]	**[X]**
– Transfer to stage 2	[X]	[X]	[X]	**[X]**
– Transfer to stage 3	[X]	[X]	[X]	**[X]**
– Changes due to modifications	[X]	[X]	[X]	**[X]**
New financial guarantees	[X]	[X]	[X]	**[X]**
Write-offs	[X]	[X]	[X]	**[X]**
Other changes	[X]	[X]	[X]	**[X]**
Total amount guaranteed as at 31 December 20XX	**[X]**	**[X]**	**[X]**	**[X]**
Loss allowance as at 31 December 20XX	[X]	[X]	[X]	**[X]**

Financial guarantee contracts	Stage 1 12-month ECL CUm	Stage 2 Lifetime ECL CUm	Stage 3 Lifetime ECL CUm	Total CUm
Total amount guaranteed as at 31 December 20ZZ	[X]	[X]	[X]	**[X]**
Changes in the amount guaranteed				
– Transfer to stage 1	[X]	[X]	[X]	**[X]**
– Transfer to stage 2	[X]	[X]	[X]	**[X]**
– Transfer to stage 3	[X]	[X]	[X]	**[X]**
– Changes due to modifications	[X]	[X]	[X]	**[X]**
New financial guarantees	[X]	[X]	[X]	**[X]**
Write-offs	[X]	[X]	[X]	**[X]**
Other changes	[X]	[X]	[X]	**[X]**
Total amount guaranteed as at 31 December 20YY	**[X]**	**[X]**	**[X]**	**[X]**
Loss allowance as at 31 December 20YY	[X]	[X]	[X]	**[X]**

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

Credit quality (continued)

Lease receivables	Stage 2 Lifetime ECL CUm	Stage 3 Lifetime ECL CUm	POCI CUm	Total CUm
Carrying amount as at 31 December 20YY	[X]	[X]	[X]	**[X]**
Restatement of the prior year	[X]	[X]	[X]	**[X]**
Carrying amount as at 1 January 20XX	[X]	[X]	[X]	**[X]**
Changes in the carrying amount				
– Transfer to stage 1	[X]	[X]	[X]	**[X]**
– Transfer to stage 2	[X]	[X]	[X]	**[X]**
– Transfer to stage 3	[X]	[X]	[X]	**[X]**
– Changes due to modifications that did not result in derecognition	[X]	[X]	[X]	**[X]**
New financial assets originated or purchased	[X]	[X]	[X]	**[X]**
Financial assets that have been derecognised	[X]	[X]	[X]	**[X]**
Write-offs	[X]	[X]	[X]	**[X]**
Other changes	[X]	[X]	[X]	**[X]**
Carrying amount as at 31 December 20XX	**[X]**	**[X]**	**[X]**	**[X]**
Loss allowance as at 31 December 20XX	[X]	[X]	[X]	**[X]**

Lease receivables	Stage 2 Lifetime ECL CUm	Stage 3 Lifetime ECL CUm	POCI CUm	Total CUm
Carrying amount as at 31 December 20ZZ	[X]	[X]	[X]	**[X]**
Restatement of the prior year	[X]	[X]	[X]	**[X]**
Carrying amount as at 1 January 20YY	[X]	[X]	[X]	**[X]**
Changes in the carrying amount				
– Transfer to stage 1	[X]	[X]	[X]	**[X]**
– Transfer to stage 2	[X]	[X]	[X]	**[X]**
– Transfer to stage 3	[X]	[X]	[X]	**[X]**
– Changes due to modifications that did not result in derecognition	[X]	[X]	[X]	**[X]**
New financial assets originated or purchased	[X]	[X]	[X]	**[X]**
Financial assets that have been derecognised	[X]	[X]	[X]	**[X]**
Write-offs	[X]	[X]	[X]	**[X]**
Other changes	[X]	[X]	[X]	**[X]**
Carrying amount as at 31 December 20YY	**[X]**	**[X]**	**[X]**	**[X]**
Loss allowance as at 31 December 20YY	[X]	[X]	[X]	**[X]**

There are no lease receivables at stage 1, because the Group's accounting policy is to measure lease receivables as lifetime credit losses (see note 1).

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

82 ***IFRS 7:35L*** An entity shall disclose the contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity.

83 ***IFRS 7:B8I*** The number of credit risk rating grades used to disclose the information in accordance with paragraph 35M shall be consistent with the number that the entity reports to key management personnel for credit risk management purposes. If past due information is the only borrower-specific information available and an entity uses past due information to assess whether credit risk has increased significantly since initial recognition in accordance with **IFRS 9:5.5.11**, an entity shall provide an analysis by past due status for those financial assets.

The table in the illustrative disclosures shows the loss allowance as well as gross carrying amounts, although this is not mandatory.

84 **Modified financial assets**

IFRS 7:35J To enable users of financial statements to understand the nature and effect of modifications of contractual cash flows on financial assets that have not resulted in derecognition and the effect of such modifications on the measurement of expected credit losses, an entity shall disclose:

(a) the amortised cost before the modification and the net modification gain or loss recognised for financial assets for which the contractual cash flows have been modified during the reporting period while they had a loss allowance measured at an amount equal to lifetime expected credit losses; and

(b) the gross carrying amount at the end of the reporting period of financial assets that have been modified since initial recognition at a time when the loss allowance was measured at an amount equal to lifetime expected credit losses and for which the loss allowance has changed during the reporting period to an amount equal to 12-month expected credit losses.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

Credit quality (continued)

82 The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity is CU[X]m at 31 December 20XX.

83 As discussed above in the significant increase in credit risk section, under the Group's monitoring procedures a significant increase in credit risk is identified before the exposure has defaulted, and at the latest when the exposure becomes 30 days past due. This is the case mainly for loans and advances to customers and more specifically for retail lending exposures because for corporate lending and other exposures there is more borrower specific information available which is used to identify significant increase in credit risk. The table below provides an analysis of the gross carrying amount of loans and advances to customers by past due status.

	Year ended 20XX		Year ended 20YY	
Loans and advances to customers	**Gross carrying amount CUm**	**Loss allowance CUm**	**Gross carrying amount CUm**	**Loss allowance CUm**
0-29 days	[X]	[X]	[X]	[X]
30-59 days	[X]	[X]	[X]	[X]
60-89 days	[X]	[X]	[X]	[X]
90-180 days	[X]	[X]	[X]	[X]
More than 181 days	[X]	[X]	[X]	[X]
Total	**[X]**	**[X]**	**[X]**	**[X]**

84 **Modified financial assets**

As a result of the Group's forbearance activities financial assets might be modified. The following tables refer to modified financial assets where modification does not result in derecognition.

Financial assets (with loss allowance based on lifetime ECL) modified during the period	**Year ended 20XX CUm**	**Year ended 20YY CUm**
Gross carrying amount before modification	[X]	[X]
Loss allowance before modification	[X]	[X]
Net amortised cost before modification	**[X]**	**[X]**
Net modification gain/(loss)	[X]	[X]
Net amortised cost after modification	**[X]**	**[X]**

Financial assets modified since initial recognition at a time when loss allowance was based on lifetime ECL	**Year ended 20XX CUm**	**Year ended 20YY CUm**
Gross carrying amount of financial assets for which loss allowance has changed in the period from lifetime to 12-month ECL cost after modification	[X]	[X]

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

85 **Collateral held as security and other credit enhancements**

IFRS 7:35K(b) To enable users of financial statements to understand the effect of collateral and other credit enhancements on the amounts arising from expected credit losses, an entity shall disclose by class of financial instrument a narrative description of collateral held as security and other credit enhancements, including:

(i) a description of the nature and quality of the collateral held;

(ii) an explanation of any significant changes in the quality of that collateral or credit enhancements as a result of deterioration or changes in the collateral policies of the entity during the reporting period; and

(iii) information about financial instruments for which an entity has not recognised a loss allowance because of the collateral.

IFRS 7:36(b) For all financial instruments within the scope of this IFRS, but to which the impairment requirements in **IFRS 9** are not applied, an entity shall disclose by class of financial instrument a description of collateral held as security and other credit enhancements, and their financial effect (e.g. quantification of the extent to which collateral and other credit enhancements mitigate credit risk) in respect of the amount that best represents the maximum exposure to credit risk.

IFRS 7:B8G A narrative description of collateral and its effect on amounts of expected credit losses might include information about:

(a) the main types of collateral held as security and other credit enhancements (examples of the latter being guarantees, credit derivatives and netting agreements that do not qualify for offset in accordance with **IAS 32**);

(b) the volume of collateral held and other credit enhancements and its significance in terms of the loss allowance;

(c) the policies and processes for valuing and managing collateral and other credit enhancements;

(d) the main types of counterparties to collateral and other credit enhancements and their creditworthiness; and

(e) information about risk concentrations within the collateral and other credit enhancements.

IFRS 7:35K(c) To enable users of financial statements to understand the effect of collateral and other credit enhancements on the amounts arising from expected credit losses, an entity shall disclose by class of financial instrument quantitative information about the collateral held as security and other credit enhancements (for example, quantification of the extent to which collateral and other credit enhancements mitigate credit risk) for financial assets that are credit-impaired at the reporting date.

Banks should disclose quantitative information on credit risk enhancements on a sufficiently granular basis to enable understanding of different material credit risk concentrations, including differentiating LTV bands where relevant.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

85 **Collateral held as security and other credit enhancements**

The Group holds collateral or other credit enhancements to mitigate credit risk associated with financial assets. The main types of collateral and the types of assets these are associated with are listed in the table below. The collateral presented relates to instruments that are measured at FVTOCI, amortised cost and at FVTPL.

	Type of Collateral held
Derivative assets	[add description]
Loans and advances to banks	[add description]
Mortgage lending	[add description]
Personal lending	[add description]
Corporate lending	[add description]
Investment securities	[add description]
Lease receivables	[add description]
Other	[add description]

In addition to the collateral included in the table 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.

The Group did not hold any financial instrument for which no loss allowance is recognised because of collateral at 31 December 20XX. There was no change in the Group's collateral policy during the year. More details with regards to collateral held for certain classes of financial assets can be found below.

Derivatives and loans and advances to banks (reverse sale and repurchase agreements and securities borrowing)

The Group uses master netting agreements and holds cash collateral and marketable securities to mitigate the credit risk of derivatives, reverse sale-and-repurchase agreements and securities lending.

The Group enters into derivatives with central counterparty clearing houses (CCPs) or bilaterally under International Swaps and Derivatives Association (ISDA) master netting agreements. ISDA Master Netting agreements give either party the legal right of offset on termination of the contract or on default of the other party. The Group executes a credit support annex in conjunction with each ISDA agreement, which requires the Group and each counterparty to post collateral to mitigate credit risk. Collateral is also posted daily in respect of derivatives transacted on exchanges and with CCPs. The collateral posted with regards to open derivatives is cash or marketable securities.

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

The quantification of collateral is provided below – refer to 'Offsetting financial assets and financial liabilities'.

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

Collateral held as security and other credit enhancements (continued)

Mortgage lending

The Group holds residential properties as collateral for the mortgage loans it grants to its customers. The Group monitors its exposure to retail mortgage lending using the LTV ratio, which 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 typically 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. The tables below show the exposures from mortgage loans by ranges of LTV.

	Year ended 20XX		Year ended 20YY	
Mortgage lending LTV ratio	**Gross carrying amount CUm**	**Loss allowance CUm**	**Gross carrying amount CUm**	**Loss allowance CUm**
Less than 50%	[X]	[X]	[X]	[X]
51-70%	[X]	[X]	[X]	[X]
71-90%	[X]	[X]	[X]	[X]
91-100%	[X]	[X]	[X]	[X]
More than 100%	[X]	[X]	[X]	[X]
Total	**[X]**	**[X]**	**[X]**	**[X]**

	Year ended 20XX		Year ended 20YY	
Loan commitments – Mortgage lending LTV ratio	**Amount committed CUm**	**Loss allowance CUm**	**Amount committed CUm**	**Loss allowance CUm**
Less than 50%	[X]	[X]	[X]	[X]
51-70%	[X]	[X]	[X]	[X]
71-90%	[X]	[X]	[X]	[X]
91-100%	[X]	[X]	[X]	[X]
More than 100%	[X]	[X]	[X]	[X]
Total	**[X]**	**[X]**	**[X]**	**[X]**

	Year ended 20XX		Year ended 20YY	
Credit impaired – mortgage lending LTV ratio	**Gross carrying amount CUm**	**Loss allowance CUm**	**Gross carrying amount CUm**	**Loss allowance CUm**
Less than 50%	[X]	[X]	[X]	[X]
51-70%	[X]	[X]	[X]	[X]
71-90%	[X]	[X]	[X]	[X]
91-100%	[X]	[X]	[X]	[X]
More than 100%	[X]	[X]	[X]	[X]
Total	**[X]**	**[X]**	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

86 ***IFRS 7:38*** When an entity obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (e.g. guarantees), and such assets meet the recognition criteria in other IFRSs, an entity shall disclose for such assets held at the reporting date:

(a) the nature and carrying amount of the assets; and

(b) when the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.

87 **Offsetting financial assets and financial liabilities**

IFRS 7:13A The disclosures in paragraphs 13B–13E supplement the other disclosure requirements of this IFRS and are required for all recognised financial instruments that are set off in accordance with **IAS 32:42**. These disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with **IAS 32:42**.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

Collateral held as security and other credit enhancements (continued)

Personal lending

The Group's personal lending portfolio consists of unsecured loans and credit cards.

Corporate lending

The Group requests collateral and guarantees for corporate lending. The most relevant indicator of corporate customers' creditworthiness is an analysis of their financial performance and their liquidity, leverage, management effectiveness and growth ratios. For this reason the valuation of collateral held against corporate lending is not routinely updated. The valuation of such collateral is updated if the loan is put on "watch-list" and is therefore monitored more closely.

For credit-impaired loans the Group obtains appraisals of collateral to inform its credit risk management actions. At 31 December 20XX the net carrying amount of loans and advances to corporate customers was CU[X]m (20YY: CU[X]m) and the value of the respective collateral was CU[X]m (20YY: CU[X]m).

Investment securities

The Group holds investment securities measured at amortised cost with a carrying amount of CU[X]m and at FVTOCI with a carrying amount of CU[X]m. The investment securities held by the Group are sovereign bonds and corporate bonds, which are not collateralised, as well as asset-backed securities, which are secured by financial assets.

Lease receivables

The Group has lease receivables at a carrying amount of CU[X]m which are secured by the property and equipment leased to the lessee.

86 **Assets obtained by taking possession of collateral**

The Group obtained the following financial and non-financial assets during the year by taking possession of collateral held as security against loans and advances and held at the year end. The Group's policy is to realise collateral on a timely basis. The Group does not use non-cash collateral for its operations.

	Year ended 20XX CU	Year ended 20YY CU
Property	[X]	[X]
Debt securities	[X]	[X]
Other	[X]	[X]
Total assets obtained by taking possession of collateral	[X]	[X]

Offsetting financial assets and financial liabilities

The tables below include all Group's financial instruments that are subject to an enforceable master netting or similar agreement,
87 irrespective of whether they are offset in the statement of financial position.

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.

ISDA and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position because under such agreements the counterparties typically have the right to offset only following an event of default, insolvency or bankruptcy or following other predetermined events.

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

88 ***IFRS 7:B41*** The similar agreements referred to in paragraphs 13A and B40 include derivative clearing agreements, global master repurchase agreements, global master securities lending agreements, and any related rights to financial collateral. The similar financial instruments and transactions referred to in paragraph B40 include derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, securities borrowing, and securities lending agreements. Examples of financial instruments that are not within the scope of paragraph 13A are loans and customer deposits at the same institution (unless they are set off in the statement of financial position), and financial instruments that are subject only to a collateral agreement.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

89 **Offsetting financial assets and financial liabilities (continued)**

The Group uses master netting agreements, accepting and posting cash collateral and marketable securities to mitigate the credit risk of derivatives, sale-and-repurchase and reverse sale-and-repurchase agreements, as well as securities lending and securities borrowing. Under such agreements the 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.

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

31 December 20XX				Related amounts not set off in the statement of financial position		
Types of financial assets	Gross amounts of recognised financial assets CUm	Gross amounts of recognised financial liabilities set off in the statement of financial position CUm	Net amounts of financial assets presented in the statement of financial position CUm	Financial instruments CUm	Cash collateral received CUm	Net amount CUm
Derivative financial instruments	[X]	[X]	**[X]**	[X]	[X]	**[X]**
Loans to banks/ (Deposits from banks)						
– Reverse repurchase, securities borrowing and similar agreements	[X]	[X]	**[X]**	[X]	[X]	**[X]**
– Other financial instruments	[X]	[X]	**[X]**	[X]	[X]	**[X]**
Total	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

31 December 20YY				Related amounts not set off in the statement of financial position		
Types of financial assets	Gross amounts of recognised financial assets CUm	Gross amounts of recognised financial liabilities set off in the statement of financial position CUm	Net amounts of financial assets presented in the statement of financial position CUm	Financial instruments CUm	Cash collateral received CUm	Net amount CUm
Derivative financial instruments	[X]	[X]	**[X]**	[X]	[X]	**[X]**
Loans to banks/ (Deposits from banks)						
– Reverse repurchase, securities borrowing and similar agreements	[X]	[X]	**[X]**	[X]	[X]	**[X]**
– Other financial instruments	[X]	[X]	**[X]**	[X]	[X]	**[X]**
Total	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

88 **Financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements (continued)**

31 December 20XX Types of financial liabilities	Gross amounts of recognised financial liabilities CUm	Gross amounts of recognised financial assets set off in the statement of financial position CUm	Net amounts of financial assets presented in the statement of financial position CUm	Related amounts not set off in the statement of financial position Financial instruments CUm	Cash collateral received CUm	Net amount CUm
Derivative financial instruments	[X]	[X]	**[X]**	[X]	[X]	**[X]**
Loans to banks/ (Deposits from banks)						
– Repurchase, securities lending and similar agreements	[X]	[X]	**[X]**	[X]	[X]	**[X]**
– Other financial instruments	[X]	[X]	**[X]**	[X]	[X]	**[X]**
Total	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

31 December 20YY Types of financial liabilities	Gross amounts of recognised financial liabilities CUm	Gross amounts of recognised financial assets set off in the statement of financial position CUm	Net amounts of financial assets presented in the statement of financial position CUm	Related amounts not set off in the statement of financial position Financial instruments CUm	Cash collateral received CUm	Net amount CUm
Derivative financial instruments	[X]	[X]	**[X]**	[X]	[X]	**[X]**
Loans to banks/ (Deposits from banks)						
– Repurchase, securities lending and similar agreements	[X]	[X]	**[X]**	[X]	[X]	**[X]**
– Other financial instruments	[X]	[X]	**[X]**	[X]	[X]	**[X]**
Total	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

89 ***IFRS 7:13C*** To meet the objective in paragraph 13B, an entity shall disclose, at the end of the reporting period, the following quantitative information separately for recognised financial assets and recognised financial liabilities that are within the scope of paragraph 13A:

(a) the gross amounts of those recognised financial assets and recognised financial liabilities;

(b) the amounts that are set off in accordance with the criteria in paragraph 42 of IAS 32 when determining the net amounts presented in the statement of financial position;

(c) the net amounts presented in the statement of financial position;

(d) the amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in paragraph 13C(b), including:

(i) amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria in paragraph 42 of IAS 32; and

(ii) amounts related to financial collateral (including cash collateral); and

(e) the net amount after deducting the amounts in (d) from the amounts in (c) above.

The information required by this paragraph shall be presented in a tabular format, separately for financial assets and financial liabilities, unless another format is more appropriate.

IFRS 7:13D The total amount disclosed in accordance with paragraph 13C(d) for an instrument shall be limited to the amount in paragraph 13C(c) for that instrument.

IFRS 7:13E An entity shall include a description in the disclosures of the rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities subject to enforceable master netting arrangements and similar agreements that are disclosed in accordance with paragraph 13C(d), including the nature of those rights.

IFRS 7:13F If the information required by paragraphs 13B–13E is disclosed in more than one note to the financial statements, an entity shall cross-refer between those notes.

IFRS 7:B46 The amounts required to be disclosed by paragraph 13C(c) must be reconciled to the individual line item amounts presented in the statement of financial position. For example, if an entity determines that the aggregation or disaggregation of individual financial statement line item amounts provides more relevant information, it must reconcile the aggregated or disaggregated amounts disclosed in paragraph 13C(c) back to the individual line item amounts presented in the statement of financial position.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements (continued)

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

31 December 20XX	Gross amounts of recognised financial assets CUm	Gross amounts of recognised financial liabilities set off in the statement of financial position CUm	Net amounts of financial assets presented in the statement of financial position CUm
Type of financial assets			
Derivative financial instruments	[X]	[X]	[X]
Loans to banks/ (Deposits from banks)			
– Reverse repurchase, securities borrowing and similar agreements	[X]	[X]	[X]
– Other financial instruments	[X]	[X]	[X]
Total	**[X]**	**[X]**	**[X]**

31 December 20YY	Gross amounts of recognised financial assets CUm	Gross amounts of recognised financial liabilities set off in the statement of financial position CUm	Net amounts of financial assets presented in the statement of financial position CUm
Type of financial assets			
Derivative financial instruments	[X]	[X]	[X]
Loans to banks/ (Deposits from banks)			
– Reverse repurchase, securities borrowing and similar agreements	[X]	[X]	[X]
– Other financial instruments	[X]	[X]	[X]
Total	**[X]**	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

3. Credit risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

3. Credit risk (continued)

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements (continued)

31 December 20XX	Gross amounts of recognised financial liabilities CUm	Gross amounts of recognised financial assets set off in the statement of financial position CUm	Net amounts of financial liabilities presented in the statement of financial position CUm
Type of financial liabilities			
Derivative financial instruments	[X]	[X]	**[X]**
Loans to banks/ (Deposits from banks)			
– Reverse repurchase, securities lending and similar agreements	[X]	[X]	**[X]**
– Other financial instruments	[X]	[X]	**[X]**
Total	**[X]**	**[X]**	**[X]**

31 December 20YY	Gross amounts of recognised financial liabilities CUm	Gross amounts of recognised financial assets set off in the statement of financial position CUm	Net amounts of financial liabilities presented in the statement of financial position CUm
Type of financial liabilities			
Derivative financial instruments	[X]	[X]	**[X]**
Loans to banks/ (Deposits from banks)			
– Reverse repurchase, securities lending and similar agreements	[X]	[X]	**[X]**
– Other financial instruments	[X]	[X]	**[X]**
Total	**[X]**	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

90 **4. Liquidity risk**

IFRS 7:39 An entity shall disclose:

(a) a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities.

(b) a maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows.

(c) a description of how it manages the liquidity risk inherent in (a) and (b).

IFRS 7:B11E In describing how an entity manages the liquidity risk inherent in the items disclosed in the quantitative disclosures required in **IFRS 7:39(a)** and **(b)** (as required by **IFRS 7:39(c)**), an entity shall disclose a maturity analysis of financial assets it holds for managing liquidity risk (e.g. financial assets that are readily saleable or expected to generate cash inflows to meet cash outflows on financial liabilities), if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk.

IFRS 7:B11F Other factors that an entity might consider in providing the disclosure required in paragraph 39(c) include, but are not limited to, whether the entity:

(a) has committed borrowing facilities (e.g. commercial paper facilities) or other lines of credit (e.g. stand-by credit facilities) that it can access to meet liquidity needs;

(b) holds deposits at central banks to meet liquidity needs;

(c) has very diverse funding sources;

(d) has significant concentrations of liquidity risk in either its assets or its funding sources;

(e) has internal control processes and contingency plans for managing liquidity risk;

(f) has instruments that include accelerated repayment terms (e.g. on the downgrade of the entity's credit rating);

(g) has instruments that could require the posting of collateral (e.g. margin calls for derivatives);

(h) has instruments that allows the entity to choose whether it settles its financial liabilities by delivering cash (or another financial asset) or by delivering its own shares; or

(i) has instruments that are subject to master netting agreements.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

90 **4. Liquidity risk**

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows which is inherent in all banking operations and can be affected by a range of Group-specific and market-wide events.

Liquidity risk management

The Group established a comprehensive policy and control framework for managing liquidity risk. The Group's Asset and Liability Management Committee (ALCO) is responsible for managing the Group's liquidity risk via a combination of policy formation, review and governance, analysis, stress testing, limit setting and monitoring. In order to effectively manage liquidity risk the Group:

- maintains a portfolio of highly liquid assets, in a variety of currencies and tenors;
- ensures that there is diversity in its funding base;
- monitors the behavioural characteristics of financial assets and liabilities;
- monitors liquidity reports analysing the expected maturity profile of assets and liabilities;
- establishes early warning indicators of potential liquidity stress events and ensures that there are assets available to be used as collateral if needed;
- performs regular stress tests; and
- maintains a contingency funding plan designed to provide a framework where a liquidity stress could be effectively managed.

The Group Treasury function executes the Group's liquidity and funding strategy in co-operation with other business units of the Group. The Group's liquidity and funding strategy is determined in accordance with relevant local regulatory requirements. The Group's foreign operations determine a local liquidity strategy which needs to be in line with both local regulatory framework and the Group's central policy.

There are daily controls in place to define and monitor compliance with the Group's liquidity risk appetite. The principal metric used is the result of the Group's liquidity stress testing, supplemented by the results of key regulatory ratios including the Liquidity Coverage Ratio (which measures the ratio of high quality liquid assets to outflows in an extreme 30 days stress scenario) and the Net Stable Funding Ratio (which seeks to promote a sustainable maturity structure of funding balances).

Liquidity Stress Testing

The Group seeks to maintain liquid assets sufficient to cover stressed outflows over (1) a 90 day market wide stress period; (2) an extreme Group specific stress event lasting 30 days; and (3) a combined stress event period of 30 days reflecting a shorter extreme Group-specific stress followed by a period of market-wide stress. Typically the outflows over the Group specific stress event are the most severe.

The stress scenarios reflect critical inputs and assumptions structured around the following key liquidity risk drivers which reflect the liquidity risk management framework outlined in the Group's regulatory submissions:

[Insert summary of assumptions for each liquidity risk driver]

Notes to the consolidated financial statements (continued)

4. Liquidity risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

4. Liquidity risk (continued)

Liquidity Stress Testing (continued)

During the current and prior periods the Group maintained eligible liquid assets sufficient to meet all regulatory requirements and its most severe internal stress tests:

	Year ended 20XX Internal stress test CUm	Year ended 20XX Liquidity coverage ratio CUm	Year ended 20YY Internal stress test CUm	Year ended 20YY Liquidity coverage ratio CUm
Liquidity pool	[X]	[X]	[X]	[X]
Stress outflows:				
Customer deposits	[X]	[X]	[X]	[X]
Wholesale funding	[X]	[X]	[X]	[X]
Drawdown of committed facilities	[X]	[X]	[X]	[X]
Intraday requirement	[X]	[X]	[X]	[X]
Other	[X]	[X]	[X]	[X]
Permisssable asset inflows	[X]	[X]	[X]	[X]
Stress net cash flows	[X]	[X]	[X]	[X]
Surplus of liquidity pool	[X]	[X]	[X]	[X]
Liquidity pool as a % of outflows	[X]%	[X]%	[X]%	[X]%

Funding structure

The Group seeks to diversify its funding base while ensuring that customer advances are substantially funded by stable deposits taken from customers. The liquidity pool is substantially funded by wholesale funding. Lending under reverse repurchase agreements is funded by repurchase agreement borrowings. The Group's funding structure can be summarised as follows:

	Year ended 20XX CUm	Year ended 20YY CUm
Assets		
Loans and advances to customers	[X]	[X]
Liquidity pool	[X]	[X]
Reverse repurchase agreements	[X]	[X]
Derivative financial instruments	[X]	[X]
Other assets	[X]	[X]
Total assets	**[X]**	**[X]**
Liabilities	[X]	[X]
Deposits from customers	[X]	[X]
Wholesale funding < 1 year	[X]	[X]
Wholesale funding > 1 year	[X]	[X]
Equity	[X]	[X]
Repurchase agreements	[X]	[X]
Derivative financial instrumentss	[X]	[X]
Total liabilities and equity	**[X]**	**[X]**
Loan to Deposit Ratio – actual	[X]%	[X]%
Loan to Deposit Ratio – target	[X]%	[X]%

Notes to the consolidated financial statements (continued)

4. Liquidity risk (continued)

91 ***IFRS 7:B10A*** The entity shall explain how the summary quantitative data about its exposure to liquidity risk are determined. If the outflows of cash (or another financial asset) included in those data could either:

(a) occur significantly earlier than indicated in the data, or

(b) be for significantly different amounts from those indicated in the data (e.g. for a derivative that is not included in the data on a net settlement basis but for which the counterparty has the option to require gross settlement),

the entity shall state that fact and provide quantitative information that enables users of its financial statements to evaluate the extent of this risk unless that information is included in the contractual maturity analyses required by paragraph 39(a) or (b).

IFRS 7:B11 In preparing the maturity analyses required by paragraph 39(a) and (b), an entity uses its judgement to determine an appropriate number of time bands. For example, an entity might determine that the following time bands are appropriate:

(a) not later than one month;

(b) later than one month and not later than three months;

(c) later than three months and not later than one year; and

(d) later than one year and not later than five years.

IFRS 7:B11B Paragraph 39(b) requires an entity to disclose a quantitative maturity analysis for derivative financial liabilities that shows remaining contractual maturities if the contractual maturities are essential for an understanding of the timing of the cash flows. For example, this would be the case for:

(a) an interest rate swap with a remaining maturity of five years in a cash flow hedge of a variable rate financial asset or liability.

(b) all loan commitments.

IFRS 7:B11C Paragraph 39(a) and (b) requires an entity to disclose maturity analyses for financial liabilities that show the remaining contractual maturities for some financial liabilities. In this disclosure:

(a) when a counterparty has a choice of when an amount is paid, the liability is allocated to the earliest period in which the entity can be required to pay. For example, financial liabilities that an entity can be required to repay on demand (eg demand deposits) are included in the earliest time band.

(b) when an entity is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the entity can be required to pay. For example, an undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

(c) for issued financial guarantee contracts the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

IFRS 7:B11C The contractual amounts disclosed in the maturity analyses as required by paragraph 39(a) and (b) are the contractual undiscounted cash flows. For example:

(a) gross lease liabilities (before deducting finance charges);

(b) prices specified in forward agreements to purchase financial assets for cash;

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

4. Liquidity risk (continued)

90,91 **Maturity analysis for financial assets and financial liabilities**

The table below presents a maturity analysis of the Group's financial assets and liabilities. The sum of the balances depicted in the maturity analysis do not reconcile with the carrying amount of the assets/liabilities as disclosed in the consolidated statement of financial position. This is because the maturity analysis incorporates, on an undiscounted basis, all cash flows relating to principal and future coupon payments (except for derivatives held for trading). Undiscounted cash flows payable in relation to hedging derivative liabilities are classified according to their contractual maturities. Derivatives held for trading are included in the 'Less than 1 month' time bucket and not by contractual maturity, as their contractual maturity does not reflect their liquidity risk. The amount for issued loan commitments and financial guarantee contracts is the maximum amount that may be drawn down under the loan commitment, or called under the financial guarantee contract, both included in the earliest possible period that these could be paid. The undiscounted cash flows potentially payable under financial guarantees and similar contracts are classified on the basis of the earliest date they can be called.

31 December 20XX	Carrying amount CUm	Less than 1 month CUm	1-3 months CUm	3 months to 1 year CUm	1-5 years CUm	5+ years CUm
Financial assets						
Cash and cash equivalents	[X]	[X]	[X]	[X]	[X]	[X]
Trading assets	[X]	[X]	[X]	[X]	[X]	[X]
Derivative financial instruments	[X]	[X]	[X]	[X]	[X]	[X]
Loans and advances to banks	[X]	[X]	[X]	[X]	[X]	[X]
Loans and advances to customers	[X]	[X]	[X]	[X]	[X]	[X]
Investment securities	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**
Financial liabilities						
Trading liabilities	[X]	[X]	[X]	[X]	[X]	[X]
Derivative financial instruments	[X]	[X]	[X]	[X]	[X]	[X]
Deposits from banks	[X]	[X]	[X]	[X]	[X]	[X]
Deposits from customers	[X]	[X]	[X]	[X]	[X]	[X]
Debt securities in issue	[X]	[X]	[X]	[X]	[X]	[X]
Subordinated liabilities	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**
Issued financial guarantee contracts	[X]	[X]	[X]	[X]	[X]	[X]
Issued loan commitments	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

4. Liquidity risk (continued)

(c) net amounts for pay-floating/receive-fixed interest rate swaps for which net cash flows are contractual amounts to be exchanged in a derivative financial;

(d) contractual amounts to be exchanged in a derivative financial instrument (e.g. a currency swap) for which gross cash flows are exchanged; and

(e) gross loan commitments.

IAS 1:61 Whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled:

(a) no more than twelve months after the reporting period, and

(b) more than twelve months after the reporting period.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

4. Liquidity risk (continued)

Maturity analysis for financial assets and financial liabilities (continued)

31 December 20YY	Carrying amount CUm	Less than 1 month CUm	1-3 months CUm	3 months to 1 year CUm	1-5 years CUm	5+ years CUm
Financial assets						
Cash and cash equivalents	[X]	[X]	[X]	[X]	[X]	[X]
Trading assets	[X]	[X]	[X]	[X]	[X]	[X]
Derivative financial instruments	[X]	[X]	[X]	[X]	[X]	[X]
Loans and advances to banks	[X]	[X]	[X]	[X]	[X]	[X]
Loans and advances to customers	[X]	[X]	[X]	[X]	[X]	[X]
Investment securities	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**
Financial liabilities						
Trading liabilities	[X]	[X]	[X]	[X]	[X]	[X]
Derivative financial instruments	[X]	[X]	[X]	[X]	[X]	[X]
Deposits from banks	[X]	[X]	[X]	[X]	[X]	[X]
Deposits from customers	[X]	[X]	[X]	[X]	[X]	[X]
Debt securities in issue	[X]	[X]	[X]	[X]	[X]	[X]
Subordinated liabilities	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**
Issued financial guarantee contracts	[X]	[X]	[X]	[X]	[X]	[X]
Issued loan commitments	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

The Group holds financial assets and financial liabilities for which the expected cash flows are significantly different from the contractual cash flows. The most common examples of such instruments are:

- the current deposits from customers CU[X]m for the year ended 20XX (20YY:CU[X]m) which are largely repayable on demand are not expected to be withdrawn immediately but to remain stable or increase;
- the CU[X]m unrecognised loan commitments which can be contractually drawn down in less than 1 month at the year ended 20XX (20YY:CU[X]m) are not expected to be drawn down immediately. CU[X]m is expected to be drawn down in less than 1 month (20YY:CU[X]m), CU[X]m is expected to be drawn down in 1-3 months (20YY:CU[X]m) and CU[X]m is expected to be drawn down in 3 months to 1 year (20YY:CU[X]m);
- CU[X]m of retail mortgage loans included in loans and advances to customers have an average contractual maturity of 17 years at the year ended 20XX (20YY:CU[X]m and averge contractual maturity [X] years), however the average expected maturity is 4 years because customers take advantage of early repayment options.

Notes to the consolidated financial statements (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

4. Liquidity risk (continued)

Maturity analysis for financial assets and financial liabilities (continued)

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.

	Year ended 20XX CUm	Year ended 20YY CUm
Financial assets		
Loans and advances to customers	[X]	[X]
Investment securities	[X]	[X]
	[X]	**[X]**
Financial liabilities		
Deposits from customers	[X]	[X]
Debt securities issued	[X]	[X]
Subordinated liabilities	[X]	[X]
	[X]	**[X]**

Liquidity reserves

The group maintains a pool of liquid assets which represents the primary source of liquidity in stress scenarios. Its composition is subject to limits designed to reduce concentration risks which are monitored on an ongoing basis. The Group's liquidity reserves are analysed below:

	20XX Carrying amount CUm	20XX Fair value CUm	20YY Carrying amount CUm	20YY Fair value CUm
Unrestricted balances with central banks	[X]	[X]	[X]	[X]
Cash and balances with other banks	[X]	[X]	[X]	[X]
Money market placements	[X]	[X]	[X]	[X]
Sovereign bonds (unencumbered):				
AAA rated	[X]	[X]	[X]	[X]
AA rated	[X]	[X]	[X]	[X]
Other	[X]	[X]	[X]	[X]
Total sovereign bonds	[X]	[X]	[X]	[X]
Other bonds:				
Supranational	[X]	[X]	[X]	[X]
Mortgage Backed Securities	[X]	[X]	[X]	[X]
Covered Bonds	[X]	[X]	[X]	[X]
Total other bonds	[X]	[X]	[X]	[X]
Undrawn credit lines granted by central banks	[X]	[X]	[X]	[X]
Other assets eligible for use as collateral with cental banks	[X]	[X]	[X]	[X]
Total Assets	**[X]**	**[X]**	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

4. Liquidity risk (continued)

92 ***IFRS 7:14*** An entity shall disclose:

(a) the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, including amounts that have been reclassified in accordance with **IFRS 9:3.2.23(a)**; and

(b) the terms and conditions relating to its pledge.

IFRS 7:15 When an entity holds collateral (of financial or non-financial assets) and is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, it shall disclose:

(a) the fair value of the collateral held;

(b) the fair value of any such collateral sold or repledged, and whether the entity has an obligation to return it; and

(c) the terms and conditions associated with its use of collateral.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

4. Liquidity risk (continued)

Liquidity reserves (continued)

Contingent liquidity is available in addition to the assets held in the liquidity pool in the form of unencumbered assets that can be used as collateral to access secured funding, or sold outright. In the event of a market-wide stress event greater reliance would be placed on central bank liquidity facilities to which the Group has access as a result of prepositioned assets. The following table sets out the availability of the Group's financial assets to support contingent funding.

	Encumbered		Unencumbered		
31 December 20XX	**Pledged as collateral CUm**	**Restricted from using as collateral CUm**	**Available as collateral CUm**	**Not readily available to secure funding CUm**	**Total CUm**
Cash and cash equivalents	[X]	[X]	[X]	[X]	[X]
Trading assets	[X]	[X]	[X]	[X]	[X]
Derivative financial instruments	[X]	[X]	[X]	[X]	[X]
Loans and advances to banks	[X]	[X]	[X]	[X]	[X]
Loans and advances to customers	[X]	[X]	[X]	[X]	[X]
Investment securities	[X]	[X]	[X]	[X]	[X]
Non-financial assets	[X]	[X]	[X]	[X]	[X]
Total assets	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

	Encumbered		Unencumbered		
31 December 20YY	**Pledged as collateral CUm**	**Restricted from using as collateral CUm**	**Available as collateral CUm**	**Not readily available to secure funding CUm**	**Total CUm**
Cash and cash equivalents	[X]	[X]	[X]	[X]	[X]
Trading assets	[X]	[X]	[X]	[X]	[X]
Derivative financial instruments	[X]	[X]	[X]	[X]	[X]
Loans and advances to banks	[X]	[X]	[X]	[X]	[X]
Loans and advances to customers	[X]	[X]	[X]	[X]	[X]
Investment securities	[X]	[X]	[X]	[X]	[X]
Non-financial assets	[X]	[X]	[X]	[X]	[X]
Total assets	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

92 **Financial assets pledged as collateral**

The table above shows the financial assets pledged as collateral. These assets are pledged as part of sales and repurchases, securities borrowing and securitisation transactions under terms that are usual and customary for such activities. As part of these transactions, the Group has received assets as collateral that it is permitted to sell or repledge in the absence of default. These assets have a fair value of CU[X]m at 31 December 20XX (20YY: CU[X]m). Of these assets the Group has sold or repledged assets with fair value of CU[X]m at 31 December 20XX (20YY: CU[X]m). The Group is obliged to return equivalent securities under the relevant agreements.

Notes to the consolidated financial statements (continued)

5. Market risk

93 ***IFRS 7:40*** Unless an entity complies with paragraph 41, it shall disclose:

(a) a sensitivity analysis for each type of market risk to which the entity is exposed at the end of the reporting period, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date;

(b) the methods and assumptions used in preparing the sensitivity analysis; and

(c) changes from the previous period in the methods and assumptions used, and the reasons for such changes.

IFRS 7:41 If an entity prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between risk variables (e.g. interest rates and exchange rates) and uses it to manage financial risks, it may use that sensitivity analysis in place of the analysis specified in paragraph 40. The entity shall also disclose:

(a) an explanation of the method used in preparing such a sensitivity analysis, and of the main parameters and assumptions underlying the data provided; and

(b) an explanation of the objective of the method used and of limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved.

IFRS 7:42 When the sensitivity analyses disclosed in accordance with paragraph 40 or 41 are unrepresentative of a risk inherent in a financial instrument (for example because the year-end exposure does not reflect the exposure during the year), the entity shall disclose that fact and the reason it believes the sensitivity analyses are unrepresentative.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

67 ## 5. Market risk

Market risk is the risk that movements in market factors, such as foreign exchange rates, interest rates, credit spreads, equity prices and commodity prices, will reduce the Group's income or the value of its portfolios.

Market risk management

The Group's market risk mangement objective is to manage and control market risk exposures in order to optimise return on risk while ensuring solvency.

As with liquidity risk ALCO is responsible for ensuring the effective management of market risk throughout the Group. Specific levels of authority and responsibility in relation to market risk management have been assigned to appropriate market risk committees.

The core market risk management activities are:

- the identification of all key market risks and their drivers;
- the independent measurement and evaluation key market risks and their drivers;
- the use of results and estimates as the basis for the Group's risk/return-oriented management; and
- monitoring risks and reporting on them.

The Group uses a wide range of quantitative and qualitative tools to manage and monitor market risk. Quantitative limits for fair value and net income sensitivities, value at risk (VaR), stress tests, scenario analyses and ratios on economic capital are used to enforce the Group's market risk appetite. The quantitative and qualitative factors limiting market price risk are determined by the market risk committees by reference to the Group's management of economic capital. Based on qualitative analyses and quantitative ratios, the market risk function identifies potential future risks, anticipates, in collaboration with the finance function, potential financial losses, and defines proposals for further action, which are discussed with the market units. Risk concentrations are restricted directly with specific limits or are indirectly avoided using the limit structure described above. Market risk reports reflecting the Group's exposures, risk concentrations, stress test results, utilisations of limits etc. are reviewed on a daily basis. Appropriate actions are taken when needed, including revisiting the market risk management policies and relative limits to ensure that the Group's market risk management objective is met.

The Group's exposure to market risk is separated into trading and non-trading portfolios.

93 ### Trading portfolio

The main trading risk types are foreign exchange, commodities, interest rates, credit spreads and equities. The Group uses VaR, which is an historical simulation, to measure and assess market risk exposure within its trading portfolio. The VaR measure estimates the potential loss in pre-taxation profit over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk metric. The Group used a ten-day holding period and a 99% level of confidence.

VaR methodologies used to calculate daily risk metrics include the historical and variance-covariance approaches. In addition, Monte Carlo simulations are applied to the various portfolios on a monthly basis to determine potential future exposure.

Notes to the consolidated financial statements (continued)

5. Market risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

5. Market risk (continued)

Trading portfolio (continued)

The VaR model is a widely used model to measure market risk. It is based on certain theoretical assumptions which under extreme market conditions might not capture the maximum loss the Group might suffer. Limitations of the model include:

- The use of volatilities and correlations, based on historical data, to predict the future behaviour of risk factors might not give accurate results especially if insufficient data is available from periods of intense volatility in financial markets.

- The ten day holding period used for VaR calculations implies that the Group will be able to liquidate all its trading assets within this length of time. This assumption might not be accurate in periods of insufficient liquidity in financial markets or for illiquid assets that might be held by the Group.

- The 99% confidence level of VaR means that the plausible loss on the Group's portfolio calculated by the model does not take into account any losses beyond that level.

- All calculations are based on the Group's positions at the end of each business day, ignoring the intra-day exposures and any realised losses that might have been incurred.

- VaR estimates rely on small changes in the prices of risk factors. For bigger movements, the methodology would not fully capture the convexity effect on the value of the portfolio.

The Group uses additional stress tests and analysis to overcome the VaR model's limitations such as considering hypothetical macro-economic scenarios and considering the impact of risk factors that are unlikely to be captured in the VaR result.

Non-trading portfolio

The main non-trading risk types are structural foreign exchange, interest rates and credit spreads.

Structural foreign exchange risk derives from the Group's net investments in foreign operations, as well as from issuance of foreign currency debt in order to rase funds from international markets, which is managed using hedging strategies explained in note 16.

Market interest rate risk may result in loss from fluctuations in the future cash flows or fair values of financial instruments. Interest rate risk is managed principally through monitoring interest rate gaps and basis risk and by having pre-approved limits for repricing bands. The Group also enters into derivatives to manage its interest rate risk exposures. A number of these hedges are designated in hedge relationships in order to apply hedge accounting, as explained in note 16.

Credit spreads reflect the credit risk of the financial instrument, i.e. risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's credit risk exposure and the related management process is described in note 3.

Notes to the consolidated financial statements (continued)

5. Market risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

5. Market risk (continued)

Market risk review

The following table sets out the allocation of the carrying value of assets and liabilities subject to market risk between trading and non-trading portfolios:

		Market risk type	
31 December 20XX	**Carrying amount CUm**	**Trading portfolios CUm**	**Non-trading portfolios CUm**
Assets subject to market risk			
Cash and cash equivalents	[X]	[X]	[X]
Trading assets	[X]	[X]	[X]
Derivative financial instruments	[X]	[X]	[X]
Loans and advances to banks	[X]	[X]	[X]
Loans and advances to customers	[X]	[X]	[X]
Investment securities	[X]	[X]	[X]
	[X]	**[X]**	**[X]**
Liabilities subject to market risk			
Trading liabilities	[X]	[X]	[X]
Derivative financial instruments	[X]	[X]	[X]
Deposits from banks	[X]	[X]	[X]
Deposits from customers	[X]	[X]	[X]
Debt secrities issued	[X]	[X]	[X]
Subordinated liabilities	[X]	[X]	[X]
	[X]	**[X]**	**[X]**

		Market risk type	
31 December 20YY	**Carrying amount CUm**	**Trading portfolios CUm**	**Non-trading portfolios CUm**
Assets subject to market risk			
Cash and cash equivalents	[X]	[X]	[X]
Trading assets	[X]	[X]	[X]
Derivative financial instruments	[X]	[X]	[X]
Loans and advances to banks	[X]	[X]	[X]
Loans and advances to customers	[X]	[X]	[X]
Investment securities	[X]	[X]	[X]
	[X]	**[X]**	**[X]**
Liabilities subject to market risk			
Trading liabilities	[X]	[X]	[X]
Derivative financial instruments	[X]	[X]	[X]
Deposits from banks	[X]	[X]	[X]
Deposits from customers	[X]	[X]	[X]
Debt secrities issued	[X]	[X]	[X]
Subordinated liabilities	[X]	[X]	[X]
	[X]	**[X]**	**[X]**

There has been no change to the manner in which the Group manages and measures it's market risk exposures in the current year.

Notes to the consolidated financial statements (continued)

5. Market risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

5. Market risk (continued)

Market risk review (continued)

The Group trading VaR for the year is shown in the table below:

	Limit		Average		Minimum		Maximum		Year end	
Historical VaR (99 %, one-day) by risk type	**20XX CUm**	**20YY CUm**	**20XX CUm**	**20YY CUm**	**20XX CUm**	**20YY CUm**	**20XX CUm**	**20YY CUm**	**20XX CUm**	**20YY CUm**
Foreign exchange	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Interest rate	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Equity	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Commodity	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Credit spread	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Diversification	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Total VaR exposure	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

The Group undertakes derivative activity for three primary purposes: to create risk management solutions for clients, to manage the portfolio risks arising from client business, and to manage and hedge the Group's own risks. Most of the Group's derivative exposures arise from sales and trading activities and are treated as traded risk for market risk management purposes.

The assets and liabilities included in trading VaR give rise to a large proportion of the income included in net trading income. Adjustments to trading income such as valuation adjustments do not feed the trading VaR model.

The Group non-trading VaR for the year is shown in the table below:

	Limit		Average		Minimum		Maximum		Year end	
Historical VaR (99 %, one-day) by risk type	**20XX CUm**	**20YY CUm**	**20XX CUm**	**20YY CUm**	**20XX CUm**	**20YY CUm**	**20XX CUm**	**20YY CUm**	**20XX CUm**	**20YY CUm**
Foreign exchange	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Interest rate	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Credit spread	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Diversification	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Total VaR exposure	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

Non-trading VaR excludes:

- equity risk on FVTOCI securities;
- structural foreign exchange risk; and
- interest rate risk on fixed-rate securities issued by the Bank.

Each is discussed in turn below.

Notes to the consolidated financial statements (continued)

5. Market risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

5. Market risk (continued)

Equity risk on FVTOCI securities

The table below sets out the maximum possible loss on shareholders' equity from FVTOCI equity securities.

	Year ended 20XX CUm	Year ended 20YY CUm
Private equity holdings	[X]	[X]
Investment to facilitate ongoing business	[X]	[X]
Other strategic investments	[X]	[X]
Total	**[X]**	**[X]**

The fair value of equity securities classified as FVTOCI reduced from CU[X]m to CU[X]m during the year. The increase/decrease in private equity holdings was largely due to [add reason].

Structural foreign exchange risk

Group's structural foreign exchange exposures are represented by the net asset value of its foreign exchange equity and subordinated debt investments in subsidiaries, branches, joint ventures and associates with non-CU functional currencies. Gains/losses on structural foreign exchange exposures are recognised in OCI. The structural foreign currency exposures can be analysed as follows:

Year ended 20XX	Net investments CUm	Borrowings hedging net investments CUm	Derivatives hedging net investments CUm	Structural currency exposure pre economic hedges CUm	Economic hedges CUm	Remaining exposures CUm
[Currency B]	[X]	[X]	[X]	[X]	[X]	[X]
[Currency C]	[X]	[X]	[X]	[X]	[X]	[X]
Others, each less than CU100 million	[X]	[X]	[X]	[X]	[X]	[X]
Total	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

Year ended 20YY	Net investments CUm	Borrowings hedging net investments CUm	Derivatives hedging net investments CUm	Structural currency exposure pre economic hedges CUm	Economic hedges CUm	Remaining exposures CUm
[Currency B]	[X]	[X]	[X]	[X]	[X]	[X]
[Currency C]	[X]	[X]	[X]	[X]	[X]	[X]
Others, each less than CU100 million	[X]	[X]	[X]	[X]	[X]	[X]
Total	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

Shareholders' equity would decrease by CU[X]m (20YY: CU[X]m) if *[Currency B]* and *[Currency C]* foreign currency exchange rates weakened by [X%] relative to the CU.

Notes to the consolidated financial statements (continued)

5. Market risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

5. Market risk (continued)

Non-trading interest rate risk

The interest rate risk on the fixed-rate assets and liabilities of the Group is not included within the Group VaR but is managed on a repricing gap basis. The interest rate repricing gap table below analyses the full-term structure of interest rate mismatches within Group's balance sheet.

31 December 20XX	Carrying amount CUm	Up to 1 year CUm	1-5 years CUm	5-10 years CUm	More than 10 years CUm
Cash and cash equivalents	[X]	[X]	[X]	[X]	[X]
Loans and advances to banks	[X]	[X]	[X]	[X]	[X]
Loans and advances to customers	[X]	[X]	[X]	[X]	[X]
Investment securities	[X]	[X]	[X]	[X]	[X]
Total Assets	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**
Deposits from banks	[X]	[X]	[X]	[X]	[X]
Deposits from customers	[X]	[X]	[X]	[X]	[X]
Debt securities in issue	[X]	[X]	[X]	[X]	[X]
Subordinated liabilities	[X]	[X]	[X]	[X]	[X]
Total equity	[X]	[X]	[X]	[X]	[X]
Total liabilities	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**
Off-balance sheet items attracting interest rate sensitivity	[X]	[X]	[X]	[X]	[X]
Effect of derivatives held for risk management	[X]	[X]	[X]	[X]	[X]
Net interest rate risk gap at 31 December 20XX	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

31 December 20YY	Carrying amount CUm	Up to 1 year CUm	1-5 years CUm	5-10 years CUm	More than 10 years CUm
Cash and cash equivalents	[X]	[X]	[X]	[X]	[X]
Loans and advances to banks	[X]	[X]	[X]	[X]	[X]
Loans and advances to customers	[X]	[X]	[X]	[X]	[X]
Investment securities	[X]	[X]	[X]	[X]	[X]
Total Assets	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**
Deposits from banks	[X]	[X]	[X]	[X]	[X]
Deposits from customers	[X]	[X]	[X]	[X]	[X]
Debt securities in issue	[X]	[X]	[X]	[X]	[X]
Subordinated liabilities	[X]	[X]	[X]	[X]	[X]
Total equity	[X]	[X]	[X]	[X]	[X]
Total liabilities	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**
Off-balance sheet items attracting interest rate sensitivity	[X]	[X]	[X]	[X]	[X]
Effect of derivatives held for risk management	[X]	[X]	[X]	[X]	[X]
Net interest rate risk gap at 31 December 20XX	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

5. Market risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

5. Market risk (continued)

Non-trading interest rate risk (continued)

While VaR captures the Group's daily exposure to currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. The longer time frame of sensitivity analysis complements VaR and helps the Group to assess its market risk exposures. Details of sensitivity analysis for interest rate risk are set out below.

Interest rate risk management

The Group is exposed to the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of the change in market interest rates. Interest rate risk in the banking book is measured and controlled using three metrics:

- non-traded VaR;
- net interest income sensitivity; and
- economic value of equity.

Net interest income sensitivity captures the expected impact of changes in interest rates on base case projected net interest income for a specified financial period, typically one year.

Economic value of equity captures the expected impact of changes in interest rates on base case economic value. It captures all non-traded items irrespective of the profit and loss accounting treatment.

The following table sets out the estimated impact on the Group's base case projected net interest income for 20XX due to shocks of [X] basis points (bps) to the current market-implied path of interest rates. The sensitivities shown represent the Group's assessment as to the change in expected base case net interest income under the two rate scenarios assuming that all other non-interest rate risk variables remain constant, and there are no management actions. In deriving the base case net interest income projections, the repricing rates of assets and liabilities used are derived from current yield curves, thereby reflecting current market expectations of the future path of interest rates. The scenarios therefore represent interest rate shocks to the current market implied path of rates.

The net interest income sensitivities shown are indicative and based on simplified scenarios, including the assumption that the balance sheet size and structure remains static, other than instances where the size of the balances or repricing is deemed interest rate sensitive (non-interest bearing current account migration and fixed rate loan early prepayment).

Sensitivity of projected net interest income	**[X]bps parallel increase CUm**	**[X]bps parallel decrease CUm**
20XX		
Year ending 31 December	[X]	[X]
20YY		
Year ending 31 December	[X]	[X]

Notes to the consolidated financial statements (continued)

5. Market risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

5. Market risk (continued)

Interest rate risk management (continued)

The table below sets out the estimated impact on the Group's base case economic value of equity of an immediate parallel upward shock of [X]bps and an immediate parallel downward shock of [X]bps to the market-implied path of interest rates.

Sensitivity of economic value of equity due to interest rate movements	[X]bps parallel increase CUm	[X]bps parallel decrease CUm
20XX		
At 31 December		
Daily average for the period	[X]	[X]
Maximum for the period	[X]	[X]
Minimum for the period	[X]	[X]
20YY		
At 31 December		
Daily average for the period	[X]	[X]
Maximum for the period	[X]	[X]
Minimum for the period	[X]	[X]

The Group monitors the sensitivity of reported cash flow hedging reserves to interest rate movements on a monthly basis by assessing the expected change in valuation of cash flow hedges due to parallel movements of plus or minus [X]bps in all yield curves. These particular exposures form only a part of the Group's overall interest rate exposure. The following table describes the sensitivity of the Group's cash flow hedge reported reserves to the stipulated movements in yield curves and the maximum and minimum month-end figures during the year. The sensitivities are indicative and based on simplified scenarios.

Sensitivity of cash flow hedging reported to interest rate movement	Maximum impact	Minimum impact
Year ended 20XX		
+[X]bps parallel move in all yield curves	CU[X]m	CU[X]m
As a percentage of a total shareholders' equity	[X]%	[X]%
-[X]bps parallel move in all yield curves	CU[X]m	CU[X]m
As a percentage of a total shareholders' equity	[X]%	[X]%
Year ended 20YY		
+[X]bps parallel move in all yield curves	CU[X]m	CU[X]m
As a percentage of a total shareholders' equity	[X]%	[X]%
-[X]bps parallel move in all yield curves	CU[X]m	CU[X]m
As a percentage of a total shareholders' equity	[X]%	[X]%

Notes to the consolidated financial statements (continued)

5. Market risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

5. Market risk (continued)

Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on contracted notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt issued. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the interest rate curves at the reporting date adjusted for the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

Fair value hedges

	Average contract fixed interest rate		Notional principal value		Fair value	
Outstanding receive floating pay fixed contracts	**Year ended 20XX %**	**Year ended 20YY %**	**Year ended 20XX CUm**	**Year ended 20YY CUm**	**Year ended 20XX CUm**	**Year ended 20YY CUm**
Less than 1 year	[X]%	[X]%	[X]	[X]	[X]	[X]
1 to 2 years	[X]%	[X]%	[X]	[X]	[X]	[X]
2 to 5 years	[X]%	[X]%	[X]	[X]	[X]	[X]
5 years +	[X]%	[X]%	[X]	[X]	[X]	[X]
			[X]	**[X]**	**[X]**	**[X]**

The interest rate swaps typically settle on a quarterly basis. The floating rate on the interest rate swaps is typically 3-month LIBOR.

The pay fixed interest rate swap contracts exchanging fixed rate interest for floating rate interest are designated and effective as fair value hedges in respect of interest rates on the Group's fixed rate loans and advances to customers. During the period, the derivatives were highly effective in hedging the fair value exposure to interest rate movements and as a result the carrying amount of the hedged loans were adjusted by CU[X]m, which was included in profit or loss at the same time that the fair value of the interest rate swap was included in profit or loss.

Interest rate derivatives not included in hedge accounting relationships

	Average contract fixed interest rate		Notional principal value		Fair value	
Outstanding receive floating pay fixed contracts	**Year ended 20XX %**	**Year ended 20YY %**	**Year ended 20XX CUm**	**Year ended 20YY CUm**	**Year ended 20XX CUm**	**Year ended 20YY CUm**
Less than 1 year	[X]%	[X]%	[X]	[X]	[X]	[X]
1 to 2 years	[X]%	[X]%	[X]	[X]	[X]	[X]
2 to 5 years	[X]%	[X]%	[X]	[X]	[X]	[X]
5 years +	[X]%	[X]%	[X]	[X]	[X]	[X]
			[X]	**[X]**	**[X]**	**[X]**

The interest rate swaps typically settle on a quarterly basis. The floating rate on the interest rate swaps is typically 3-month LIBOR.

Notes to the consolidated financial statements (continued)

5. Market risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

5. Market risk (continued)

Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies resulting in exposures to exchange rate fluctuations. Exchange rate exposures are managed within approved policy parameters using forward foreign exchange contracts and cross currency interest rate swaps.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	Year ended 20XX CUm	Year ended 20YY CUm	Year ended 20XX CUm	Year ended 20YY CUm
[Currency B]	[X]	[X]	[X]	[X]
[Currency C]	[X]	[X]	[X]	[X]
Other	[X]	[X]	[X]	[X]

Foreign currency sensitivity analysis

The Group is mainly exposed to the currency of [*B Land*], [*C Land*] and [*D land*].

The following table details the Group's sensitivity to a [X] per cent increase and decrease in the rate of exchange of CU against the relevant foreign currencies. [X] per cent is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a [X] per cent change in foreign currency rates. The sensitivity analysis includes loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower because these loans create foreign currency gains or losses that are not eliminated on consolidation. A positive number below indicates an increase in profit and other equity where the relevant currency strengthens [X] per cent against CU and the Group's exposure to the relevant currency is a net asset.

For a [X] per cent strengthening of CU against the relevant currency, there would be a comparable impact on the profit and other equity, and the balances below would be negative. [*Where the assumptions used have changed from previous periods, include detail of and reasons for those changes.*]

	[Currency B] impact (i),(ii)		**[Currency C] impact** (iii), (iv)	
	Year ended 20XX CUm	Year ended 20YY CUm	Year ended 20XX CUm	Year ended 20YY CUm
Profit or loss	[X]	[X]	[X]	[X]
Other equity	[X]	[X]	[X]	[X]

(i) This is mainly attributable to the exposure outstanding on [*Currency B*] loans and advances to banks and debt securities issued in the Group at the balance sheet date.

(ii) This is the result of the changes in fair value of derivative instruments designated as cash flow hedges and net investment hedges.

(iii) This is mainly attributable to the exposure to outstanding [*Currency C*] deposits from customers at the balance sheet date.

(iv) This is mainly as a result of the changes in fair value of derivative instruments designated as cash flow hedges.

The Group's sensitivity to foreign currency has decreased during the current period mainly due to the disposal of [*Currency B*] denominated investments and the disposal of investment securities in [*Currency B*] in the last quarter of the financial year.

Notes to the consolidated financial statements (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

5. Market risk (continued)

Foreign currency sensitivity analysis (continued)

In addition, the change in equity due to a [X] per cent change in the CU against all exchange rates for the translation of net investment hedging instruments would be a decrease of CU[X]m (20YY: CU[X]m). However, with the exception of hedge ineffectiveness there would be no net effect on equity because there would be an offset in the currency translation of the foreign operation.

Forward foreign exchange contracts

In the current year, the Group has designated certain forward contracts as a hedge of its net investment in [*name of foreign operation*], which has [*Currency B*] as its functional currency. The Group's policy has been reviewed and, due to the increased volatility in [*Currency B*], it was decided to hedge up to [X] per cent of the net assets of [*name of foreign operation*] for forward foreign currency risk arising on translation of the foreign operation. The Group uses contracts with terms of up to [X] months.

Net investment hedges

The following table details the forward foreign currency contracts outstanding as at the year-end that were designated as hedging instruments in net investment hedges:

Outstanding contracts	Average exchange rate		Foreign currency		Notional value		Fair value	
	Year ended 20XX [rate]	Year ended 20YY [rate]	Year ended 20XX [FC]m	Year ended 20YY [FC]m	Year ended 20XX CUm	Year ended 20YY CUm	Year ended 20XX CUm	Year ended 20YY CUm
Cash flow hedges								
Buy [Currency B]								
Less than 3 months	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
3 to 6 months	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Sell [Currency B]								
Less than 3 months	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Buy [Currency C]								
Less than 3 months	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Net investment hedge	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Sell [Currency C]								
3 to 6 months	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
			[X]	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

5. Market risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

5. Market risk (continued)

Forward foreign exchange contracts not included in hedge accounting relationships

The following table details the forward foreign currency contracts outstanding as at the year-end that were not included in hedge accounting relationships

Outstanding contracts	Average exchange rate		Foreign currency		Notional value		Fair value	
	Year ended 20XX [rate]	Year ended 20YY [rate]	Year ended 20XX [FC]m	Year ended 20YY [FC]m	Year ended 20XX CUm	Year ended 20YY CUm	Year ended 20XX CUm	Year ended 20YY CUm
Cash flow hedges								
Buy [Currency B]								
Less than 3 months	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
3 to 6 months	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Sell [Currency B]								
Less than 3 months	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Buy [Currency C]								
Less than 3 months	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Net investment hedge	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Sell [Currency C]								
3 to 6 months	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
			[X]	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

Cross currency interest rate swaps

Under cross currency interest rate swap contracts the Group agrees to exchange a stream of fixed rate interest and principal cash flows in CCY1 with a stream of fixed rate interest and principal cash flows in CCY2. In the current year, the Group has designated certain cross currency interest rate swaps as a hedge of fixed rate debt issued in CCY2.

Cash flow hedges

The following table details the cross currency interest rate swap contracts outstanding as at the year-end that were designated in cash flow hedges of foreign currency risk:

Outstanding cross currency interest rate swaps (CCY1:CCY2)	Average CCY1:CCY2 exchange rate		Average pay fixed interest rate		Notional principal value	
	Year ended 20XX [rate]	Year ended 20YY [rate]	Year ended 20XX %	Year ended 20YY %	Year ended 20XX CUm	Year ended 20YY CUm
Less than 1 year	[X]	[X]	[X]%	[X]%	[X]	[X]
1 to 2 years	[X]	[X]	[X]%	[X]%	[X]	[X]
2 to 5 years	[X]	[X]	[X]%	[X]%	[X]	[X]
5 years +	[X]	[X]	[X]%	[X]%	[X]	[X]
					[X]	**[X]**

Notes to the consolidated financial statements (continued)

5. Market risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

5. Market risk (continued)

Cross currency interest rate swaps not included in hedge accounting relationships

The following table details the cross currency interest rate swap contracts outstanding as at the year-end that were not included in hedge accounting relationships:

Outstanding cross currency interest rate swaps (CCY1:CCY2)	Average CCY1:CCY2 exchange rate		Average pay fixed interest rate		Notional principal value	
	Year ended 20XX [rate]	Year ended 20YY [rate]	Year ended 20XX %	Year ended 20YY %	Year ended 20XX CUm	Year ended 20YY CUm
Less than 1 year	[X]	[X]	[X]%	[X]%	[X]	[X]
1 to 2 years	[X]	[X]	[X]%	[X]%	[X]	[X]
2 to 5 years	[X]	[X]	[X]%	[X]%	[X]	[X]
5 years +	[X]	[X]	[X]%	[X]%	[X]	[X]
					[X]	[X]

Other price risks

The Group is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these investments.

Equity price sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If equity prices had been [X] per cent higher/lower:

- net profit for the year ended 31 December 20XX would have been unaffected as the equity investments are classified as FVTOCI and no investments were disposed of; and
- other equity reserves would increase/decrease by CU[X]m (20YY: increase/decrease by CU[X]m) as a result of the changes in fair value of FVTOCI investments.

The Group's sensitivity to equity prices has not changed significantly from the prior year. [*Where the assumptions used have changed from previous periods, include detail of and reasons for those changes.*]

Notes to the consolidated financial statements (continued)

94 **6. Capital risk**

IAS 1:135 To comply with paragraph 134, the entity discloses the following:

(a) qualitative information about its objectives, policies and processes for managing capital, including:

i. a description of what it manages as capital;

ii. when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and

iii. how it is meeting its objectives for managing capital.

(b) summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (e.g. some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (e.g. components arising from cash flow hedges).

(c) any changes in (a) and (b) from the previous period.

(d) whether during the period it complied with any externally imposed capital requirements to which it is subject.

(e) when the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

The Group bases these disclosures on the information provided internally to key management personnel.

Good practice is to present a movement table for RWAs and capital with narrative disclosures explaining key factors such as model changes.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

67,94 **6. Capital risk**

Capital risk is the risk that the Group has insufficient capital resources to meet the minimum regulatory requirements in all jurisdictions where regulated activities are undertaken, to support its credit rating and to support its growth and strategic options.

The Group's regulator is [X] and sets the capital requirements for the Bank and the Group as whole. The foreign banking operations are supervised by the local regulators.

Capital risk management

As with liquidity and market risks ALCO is responsible for ensuring the effective management of capital risk throughout the Group. Specific levels of authority and responsibility in relation to capital risk management have been assigned to the appropriate committees.

Capital risk is measured and monitored using limits set in relation to capital (Common Equity Tier 1 (CET1); Tier 1; and Total Capital) and leverage, all of which are calculated in accrodance with relevant regulatory requirements.

The Group's regulatory capital consists of the sum of the following elements:

- Common Equity Tier 1 (CET1) capital which includes ordinary share capital, related share premium, retained earnings, reserves and NCI after adjustment for foreseeable dividends and deductions for goodwill, intangible assets and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

- Tier 2 capital, which includes perpetual bonds, qualifying subordinated liabilities and excess of ECL over regulatory credit losses.

Notes to the consolidated financial statements (continued)

6. Capital risk (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

6. Capital risk (continued)

	Year ended 20XX CUm	Year ended 20YY CUm
Tier 1 capital-CET1	[X]	[X]
Ordinary share capital	[X]	[X]
Share premium	[X]	[X]
Retained earnings	[X]	[X]
Translation reserve	[X]	[X]
Other reserves	[X]	[X]
NCI	[X]	[X]
Deductions:		
Intangible assets	[X]	[X]
Deferred tax other than temporary differences	[X]	[X]
Fair value losses from own credit spreads, net of deferred tax	[X]	[X]
Other regulatory adjustments under Basel III	[X]	[X]
Total Tier 1 capital-CET1	**[X]**	**[X]**
Additional Tier 1 (AT1) Capital	[X]	[X]
Capital instruments	[X]	[X]
Regulatory adjustments	[X]	[X]
Total AT1 Capital	**[X]**	**[X]**
Total Tier 1 capital		
Tier 2 capital		
Perpetual bonds	[X]	[X]
Qualifying subordinated liabilities	[X]	[X]
Excess of ECL over regulatory credit losses	[X]	[X]
Total Tier 2 capital	**[X]**	**[X]**
Total regulatory capital	**[X]**	**[X]**
Risk Weighted Assets		
Credit risk	[X]	[X]
Market risk	[X]	[X]
Operational risk	[X]	[X]
Total RWAs	**[X]**	**[X]**
Key Capital Ratios		
CET1	[X]	[X]
Tier 1	[X]	[X]
Total Capital	[X]	[X]
Leverage ratio	[X]	[X]

Notes to the consolidated financial statements (continued)

95 **7. Fair value of financial assets and liabilities**

IFRS 13:9 This IFRS defines fair value as 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.

IFRS 13:72 To increase consistency and comparability in fair value measurements and related disclosures, this IFRS establishes a fair value hierarchy that categorises into three levels (see paragraphs 76–90) the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

6. Capital risk (continued)

The Group's capital plans are developed with the objective of maintaining capital that is adequate in quantity and quality to support the Group's risk profile, regulatory and business needs. As a result, the Group holds a diversified capital base that provides strong loss absorbing capacity and optimised returns. Capital forecasts are continually monitored against relevant internal target capital ratios to ensure they remain appropriate, and consider risks to the plan including possible future regulatory changes.

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

The Group monitors and manages capital risk on an ongoing basis through:

- Stress testing: internal group-wide stress testing is undertaken to quantify and understand the impact of sensitivities on the capital plan and capital ratios arising from stressed macroeconomic conditions. Reverse stress testing is also performed to identify the extent of stress that could be survived before limits are breached. In addition to internal stress testing, the Group also undertakes stress tests required by regulatory authorities.

- Risk mitigation: as part of the stress testing process, actions are identified that should be taken to mitigate the risks that could arise in the event of material adverse changes in the current economic and business environment.

- Senior management awareness and transparency: Capital management information is readily available at all times to support the Group's executive management's strategic and day-to-day business decision making, as may be required.

95 7. Fair value of financial assets and liabilities

The Group measures fair values in accordance with IFRS 13, which defines fair value as 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. The Group also uses a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value, which gives highest priority to quoted prices.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Assets and liabilities are classified as Level 1 if their value is observable in an active market.

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. A Level 2 input must be observable for substantially the full term of the instrument. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves observable at commonly quoted intervals, implied volatilities; and credit spreads. Assets and liabilities classified as Level 2 have been valued using models whose inputs are observable in an active market.

- Level 3 inputs are unobservable inputs. Assets and liabilities are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data.

Where possible, fair value is determined by reference to a quoted market price for the instrument valued. The Group holds financial assets and liabilities for which quoted prices are not available, such as over the counter (OTC) derivatives. For these financial instruments the Group uses valuation techniques to estimate fair value. The valuation techniques used include 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. These valuation techniques use as their basis independently sourced market parameters, such as interest rate yield curves, equities and commodities prices, option volatilities and currency rates.

The Group uses generally accepted valuation models to determine the fair value of simple and liquid financial instruments, such as interest rate and currency swaps in G7 currencies and equity swap and option contracts on listed securities or indices, that use only observable market data and involve minimum judgement. The use of observable market prices and model inputs, when available, reduces the need for management judgement and estimation, as well as the uncertainty related with the estimated fair value. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on general conditions and specific events in the financial markets.

Notes to the consolidated financial statements (continued)

7. Fair value of financial assets and liabilities (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

7. Fair value of financial assets and liabilities (continued)

The Group holds complex financial instruments, such as structured OTC derivatives, securities (both debt and equity) not quoted in active markets and interests in securitisations. The fair value of these instruments is determined using internally generated valuation models, which are usually developed from generally accepted valuation models. The majority 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. The selection of the appropriate valuation model, as well as the determination of key inputs used such as the expected future cash flows on the financial instrument, the probability of counterparty default and the appropriate discount rate to be used, require management judgement and estimation. For determining the fair value of unquoted equity instruments the Group uses a combination of market and income approaches. The market approach and the income approach are common valuation techniques for equity investments that are not publicly traded. Under the market approach, the Group uses prices and other relevant information generated by market transactions involving identical or comparable securities. Under the income approach, future amounts are converted into a single present amount (e.g. a discounted cash flows model). The market approach is preferred as the main inputs used are typically observable.

The Group adjusts fair value estimates derived from models for any factors, such as credit risk, liquidity risk or model uncertainties. 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. CVA and DVA adjustments are typically reduced where collateral is paid or received. The valuation of collateralised derivatives typically reflect a valuation adjustment to incorporate the cost of funding collateral payments, referred to as funding valuation adjustment (FVA).

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped by fair value hierarchy level.

Notes to the consolidated financial statements (continued)

7. Fair value of financial assets and liabilities (continued)

96 ***IFRS 13:93(b)*** To meet the objectives in paragraph 91, an entity shall disclose, at a minimum, the following information for each class of assets and liabilities (see paragraph 94 for information on determining appropriate classes of assets and liabilities) measured at fair value (including measurements based on fair value within the scope of this IFRS) in the statement of financial position after initial recognition:

(b) recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety (Level 1, 2 or 3).

IFRS 7:25 Except as set out in paragraph 29, for each class of financial assets and financial liabilities (see paragraph 6), an entity shall disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount.

IFRS 7:26 In disclosing fair values, an entity shall group financial assets and financial liabilities into classes, but shall offset them only to the extent that their carrying amounts are offset in the statement of financial position.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

7. Fair value of financial assets and liabilities (continued)

96 **Financial instruments measured at fair value**

	Recurring fair value measurements at 31 December 20XX			
	Level 1 CUm	Level 2 CUm	Level 3 CUm	Total CUm
Trading assets (non-derivative)				
– Debt seurities	[X]	[X]	[X]	[X]
– Equity securities	[X]	[X]	[X]	[X]
Investment securities mandatorily measured at FVTPL				
– Debt securities	[X]	[X]	[X]	[X]
– Equity securities	[X]	[X]	[X]	[X]
Investment securities designated at FVTPL				
– Debt securities	[X]	[X]	[X]	[X]
Derivative financial instruments				
– Derivatives held for trading	[X]	[X]	[X]	[X]
– Derivatives held for hedging	[X]	[X]	[X]	[X]
Investments at FVTOCI – (debt and equity instruments)				
– Debt securities	[X]	[X]	[X]	[X]
– Equity securities	[X]	[X]	[X]	[X]
Loans and advances to customers at FVTPL	[X]	[X]	[X]	[X]
Total Assets	**[X]**	**[X]**	**[X]**	**[X]**
Trading liabilities (non-derivative)				
– Short sold positions-debt	[X]	[X]	[X]	[X]
– Short sold positions-equity	[X]	[X]	[X]	[X]
Debt securities in issue designated at FVTPL	[X]	[X]	[X]	[X]
Derivative financial instruments				
– Derivaties held for trading	[X]	[X]	[X]	[X]
– Derivatives held for hedging	[X]	[X]	[X]	[X]
Total Liabilities	**[X]**	**[X]**	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

7. Fair value of financial assets and liabilities (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

7. Fair value of financial assets and liabilities (continued)

	Recurring fair value measurements at 31 December 20YY			
	Level 1 CUm	Level 2 CUm	Level 3 CUm	Total CUm
Trading assets (non-derivative)				
– Debt securities	[X]	[X]	[X]	[X]
– Equity securities	[X]	[X]	[X]	[X]
Investment securities mandatorily measured at FVTPL				
– Debt securities	[X]	[X]	[X]	[X]
– Equity securities	[X]	[X]	[X]	[X]
Investment securities designated at FVTPL				
– Debt securities	[X]	[X]	[X]	[X]
Derivative financial instruments				
– Derivatives held for trading	[X]	[X]	[X]	[X]
– Derivatives held for hedging	[X]	[X]	[X]	[X]
Investments at FVTOCI – (debt and equity instruments)				
– Debt securities	[X]	[X]	[X]	[X]
– Equity securities	[X]	[X]	[X]	[X]
Loans and advances to customers at FVTPL	[X]	[X]	[X]	[X]
Total Assets	**[X]**	**[X]**	**[X]**	**[X]**
Trading liabilities (non-derivative)				
– Short sold positions-debt	[X]	[X]	[X]	[X]
– Short sold positions-equity	[X]	[X]	[X]	[X]
Debt securities in issue designated at FVTPL	[X]	[X]	[X]	[X]
Derivative financial instruments				
– Derivatives held for trading	[X]	[X]	[X]	[X]
– Derivatives held for hedging	[X]	[X]	[X]	[X]
Total Liabilities	**[X]**	**[X]**	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

7. Fair value of financial assets and liabilities (continued)

97 ***IFRS 13:93(c)*** To meet the objectives in paragraph 91, an entity shall disclose, at a minimum, the following information for each class of assets and liabilities (see paragraph 94 for information on determining appropriate classes of assets and liabilities) measured at fair value (including measurements based on fair value within the scope of this IFRS) in the statement of financial position after initial recognition:

(c) for assets and liabilities held at the end of the reporting period that are measured at fair value on a recurring basis, the amounts of any transfers between Level 1 and Level 2 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 95). Transfers into each level shall be disclosed and discussed separately from transfers out of each level.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

7. Fair value of financial assets and liabilities (continued)

97 Transfers between level 1 and level 2 fair values, are outlined in the table below.

Assets	Year ended 20XX		Year ended 20YY	
	Transfers from Level 1 to Level 2 CUm	Transfers from Level 2 to Level 1 CUm	Transfers from Level 1 to Level 2 CUm	Transfers from Level 2 to Level 1 CUm
Trading assets (non-derivative)				
– Debt securities	[X]	[X]	[X]	[X]
– Equity securities	[X]	[X]	[X]	[X]
Investment securities mandatorily measured at FVTPL				
– Debt securities	[X]	[X]	[X]	[X]
– Equity securities	[X]	[X]	[X]	[X]
Investment securities designated at FVTPL				
– Debt securities	[X]	[X]	[X]	[X]
Derivative financial instruments				
– Derivatives held for trading	[X]	[X]	[X]	[X]
– Derivatives held for hedging	[X]	[X]	[X]	[X]
Investments at FVTOCI – (debt and equity instruments)				
– Debt securities	[X]	[X]	[X]	[X]
– Equity securities	[X]	[X]	[X]	[X]
Loans and advances to customers at FVTPL	[X]	[X]	[X]	[X]
Total	**[X]**	**[X]**	**[X]**	**[X]**

Liabilities	Year ended 20XX		Year ended 20YY	
	Transfers from Level 1 to Level 2 CUm	Transfers from Level 2 to Level 1 CUm	Transfers from Level 1 to Level 2 CUm	Transfers from Level 2 to Level 1 CUm
Trading liabilities (non-derivative)				
– Short sold positions-debt	[X]	[X]	[X]	[X]
– Short sold positions-equity	[X]	[X]	[X]	[X]
Debt securities in issue designated at FVTPL	[X]	[X]	[X]	[X]
Derivative financial instruments				
– Derivaties held for trading	[X]	[X]	[X]	[X]
– Derivatives held for hedging	[X]	[X]	[X]	[X]
Total	**[X]**	**[X]**	**[X]**	**[X]**

Transfers between levels of fair value hierarchy are deemed to occur at the end of each semi-annual reporting period.

Notes to the consolidated financial statements (continued)

7. Fair value of financial assets and liabilities (continued)

98 ***IFRS 13:93(e)*** To meet the objectives in paragraph 91, an entity shall disclose, at a minimum, the following information for each class of assets and liabilities (see paragraph 94 for information on determining appropriate classes of assets and liabilities) measured at fair value (including measurements based on fair value within the scope of this IFRS) in the statement of financial position after initial recognition:

(e) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:

i. total gains or losses for the period recognised in profit or loss, and the line item(s) in profit or loss in which those gains or losses are recognised;

ii. total gains or losses for the period recognised in other comprehensive income, and the line item(s) in other comprehensive income in which those gains or losses are recognised;

iii. purchases, sales, issues and settlements (each of those types of changes disclosed separately); and

iv. the amounts of any transfers into or out of Level 3 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 95). Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

7. Fair value of financial assets and liabilities (continued)

98 **Reconciliation of Level 3 fair value measurements of financial assets and financial liabilities**

	FVTPL								
Assets	Trading assets (non-derivative) – debt securities	Trading assets (non-derivative)- equity securities	Investments mandatorily measured at FVTPL-debt securities	Investments mandatorily measured at FVTPL-equity securities	Investment securities designated at FVTPL – debt securities	Derivative financial instruments-derivatives held for trading	Derivative financial instruments-derivatives held for hedging	Loans and advances to customers at FVTPL	Total
	CUm	CUm	CUm	CUm	CUm	CUm	CUm	CUm	CUm
Balance at 1 January 20XX	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Total gains/ losses:									
– in profit or loss	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
– in OCI	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Purchases	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Issues	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Settlements	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Transfers out of Level 3	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Transfers into Level 3	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Balance at 31 December 20XX	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

98

	FVTPL								
Assets	Trading assets (non-derivative) – debt securities	Trading assets (non-derivative)- equity securities	Investments mandatorily measured at FVTPL-debt securities	Investments mandatorily measured at FVTPL-equity securities	Investment securities designated at FVTPL – debt securities	Derivative financial instruments-derivatives held for trading	Derivative financial instruments-derivatives held for hedging	Loans and advances to customers at FVTPL	Total
	CUm	CUm	CUm	CUm	CUm	CUm	CUm	CUm	CUm
Balance at 1 January 20YY	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Total gains/ losses:									
– in profit or loss	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
– in OCI	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Purchases	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Issues	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Settlements	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Transfers out of Level 3	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Transfers into Level 3	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Balance at 31 December 20YY	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

7. Fair value of financial assets and liabilities (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

7. Fair value of financial assets and liabilities (continued)

Reconciliation of Level 3 fair value measurements of financial assets and financial liabilities (continued)

98

	FVTOCI – Year ended 20XX			FVTOCI – Year ended 20YY		
Assets	**Investments at FVTOCI-debt securities**	**Investments at FVTOCI-equity securities**	**Total**	**Investments at FVTOCI-debt securities**	**Investments at FVTOCI-equity securities**	**Total**
	CUm	**CUm**	**CUm**	**CUm**	**CUm**	**CUm**
Balance at 1 January	[X]	[X]	**[X]**	[X]	[X]	**[X]**
Total gains/ losses:						
– in profit or loss	[X]	[X]	**[X]**	[X]	[X]	**[X]**
– in OCI	[X]	[X]	**[X]**	[X]	[X]	**[X]**
Purchases	[X]	[X]	**[X]**	[X]	[X]	**[X]**
Issues	[X]	[X]	**[X]**	[X]	[X]	**[X]**
Settlements	[X]	[X]	**[X]**	[X]	[X]	**[X]**
Transfers out of Level 3	[X]	[X]	**[X]**	[X]	[X]	**[X]**
Transfers into Level 3	[X]	[X]	**[X]**	[X]	[X]	**[X]**
Balance at 31 December	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

7. Fair value of financial assets and liabilities (continued)

99 ***IFRS 13:93(f)*** To meet the objectives in paragraph 91, an entity shall disclose, at a minimum, the following information for each class of assets and liabilities (see paragraph 94 for information on determining appropriate classes of assets and liabilities) measured at fair value (including measurements based on fair value within the scope of this IFRS) in the statement of financial position after initial recognition:

(f) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (e)(i) included in profit or loss that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at the end of the reporting period, and the line item(s) in profit or loss in which those unrealised gains or losses are recognised.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

7. Fair value of financial assets and liabilities (continued)

99 Profit or loss –attributable to the change in unrealised gains/losses relating to assets held at the end of the year:

	Year ended 20XX FVTPL								
	Trading assets (non-derivative) – debt securities	Trading assets (non-derivative) – equity securities	Investments mandatorily measured at FVTPL-debt securities	Investments mandatorily measured at FVTPL-equity securities	Investment securities designated at FVTPL – debt securities	Derivative financial instruments-derivatives held for trading	Derivative financial instruments-derivatives held for hedging	Loans and advances to customers at FVTPL	Total
Assets	CUm	CUm	CUm	CUm	CUm	CUm	CUm	CUm	CUm
Net trading income	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Net income from other financial instruments at FVTPL	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Other revenue	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Total	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

99 Profit or loss –attributable to the change in unrealised gains/losses relating to assets held at the end of the year:

	Year ended 20YY FVTPL								
	Trading assets (non-derivative) – debt securities	Trading assets (non-derivative)-equity securities	Investments mandatorily measured at FVTPL-debt securities	Investments mandatorily measured at FVTPL-equity securities	Investment securities designated at FVTPL – debt securities	Derivative financial instruments-derivatives held for trading	Derivative financial instruments-derivatives held for hedging	Loans and advances to customers at FVTPL	Total
Assets	CUm	CUm	CUm	CUm	CUm	CUm	CUm	CUm	CUm
Net trading income	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Net income from other financial instruments at FVTPL	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Other revenue	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Total	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

99 Profit or loss –attributable to the change in unrealised gains/losses relating to assets held at the end of the year:

	Year ended 20XX FVTOCI			Year ended 20YY FVTOCI		
Assets	Investments at FVTOCI-debt securities	Investments at FVTOCI-equity securities	Total	Investments at FVTOCI-debt securities	Investments at FVTOCI-equity securities	Total
	CUm	CUm	CUm	CUm	CUm	CUm
Net trading income	[X]	N/A	**[X]**	[X]	N/A	**[X]**
Net income from other financial instruments at FVTPL	[X]	N/A	**[X]**	[X]	N/A	**[X]**
Other revenue	[X]	[X]	**[X]**	[X]	[X]	**[X]**
Total	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

7. Fair value of financial assets and liabilities (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

7. Fair value of financial assets and liabilities (continued)

98

Liabilities	**Trading liabilities (non-derivative) – short positions debt CUm**	**Trading liabilities (non-derivative) – short positions equity CUm**	**Debt securities in issue designated at FVTPL CUm**	**Derivative financial instruments-derivatives held for trading CUm**	**Derivative financial instruments-derivatives held for hedging CUm**	**Total CUm**
Balance at 1 January 20XX	[X]	[X]	[X]	[X]	[X]	**[X]**
Total gains/losses:						
– in profit or loss	[X]	[X]	[X]	[X]	[X]	**[X]**
– in OCI	[X]	[X]	[X]	[X]	[X]	**[X]**
Purchases	[X]	[X]	[X]	[X]	[X]	**[X]**
Issues	[X]	[X]	[X]	[X]	[X]	**[X]**
Settlements	[X]	[X]	[X]	[X]	[X]	**[X]**
Transfers out of Level 3	[X]	[X]	[X]	[X]	[X]	**[X]**
Transfers into Level 3	[X]	[X]	[X]	[X]	[X]	**[X]**
Balance at 31 December 20XX	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

Liabilities	**Trading liabilities (non-derivative) – short positions debt CUm**	**Trading liabilities (non-derivative) – short positions equity CUm**	**Debt securities in issue designated at FVTPL CUm**	**Derivative financial instruments-derivatives held for trading CUm**	**Derivative financial instruments-derivatives held for hedging CUm**	**Total CUm**
Balance at 1 January 20YY	[X]	[X]	[X]	[X]	[X]	**[X]**
Total gains/losses:						
– in profit or loss	[X]	[X]	[X]	[X]	[X]	**[X]**
– in OCI	[X]	[X]	[X]	[X]	[X]	**[X]**
Purchases	[X]	[X]	[X]	[X]	[X]	**[X]**
Issues	[X]	[X]	[X]	[X]	[X]	**[X]**
Settlements	[X]	[X]	[X]	[X]	[X]	**[X]**
Transfers out of Level 3	[X]	[X]	[X]	[X]	[X]	**[X]**
Transfers into Level 3	[X]	[X]	[X]	[X]	[X]	**[X]**
Balance at 31 December 20YY	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

7. Fair value of financial assets and liabilities (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

7. Fair value of financial assets and liabilities (continued)

99 **Profit or loss – attributable to the change in unrealised gains/losses relating to liabilities held at the end of the year**

Year ended 20XX

Liabilities	Trading liabilities (non-derivative) – short positions debt CUm	Trading liabilities (non-derivative) – short positions equity CUm	Debt securities in issue designated at FVTPL CUm	Derivative financial instruments-derivatives held for trading CUm	Derivative financial instruments-derivatives held for hedging CUm	Total CUm
Net trading income	[X]	[X]	[X]	[X]	[X]	**[X]**
Net income from other financial instruments at FVTPL	[X]	[X]	[X]	[X]	[X]	**[X]**
Other revenue	[X]	[X]	[X]	[X]	[X]	**[X]**
Total	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

99 **Profit or loss – attributable to the change in unrealised gains/losses relating to liabilities held at the end of the year**

Year ended 20YY

Liabilities	Trading liabilities (non-derivative) – short positions debt CUm	Trading liabilities (non-derivative) – short positions equity CUm	Debt securities in issue designated at FVTPL CUm	Derivative financial instruments-derivatives held for trading CUm	Derivative financial instruments-derivatives held for hedging CUm	Total CUm
Net trading income	[X]	[X]	[X]	[X]	[X]	**[X]**
Net income from other financial instruments at FVTPL	[X]	[X]	[X]	[X]	[X]	**[X]**
Other revenue	[X]	[X]	[X]	[X]	[X]	**[X]**
Total	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

7. Fair value of financial assets and liabilities (continued)

100 ***IFRS 13:93(d)*** To meet the objectives in paragraph 91, an entity shall disclose, at a minimum, the following information for each class of assets and liabilities (see paragraph 94 for information on determining appropriate classes of assets and liabilities) measured at fair value (including measurements based on fair value within the scope of this IFRS) in the statement of financial position after initial recognition:

(d) for recurring and non-recurring fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in valuation technique (e.g. changing from a market approach to an income approach or the use of an additional valuation technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorised within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (e.g. when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity.

101 ***IFRS 13:IE65(e)*** For fair value measurements categorised within Level 3 of the fair value hierarchy, the IFRS requires an entity to disclose a description of the valuation processes used by the entity. An entity might disclose the following to comply with paragraph 93(g) of the IFRS:

(e) the methods used to develop and substantiate the unobservable inputs used in a fair value measurement.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

7. Fair value of financial assets and liabilities (continued)

During 20XX and 20YY, certain assets and liabilities 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.

100 The following table summarises information about how the fair values of financial assets and financial liabilities (both recurring and non-recurring) which are categorised as Level 2 and Level 3 are determined:

Financial assets/ financial liabilities	Fair value as at 31/12/20XX CUm	Fair value hierarchy 31/12/20YY CUm	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
1) OTC Derivatives (Derivative financial instruments))			[add details]	[add details]	[add details]
2) Asset backed securities at FVTOCI (Investment securities)			[add details]	[add details]	[add details]
3) Assets backed securities held for trading (Trading assets)			[add details]	[add details]	[add details]
4) Unquoted equities (Investment securities)			[add details]	[add details]	[add details]
5) Debt investment securities (Investment securities)			[add details]	[add details]	[add details]
6) Structured notes issued (Debt securities in issue)			[add details]	[add details]	[add details]

101 The Group develops significant unobservable inputs as follows:

- When CDS market prices to determine PD (see note 3) are unavailable the inputs are obtained from historical default and recovery information and adjusted for current conditions.
- Expected prepayment rates are developed using historical payment trends, adjusted to reflect current market conditions.
- By applying extrapolation or interpolation techniques to observable inputs.
- Expected cash flows are derived from the entity's business plan and from historical comparison between plans and actual results.

Notes to the consolidated financial statements (continued)

7. Fair value of financial assets and liabilities (continued)

102 ***IFRS 13:93(h)*** To meet the objectives in paragraph 91, an entity shall disclose, at a minimum, the following information for each class of assets and liabilities (see paragraph 94 for information on determining appropriate classes of assets and liabilities) measured at fair value (including measurements based on fair value within the scope of this IFRS) in the statement of financial position after initial recognition:

(h) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy:

(i) for all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (d).

(ii) for financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, an entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to reflect a reasonably possible alternative assumption was calculated. For that purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

7. Fair value of financial assets and liabilities (continued)

102 The following table shows the sensitivity of fair values to reasonably possible alternative assumptions as at the year end:

	Year ended 20XX Reflected in profit or loss		Year ended 20XX Reflected in OCI	
Assets - Level 3	**Favourable change** CUm	**Unfavourable change** CUm	**Favourable change** CUm	**Unfavourable change** CUm
Trading assets (non-derivative)				
– Debt securities	[X]	[X]	N/A	N/A
– Equity securities	[X]	[X]	N/A	N/A
Investment securities mandatorily measured at FVTPL				
– Debt securities	[X]	[X]	N/A	N/A
– Equity securities	[X]	[X]	N/A	N/A
Investment securities designated at FVTPL				
– Debt securities	[X]	[X]	N/A	N/A
Derivative financial instruments				
– Derivatives held for trading	[X]	[X]	N/A	N/A
– Derivatives held for hedging	[X]	[X]	[X]	[X]
Investments at FVTOCI – (debt and equity instruments)				
– Debt securities	N/A	N/A	[X]	[X]
– Equity securities	N/A	N/A	[X]	[X]
Loans and advances to customers at FVTPL	[X]	[X]	N/A	N/A
Total	**[X]**	**[X]**	**[N/A]**	**[N/A]**

	Year ended 20YY Reflected in profit or loss		Year ended 20YY Reflected in OCI	
Assets - Level 3	**Favourable change CUm**	**Unfavourable change CUm**	**Favourable change CUm**	**Unfavourable change CUm**
Trading assets (non-derivative)				
– Debt securities	[X]	[X]	N/A	N/A
– Equity securities	[X]	[X]	N/A	N/A
Investment securities mandatorily measured at FVTPL				
– Debt securities	[X]	[X]	N/A	N/A
– Equity securities	[X]	[X]	N/A	N/A
Investment securities designated at FVTPL				
– Debt securities	[X]	[X]	N/A	N/A
Derivative financial instruments				
– Derivatives held for trading	[X]	[X]	N/A	N/A
– Derivatives held for hedging	[X]	[X]	[X]	[X]
Investments at FVTOCI – (debt and equity instruments)				
– Debt securities	N/A	N/A	[X]	[X]
– Equity securities	N/A	N/A	[X]	[X]
Loans and advances to customers at FVTPL	[X]	[X]	N/A	N/A
Total	**[X]**	**[X]**	**[N/A]**	**[N/A]**

Notes to the consolidated financial statements (continued)

7. Fair value of financial assets and liabilities (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

7. Fair value of financial assets and liabilities (continued)

Liabilities - Level 3	Year ended 20XX Reflected in profit or loss		Year ended 20XX Reflected in OCI	
	Favourable change CUm	Unfavourable change CUm	Favourable change CUm	Unfavourable change CUm
Trading liabilities (non-derivative)				
– Short sold positions-debt	[X]	[X]	N/A	N/A
– Short sold positions-equity	[X]	[X]	N/A	N/A
Debt securities in issue designated at FVTPL	[X]	[X]	[X]	[X]
Derivative financial instruments				
– Derivaties held for trading	[X]	[X]	N/A	N/A
– Derivatives held for hedging	[X]	[X]	N/A	N/A
Total	**[X]**	**[X]**	**[X]**	**[X]**

Liabilities - Level 3	Year ended 20YY Reflected in profit or loss		Year ended 20YY Reflected in OCI	
	Favourable change CUm	Unfavourable change CUm	Favourable change CUm	Unfavourable change CUm
Trading liabilities (non-derivative)				
– Short sold positions-debt	[X]	[X]	N/A	N/A
– Short sold positions-equity	[X]	[X]	N/A	N/A
Debt securities in issue designated at FVTPL	[X]	[X]	[X]	[X]
Derivative financial instruments				
– Derivaties held for trading	[X]	[X]	N/A	N/A
– Derivatives held for hedging	[X]	[X]	N/A	N/A
Total	**[X]**	**[X]**	**[X]**	**[X]**

[*Include details of the methods and assumptions used in preparing the sensitivity analysis including explanation of the alternative assumptions used to generate sensitivities.*]

Notes to the consolidated financial statements (continued)

7. Fair value of financial assets and liabilities (continued)

IFRS 13:97 For each class of assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by 93(b), (d) and (i). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorised within Level 3 of the fair value hierarchy required by paragraph 93(d). For such assets and liabilities, an entity does not need to provide the other disclosures required by this IFRS.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

7. Fair value of financial assets and liabilities (continued)

Financial instruments not measured at fair value

	Non-recurring fair value measurements at 31 December 20XX				
	Level 1 CUm	Level 2 CUm	Level 3 CUm	Total fair value CUm	Total Carrying amount CUm
Financial assets					
Cash and cash equivalents					
– Cash and balances with banks (central and other)	[X]	[X]	[X]	**[X]**	**[X]**
– Money market placements	[X]	[X]	[X]	**[X]**	**[X]**
Loans and advances to banks					
– Reverse sale and repurchase agreements	[X]	[X]	[X]	**[X]**	**[X]**
– other	[X]	[X]	[X]	**[X]**	**[X]**
Loans and advances to customers					
– Loans and advances to customers at amortised cost	[X]	[X]	[X]	**[X]**	**[X]**
– Lease receivables	[X]	[X]	[X]	**[X]**	**[X]**
Investments securities measured at amortised cost					
– Debt securities	[X]	[X]	[X]	**[X]**	**[X]**
	[X]	**[X]**	**[X]**	**[X]**	**[X]**
Financial Liabilities					
Deposits from banks					
– Money market deposits	[X]	[X]	[X]	**[X]**	**[X]**
– Sale and repurchase agreements and security lending	[X]	[X]	[X]	**[X]**	**[X]**
– Other	[X]	[X]	[X]	**[X]**	**[X]**
Deposits from customers					
– Term deposits	[X]	[X]	[X]	**[X]**	**[X]**
– Current deposits	[X]	[X]	[X]	**[X]**	**[X]**
Debt securities issued					
– Floating rate debt securities in issue	[X]	[X]	[X]	**[X]**	**[X]**
– Fixed rate debt securities in issue	[X]	[X]	[X]	**[X]**	**[X]**
Subordinated liabilities					
– Redeemable preference shares	[X]	[X]	[X]	**[X]**	**[X]**
– Subordinated notes issued	[X]	[X]	[X]	**[X]**	**[X]**
	[X]	**[X]**	**[X]**	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

7. Fair value of financial assets and liabilities (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

7. Fair value of financial assets and liabilities (continued)

Financial instruments not measured at fair value (continued)

	Non-recurring fair value measurements at 31 December 20YY				
	Level 1 CUm	Level 2 CUm	Level 3 CUm	Total fair value CUm	Total Carrying amount CUm
Financial assets					
Cash and cash equivalents					
– Cash and balances with banks (central and other)	[X]	[X]	[X]	**[X]**	**[X]**
– Money market placements	[X]	[X]	[X]	**[X]**	**[X]**
Loans and advances to banks					
– Reverse sale and repurchase agreements	[X]	[X]	[X]	**[X]**	**[X]**
– other	[X]	[X]	[X]	**[X]**	**[X]**
Loans and advances to customers					
– Loans and advances to customers at amortised cost	[X]	[X]	[X]	**[X]**	**[X]**
– Lease receivables	[X]	[X]	[X]	**[X]**	**[X]**
Investments securities measured at amortised cost					
– Debt securities	[X]	[X]	[X]	**[X]**	**[X]**
	[X]	**[X]**	**[X]**	**[X]**	**[X]**
Financial Liabilities					
Deposits from banks					
– Money market deposits	[X]	[X]	[X]	**[X]**	**[X]**
– Sale and repurchase agreements and security lending	[X]	[X]	[X]	**[X]**	**[X]**
– Other	[X]	[X]	[X]	**[X]**	**[X]**
Deposits from customers					
– Term deposits	[X]	[X]	[X]	**[X]**	**[X]**
– Current deposits	[X]	[X]	[X]	**[X]**	**[X]**
Debt securities issued					
– Floating rate debt securities in issue	[X]	[X]	[X]	**[X]**	**[X]**
– Fixed rate debt securities in issue	[X]	[X]	[X]	**[X]**	**[X]**
Subordinated liabilities					
– Redeemable preference shares	[X]	[X]	[X]	**[X]**	**[X]**
– Subordinated notes issued	[X]	[X]	[X]	**[X]**	**[X]**
	[X]	**[X]**	**[X]**	**[X]**	**[X]**

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 with inputs including expected lifetime credit losses, interest rates and estimated prepayment rates. The fair value of collateral-dependent impaired loans is measured based on the value of the underlying collateral.

Notes to the consolidated financial statements (continued)

103 **8. Net interest income**

IFRS 7:20 (b) An entity shall disclose total interest revenue and total interest expense (calculated using the effective interest method) for financial assets that are measured at amortised cost or that are measured at fair value through other comprehensive income in accordance with **IFRS 9: 4.1.2A** (showing these amounts separately); or financial liabilities that are not measured at fair value through profit or loss, either in the statement of comprehensive income or in the notes.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

7. Fair value of financial assets and liabilities (continued)

Retail and smaller commercial 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.

8. Net interest income

	Year ended 20XX CUm	Year ended 20YY CUm
Interest income		
Cash and cash equivalents	[X]	[X]
Loans and advances to banks	[X]	[X]
Loans and advances to customers	[X]	[X]
Investment securities at amortised cost	[X]	[X]
Investment securities at FVTOCI	[X]	[X]
Other	[X]	[X]
Total interest income	**[X]**	**[X]**
Interest expense		
Deposits from banks	[X]	[X]
Deposits from customers	[X]	[X]
Debt securities issued	[X]	[X]
Subordinated liabilities	[X]	[X]
Other	[X]	[X]
Total interest expense	**[X]**	**[X]**
Net interest income	**[X]**	**[X]**

103 The total interest income calculated using the EIR method for financial assets at FVTOCI is CU[X]m during the financial year 20XX (20YY: CU[X]m)and for financial assets measured at amortised cost is CU[X]m during the financial year 20XX (20YY: CU[X]m). The total interest expense calculated using the EIR method for financial liabilities measured at amortised cost is CU[X]m during the financial year 20XX (20YY: CU[X]m).

Notes to the consolidated financial statements (continued)

9. Net fee and commission income

104 ***IFRS 7:20 (c)*** An entity shall disclose either in the statement of comprehensive income or in the notes, fee income and expense (other than amounts included in determining the effective interest rate) arising from:

(i) financial assets and financial liabilities that are not at fair value through profit or loss; and

(ii) trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

9. Net fee and commission income

	Year ended 20XX CUm	Year ended 20YY CUm
Fee and commission income		
Retail banking	[X]	[X]
Corporate banking/credit	[X]	[X]
Investment banking	[X]	[X]
Brokerage	[X]	[X]
Asset management	[X]	[X]
Financial guarantees	[X]	[X]
Other	[X]	[X]
Total fee and commission income	**[X]**	**[X]**
Fee and commission expense		
Inter-bank	[X]	[X]
Brokerage	[X]	[X]
Other	[X]	[X]
Total fee and commission expense	**[X]**	**[X]**
Net fee and commission income	**[X]**	**[X]**

104 The total fee and commission income for financial assets that are not at FVTPL was CU[X]m during the financial year 20XX (20YY: CU[X]m).

The total fee and commission expense for financial liabilities that are not at FVTPL was CU[X]m during the financial year 20XX (20YY: CU[X]m).

The asset management fees are earned on trust and fiduciary activities, where the Group holds or invests in assets on behalf of its customers.

10. Net trading income

	Year ended 20XX CUm	Year ended 20YY CUm
Fixed income	[X]	[X]
Equities	[X]	[X]
Foreign exchange	[X]	[X]
Other	[X]	[X]
Net trading income	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

11. Net income from other financial instruments at FVTPL

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

11. Net income from other financial instruments at FVTPL

	Year ended 20XX CUm	Year ended 20YY CUm
Net income from financial instruments mandatorily measured at FVTPL other than held for trading		
Derivatives held for hedging		
Interest rate	[X]	[X]
Credit	[X]	[X]
Equity	[X]	[X]
Foreign exchange	[X]	[X]
Loans and advances	[X]	[X]
Debt securities	[X]	[X]
Equity securities	[X]	[X]
Asset-backed securities	[X]	[X]
	[X]	**[X]**
Net income from financial instruments designated at FVTPL		
Loans and advances	[X]	[X]
Debt securities	[X]	[X]
Equity securities	[X]	[X]
Asset-backed securities	[X]	[X]
Debt securities in issue	[X]	[X]
Other	[X]	[X]
	[X]	**[X]**
Net income from other financial instruments at FVTPL	**[X]**	**[X]**

12. Other revenue, other income and other expenses

Other revenue	Year ended 20XX CUm	Year ended 20YY CUm
Dividends on equity securities measured at FVTOCI	[X]	[X]
Other	[X]	[X]
	[X]	**[X]**

Other income	Year ended 20XX CUm	Year ended 20YY CUm
Financial liabilities modification gain	[X]	[X]
Other	[X]	[X]
	[X]	**[X]**

Other expenses	Year ended 20XX CUm	Year ended 20YY CUm
Financial liabilities modification loss	[X]	[X]
Other	[X]	[X]
	[X]	**[X]**

Notes to the consolidated financial statements (continued)

13. Net gain/(loss) from derecognition of financial assets measured at amortised cost and financial assets at FVTOCI

105 **Net gain/(loss) from derecognition of financial assets measured at amortised cost**

IFRS 7:20A An entity shall disclose an analysis of the gain or loss recognised in the statement of comprehensive income arising from the derecognition of financial assets measured at amortised cost, showing separately gains and losses arising from derecognition of those financial assets. This disclosure shall include the reasons for derecognising those financial assets.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

105 **13. Net gain/(loss) from derecognition of financial assets measured at amortised cost and financial assets at FVTOCI**

During the year ended 20XX the Group sold some financial assets measured at amortised cost, because these assets were no longer in line with the Group's investment policy due to [add reason].

The table below summarises the carrying amount of the derecognised financial assets measured at amortised cost and the gain/(loss) on derecognition, per type of asset. No such sales happened in the comparative period.

	Year ended 20XX	
	Carrying amount of derecognised financial assets measured at amortised cost CUm	**Gain/(loss) from derecognition CUm**
Sovereign bonds	[X]	[X]
Corporate bond	[X]	[X]
	[X]	**[X]**

During the year ended 20XX the Group sold financial assets measured at FVTOCI, in order to [add reason].

The tables below summarises the carrying amount of the derecognised financial assets at FVTOCI and the gain/(loss) on derecognition, per type of asset, during the current year and the comparative period.

	Year ended 20XX		Year ended 20YY	
	Carrying amount of derecognised financial assets measured at amortised cost CUm	**Gain/(loss) from derecognition CUm**	**Carrying amount of derecognised financial assets measured at amortised cost CUm**	**Gain/(loss) from derecognition CUm**
Sovereign bonds	[X]	[X]	[X]	[X]
Corporate bond	[X]	[X]	[X]	[X]
	[X]	**[X]**	**[X]**	**[X]**

14. Cash and cash equivalents

	Year ended 20XX CUm	Year ended 20YY CUm
Unrestricted balances with central banks	[X]	[X]
Cash and balances with other banks	[X]	[X]
Money market placements	[X]	[X]
	[X]	**[X]**

Notes to the consolidated financial statements (continued)

15. Trading assets

106 ***IFRS 7:14(a)*** An entity shall disclose:

(a) the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, including amounts that have been reclassified in accordance with **IFRS 9:3.2.23(a)**.

IFRS 9:3.2.23(a) If a transferor provides non-cash collateral (such as debt or equity instruments) to the transferee, the accounting for the collateral by the transferor and the transferee depends on whether the transferee has the right to sell or repledge the collateral and on whether the transferor has defaulted. The transferor and transferee shall account for the collateral as follows:

(a) If the transferee has the right by contract or custom to sell or repledge the collateral, then the transferor shall reclassify that asset in its statement of financial position (e.g. as a loaned asset, pledged equity instruments or repurchase receivable) separately from other assets.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

15. Trading assets

106

	Pledged trading assets CUm	Non-pledged trading assets CUm	Total trading assets CUm
31 December 20XX			
Non-derivative trading assets			
Sovereign bonds	[X]	[X]	[X]
Corporate bonds	[X]	[X]	[X]
Asset-backed securities	[X]	[X]	[X]
Total debt securities	[X]	[X]	[X]
Equity securities	[X[	[X[	[X[
Total	**[X]**	**[X]**	**[X]**
31 December 20YY			
Non-derivative trading assets	[X]	[X]	[X]
Sovereign bonds	[X]	[X]	[X]
Corporate bonds	[X]	[X]	[X]
Asset-backed securities			
Total debt securities	[X]	[X]	[X]
Equity securities	[X[	[X[	[X[
Total	**[X]**	**[X]**	**[X]**

The pledged trading assets disclosed above may be repledged or resold by counterparties, as explained in note 4.

Notes to the consolidated financial statements (continued)

16. Derivative financial instruments

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

16. Derivative financial instruments

The derivatives held are either held for trading or for risk management purposes.

	Year ended 20XX		Year ended 20YY	
Derivatives held for trading	**Assets CUm**	**Liabilities CUm**	**Assets CUm**	**Liabilities CUm**
Interest rate derivatives				
Interest rate swaps	[X]	[X]	[X]	[X]
Interest rate forwards	[X]	[X]	[X]	[X]
OTC options	[X]	[X]	[X]	[X]
OTC derivatives	[X]	[X]	[X]	[X]
Interest rate derivatives cleared by central counterparty	[X]	[X]	[X]	[X]
Exchange traded futures and options	[X]	[X]	[X]	[X]
Total interest rate derivatives	**[X]**	**[X]**	**[X]**	**[X]**
Foreign exchange derivatives				
Foreign exchange forwards	[X]	[X]	[X]	[X]
Currency swaps	[X]	[X]	[X]	[X]
OTC Options	[X]	[X]	[X]	[X]
OTC derivatives	[X]	[X]	[X]	[X]
Foreign exchange derivatives cleared by central counterparty	[X]	[X]	[X]	[X]
Exchange traded futures and options	[X]	[X]	[X]	[X]
Total foreign exchange derivatives	**[X]**	**[X]**	**[X]**	**[X]**
Credit derivatives				
OTC swaps	[X]	[X]	[X]	[X]
Credit derivatives cleared by central counterparty	[X]	[X]	[X]	[X]
Total credit derivatives	**[X]**	**[X]**	**[X]**	**[X]**
Equity stock and index derivatives				
OTC options	[X]	[X]	[X]	[X]
Equity swaps and forwards	[X]	[X]	[X]	[X]
OTC derivatives	[X]	[X]	[X]	[X]
Exchange traded futures and options	[X]	[X]	[X]	[X]
Total equity stock and index derivatives	**[X]**	**[X]**	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

16. Derivative financial instruments (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

16. Derivative financial instruments (continued)

	Year ended 20XX		Year ended 20YY	
Derivatives held for trading	Assets CUm	Liabilities CUm	Assets CUm	Liabilities CUm
Commodity derivatives				
OTC options	[X]	[X]	[X]	[X]
Commodity swaps and forwards	[X]	[X]	[X]	[X]
OTC derivatives	[X]	[X]	[X]	[X]
Exchange traded futures and options	[X]	[X]	[X]	[X]
Commodity derivatives	**[X]**	**[X]**	**[X]**	**[X]**
Total derivatives held for trading	**[X]**	**[X]**	**[X]**	**[X]**
Total OTC derivatives held for trading	**[X]**	**[X]**	**[X]**	**[X]**
Total derivatives cleared by central counterparty held for trading	**[X]**	**[X]**	**[X]**	**[X]**
Total exchanged traded derivatives held for trading	**[X]**	**[X]**	**[X]**	**[X]**
Total derivatives held for trading	**[X]**	**[X]**	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

16. Derivative financial instruments (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

16. Derivative financial instruments (continued)

	Year ended 20XX		Year ended 20YY	
Derivatives held for hedging	Assets CUm	Liabilities CUm	Assets CUm	Liabilities CUm
Derivatives designated in cash flow hedges				
Interest rate swaps	[X]	[X]	[X]	[X]
Cross currency interest rate swaps	[X]	[X]	[X]	[X]
Foreign exchange forwards	[X]	[X]	[X]	[X]
Total derivatives designated in cash flow hedges	**[X]**	**[X]**	**[X]**	**[X]**
Derivatives designated in fair value hedges				
Interest rate swaps	[X]	[X]	[X]	[X]
Foreign exchange forwards	[X]	[X]	[X]	[X]
Cross currency interest rate swaps	[X]	[X]	[X]	[X]
Total derivatives designated in fair value hedges	**[X]**	**[X]**	**[X]**	**[X]**
Derivatives designated in hedges of net investments				
Foreign exchange forwards	[X]	[X]	[X]	[X]
Total derivatives designated in hedges of net investments	**[X]**	**[X]**	**[X]**	**[X]**
Derivatives held for risk management not designated in hedges				
Equity OTC options	[X]	[X]	[X]	[X]
Interest rate options	[X]	[X]	[X]	[X]
Foreign exchange forwards	[X]	[X]	[X]	[X]
Credit derivatives	[X]	[X]	[X]	[X]
Total derivatives held for risk management not designated in hedges	**[X]**	**[X]**	**[X]**	**[X]**
Total derivatives held for risk management	**[X]**	**[X]**	**[X]**	**[X]**
Total OTC derivatives held for risk management	**[X]**	**[X]**	**[X]**	**[X]**
Total derivatives cleared by central counterparty held for risk management	**[X]**	**[X]**	**[X]**	**[X]**
Total derivatives held for risk management	**[X]**	**[X]**	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

16. Derivative financial instruments (continued)

107 **Unobservable valuation differences on initial recognition**

IFRS 7:28 In some cases, an entity does not recognise a gain or loss on initial recognition of a financial asset or financial liability because the fair value is neither evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) nor based on a valuation technique that uses only data from observable markets (see **IFRS 9:B5.1.2A**). In such cases, the entity shall disclose by class of financial asset or financial liability:

(a) its accounting policy for recognising in profit or loss the difference between the fair value at initial recognition and the transaction price to reflect a change in factors (including time) that market participants would take into account when pricing the asset or liability (see **IFRS 9:B5.1.2A(b)**).

(b) the aggregate difference yet to be recognised in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference.

(c) why the entity concluded that the transaction price was not the best evidence of fair value, including a description of the evidence that supports the fair value.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

16. Derivative financial instruments (continued)

The derivatives held for risk management purposes contain derivatives which are designated as hedging instruments in qualifying hedge relationships more details of which are provided below in the hedge accounting subsection. Derivatives which are not designated as hedging instruments in qualifying hedge relationships are used to manage the Bank's exposure to interest rate, credit, equity market and foreign exchange risks. The instruments used include interest rate swaps, cross currency interest rate swaps, forward contracts, futures, options, CDSs and index return swaps.

The Group has entered into ISDA and similar master netting agreements which give either party the legal right of offset on termination of the contract, or on default of the other party (refer to note 3).

107 **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.

As explained in note 1, in such cases, the Group will account for such differences as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised as a gain/loss on initial recognition (i.e. day 1 profit or loss);

- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

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 for derivative assets and liabilities are outlined below.

	Year ended 20XX CUm	**Year ended 20YY CUm**
Balance at 1 January (unrecognised gains)	[X]	[X]
Increase due to new trades	[X]	[X]
Reduction due to passage of time	[X]	[X]
Reduction due to redemption/sales/transfers/improved observability	[X]	[X]
Balance at 31 December (unrecognised gains)	[X]	[X]
	[X]	**[X]**

Notes to the consolidated financial statements (continued)

16. Derivative financial instruments (continued)

Hedge accounting

IFRS 9:BC6.104: Irrespective of whether an entity applies the hedge accounting requirements in IFRS 9, or in part or in full IAS 39, the requirements for disclosures on hedge accounting in IFRS 7 that were consequentially amended when IFRS 9 was issued still apply.

108 ***IFRS 7:21B*** An entity shall present the required disclosures in a single note or separate section in its financial statements. However, an entity 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 a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

IFRS 7:21C When paragraphs 22A–24F require the entity to separate by risk category the information disclosed, the entity shall determine each risk category on the basis of the risk exposures an entity decides to hedge and for which hedge accounting is applied. An entity shall determine risk categories consistently for all hedge accounting disclosures.

IFRS 7:21D To meet the objectives in paragraph 21A, an entity shall (except as otherwise specified below) determine how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, the appropriate level of aggregation or disaggregation, and whether users of financial statements need additional explanations to evaluate the quantitative information disclosed. However, an entity shall use the same level of aggregation or disaggregation it uses for disclosure requirements of related information in this IFRS and **IFRS 13**.

IFRS 7:22A An entity shall explain its risk management strategy for each risk category of risk exposures that it decides to hedge and for which hedge accounting is applied. This explanation should enable users of financial statements to evaluate (for example):

(a) how each risk arises;

(b) how the entity manages each risk; this includes whether the entity hedges an item in its entirety for all risks or hedges a risk component (or components) of an item and why; and

(c) the extent of risk exposures that the entity manages.

IFRS 7:22B To meet the requirements in paragraph 22A, the information should include (but is not limited to) a description of:

(a) the hedging instruments that are used (and how they are used) to hedge risk exposures;

(b) how the entity determines the economic relationship between the hedged item and the hedging instrument for the purpose of assessing hedge effectiveness; and

(c) how the entity establishes the hedge ratio and what the sources of hedge ineffectiveness are.

IFRS 7:22C When an entity designates a specific risk component as a hedged item **(IFRS 9:6.3.7)** it shall provide, in addition to the disclosures required by paragraphs 22A and 22B, qualitative or quantitative information about:

(a) how the entity determined the risk component that is designated as the hedged item (including a description of the nature of the relationship between the risk component and the item as a whole); and

(b) how the risk component relates to the item in its entirety (for example, the designated risk component historically covered on average 80 per cent of the changes in fair value of the item as a whole).

IFRS 7:23A Unless exempted by paragraph 23C, an entity shall disclose by risk category quantitative information to allow users of its financial statements to evaluate the terms and conditions of hedging instruments and how they affect the amount, timing and uncertainty of future cash flows of the entity.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

16. Derivative financial instruments (continued)

Hedge accounting

108 **Fair value hedges**

The Group's exposure to market risks and its approach on managing those risks is discussed in note 5. In accordance with the risk management strategy in place the Group enters into interest rate swap contracts to mitigate the risk of changes in interest rates on the fair value of all issued fixed rate debt. The Group also uses interest rate swaps to hedge against fair value movements due to interest rate risk on all large exposures to corporate loans. These exposures are identified and hedged on a loan by loan basis.

The Group hedges the benchmark interest rate risk component which is an observable and reliably measurable component of interest rate risk. Specifically the Group has designated fair value hedge relationships to hedge against movements in [benchmark rate]. The Group applies hedge accounting for economic hedge relationships that meet the hedge accounting criteria as discussed in note 1. The Group manages all other risks derived by these exposures, such as credit risk, but they do not apply hedge accounting for these risks.

Once the Group issues a fixed rate debt security it enters into interest rate swaps with critical terms that match or nearly match those of the debt. Once a large fixed rate corporate loan is granted, the Group enters into an interest rate swap with matching, or nearly matching critical terms.

The Group assesses prospective hedge effectiveness by comparing the changes in fair value of the debt issued or the loans granted resulting from movements in the benchmark interest rate with the changes in fair value of the interest rate swaps used to hedge the exposure.

The Group determines the hedge ratio by comparing the notional of the derivative with the principal of the debt issued or the loan granted. If the loan granted has an amortising principal the Group enters into interest rate swaps with an equivalent amortising notional.

The Group has identified the following possible sources of ineffectiveness:

- The use of derivatives as a protection against interest rate risk creates an exposure to the derivative counterparty's credit risk which is not offset by the hedged item. This risk is minimised by entering into derivatives with high credit quality counterparties.

- Different amortisation profiles on hedged item principal amounts and interest rate swap notionals.

- Use of different discounting curves when measuring the fair value of the hedged items and hedging instruments. For derivatives the discounting curve used depends on collateralisation and the type of collateral used.

- Difference in the timing of settlement of hedging instruments and hedged items.

No other sources of ineffectiveness were identified in these hedge relationships.

Notes to the consolidated financial statements (continued)

16. Derivative financial instruments (continued)

IFRS 7:23B To meet the requirement in paragraph 23A, an entity shall provide a breakdown that discloses:

(a) a profile of the timing of the nominal amount of the hedging instrument; and

(b) if applicable, the average price or rate (for example strike or forward prices etc) of the hedging instrument.

IFRS 7:23C In situations in which an entity frequently resets (i.e. discontinues and restarts) hedging relationships because both the hedging instrument and the hedged item frequently change (i.e. the entity uses a dynamic process in which both the exposure and the hedging instruments used to manage that exposure do not remain the same for long – such as in the example in **IFRS 9:B6.5.24(b)** the entity:

(a) is exempt from providing the disclosures required by paragraphs 23A and 23B.

(b) shall disclose:

i. information about what the ultimate risk management strategy is in relation to those hedging relationships;

ii. a description of how it reflects its risk management strategy by using hedge accounting and designating those particular hedging relationships; and

iii. an indication of how frequently the hedging relationships are discontinued and restarted as part of the entity's process in relation to those hedging relationships.

The Group has no such hedge relationships in place.

IFRS 7:23DAn entity shall disclose by risk category a description of the sources of hedge ineffectiveness that are expected to affect the hedging relationship during its term.

IFRS 7:23EIf other sources of hedge ineffectiveness emerge in a hedging relationship, an entity shall disclose those sources by risk category and explain the resulting hedge ineffectiveness.

IFRS 7:23F For cash flow hedges, an entity shall disclose a description of any forecast transaction for which hedge accounting had been used in the previous period, but which is no longer expected to occur.

109 ***IFRS 7:24A*** An entity shall disclose, in a tabular format, the following amounts related to items designated as hedging instruments separately by risk category for each type of hedge (fair value hedge, cash flow hedge or hedge of a net investment in a foreign operation):

(a) the carrying amount of the hedging instruments (financial assets separately from financial liabilities);

(b) the line item in the statement of financial position that includes the hedging instrument;

(c) the change in fair value of the hedging instrument used as the basis for recognising hedge ineffectiveness for the period; and

(d) the nominal amounts (including quantities such as tonnes or cubic metres) of the hedging instruments.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

16. Derivative financial instruments (continued)

Hedge accounting (continued)

Fair value hedges (continued)

109 The tables below summarise the derivatives designated as hedging instruments in qualifying fair value hedge relationships.

Fair value hedges	Nominal amount of the hedging instrument CUm	Carrying amount of the hedging instrument Year ended 20XX Assets CUm	Liabilities CUm	Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness for 20XX CUm
Interest rate risk					
– Interest rate swap	[X]	[X]	[X]	Derivative financial instruments	[X]

Fair value hedges	Nominal amount of the hedging instrument CUm	Carrying amount of the hedging instrument Year ended 20YY Assets CUm	Liabilities CUm	Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness for 20YY CUm
Interest rate risk					
– Interest rate swap	[X]	[X]	[X]	Derivative financial instruments	[X]

Information with regards to the remaining term of interest rate swaps used as hedging instruments in fair value hedges is provided in note 5.

109 The amounts relating to items designated as hedged items in fair value hedge relationships to manage the Group's exposure to interest rate were as follows.

Fair value hedges	Carrying amount of the hedged item Year ended 20XX Assets CUm	Liabilities CUm	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item Year ended 20XX Assets CUm	Liabilities CUm	Line item in the statement of financial position in which the hedged item is included	Changes in fair value used for calculating hedge ineffectiveness for 20XX CUm
Interest rate risk						
– Loans and advances	[X]	N/A	[X]	N/A	Loans and advances to customers	[X]
– Debt securities in issue	N/A	[X]	N/A	[X]	Debt securities in issue	[X]
– Discontinued hedges (Loans and advances)	[X]	N/A	[X]	N/A	Loans and advances to customers	N/A

Notes to the consolidated financial statements (continued)

110 ***IFRS 7:24B*** An entity shall disclose, in a tabular format, the following amounts related to hedged items separately by risk category for the types of hedges as follows:

(a) for fair value hedges:

i. the carrying amount of the hedged item recognised in the statement of financial position (presenting assets separately from liabilities);

ii. the accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item recognised in the statement of financial position (presenting assets separately from liabilities);

iii. the line item in the statement of financial position that includes the hedged item;

iv. the change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period; and

v. the 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 in accordance with **IFRS 9:6.5.10**.

(b) for cash flow hedges and hedges of a net investment in a foreign operation:

i. the change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period (i.e. for cash flow hedges the change in value used to determine the recognised hedge ineffectiveness in accordance with **IFRS 9:6.5.11(c)**;

ii. the balances in the cash flow hedge reserve and the foreign currency translation reserve for continuing hedges that are accounted for in accordance with **IFRS 9:6.5.11** and **6.5.13(a)**; and

iii. the balances remaining in the cash flow hedge reserve and the foreign currency translation reserve from any hedging relationships for which hedge accounting is no longer applied.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

16. Derivative financial instruments (continued)

Hedge accounting (continued)

Fair value hedges (continued)

Fair value hedges	Carrying amount of the hedged item Year ended 20YY Assets CUm	Carrying amount of the hedged item Year ended 20YY Liabilities CUm	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item Year ended 20YY Assets CUm	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item Year ended 20YY Liabilities CUm	Line item in the statement of financial position in which the hedged item is included	Changes in fair value used for calculating hedge ineffectiveness for 20YY CUm
Interest rate risk						
– Loans and advances	[X]	N/A	[X]	N/A	Loans and advances to customers	[X]
– Debt securities in issue	N/A	[X]	N/A	[X]	Debt securities in issue	[X]
– Discontinued hedges (Loans and advances)	[X]	N/A	[X]	N/A	Loans and advances to customers	N/A

110 The table below summarises the hedge ineffectiveness recognised in profit or loss during the financial year ended 31 December 20XX and the comparative period, for the Group's designated fair value hedge relationships.

Fair value hedges	Ineffectiveness recognised in profit or loss Year ended 20XX CUm	Ineffectiveness recognised in profit or loss Year ended 20YY CUm	Line items in profit or loss that include hedge ineffectiveness
Interest rate risk	[X]	[X]	[e.g. Net income from other financial instruments at FVTPL]

Notes to the consolidated financial statements (continued)

16. Derivative financial instruments (continued)

111 ***IFRS 7:24C*** An entity shall disclose, in a tabular format, the following amounts separately by risk category for the types of hedges as follows:

(a) for fair value hedges:

i. hedge ineffectiveness – i.e. the difference between the hedging gains or losses of the hedging instrument and the hedged item – recognised in profit or loss (or other comprehensive income for hedges of an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income in accordance with **IFRS 9:5.7.5**; and

ii. the line item in the statement of comprehensive income that includes the recognised hedge ineffectiveness.

(b) for cash flow hedges and hedges of a net investment in a foreign operation:

i. hedging gains or losses of the reporting period that were recognised in other comprehensive income;

ii. hedge ineffectiveness recognised in profit or loss;

iii. the line item in the statement of comprehensive income that includes the recognised hedge ineffectiveness;

iv. the amount reclassified from the cash flow hedge reserve or the foreign currency translation reserve into profit or loss as a reclassification adjustment (see **IAS 1**) (differentiating between amounts for which hedge accounting had previously been used, but for which the hedged future cash flows are no longer expected to occur, and amounts that have been transferred because the hedged item has affected profit or loss);

v. the line item in the statement of comprehensive income that includes the reclassification adjustment (see **IAS 1**); and

vi. for hedges of net positions, the hedging gains or losses recognised in a separate line item in the statement of comprehensive income (see **IFRS 9:6.6.4**).

IFRS 7:24D When the volume of hedging relationships to which the exemption in paragraph 23C applies is unrepresentative of normal volumes during the period (i.e. the volume at the reporting date does not reflect the volumes during the period) an entity shall disclose that fact and the reason it believes the volumes are unrepresentative.

The Group does not have any such hedging relationships.

112 ***IFRS 7:24E*** An entity shall provide a reconciliation of each component of equity and an analysis of other comprehensive income in accordance with **IAS 1** that, taken together:

(a) differentiates, at a minimum, between the amounts that relate to the disclosures in paragraph 24C(b)(i) and (b)(iv) as well as the amounts accounted for in accordance with **IFRS 9:6.5.11(d)(i)** and **(d)(iii)**;

(b) differentiates between the amounts associated with the time value of options that hedge transaction related hedged items and the amounts associated with the time value of options that hedge time-period related hedged items when an entity accounts for the time value of an option in accordance with **IFRS 9:6.5.15**; and

(c) differentiates between the amounts associated with forward elements of forward contracts and the foreign currency basis spreads of financial instruments that hedge transaction related hedged items, and the amounts associated with forward elements of forward contracts and the foreign currency basis spreads of financial instruments that hedge time-period related hedged items when an entity accounts for those amounts in accordance with **IFRS 9:6.5.16**.

IFRS 7:24F An entity shall disclose the information required in paragraph 24E separately by risk category. This disaggregation by risk may be provided in the notes to the financial statements.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

16. Derivative financial instruments (continued)

108, **Cash flow hedges**

109, The Group's exposure to market risks and its approach on managing those risks is discussed in note 5. The group issues foreign
110, currency fixed rate notes for funding purposes. In accordance with the risk management strategy in place the Group enters into
111, cross currency interest rate swap contracts to mitigate 100% of the risk of fluctuation of coupon and principal cash flows due to
112 changes in foreign currency rates of issued foreign currency debt.

Specifically, following an issuance of a foreign currency note, the Group enters into cross currency interest rate swaps with critical trems that match (or nearly match) those of the issued foreign currency debt. In this way the Group exchanges foreign currency fixed rate interest and principal cash flows, to fixed CCY1 cash flows. The Group has designated cash flow hedge relationships to hedge against movements in [foreign currency]. The Group applies hedge accounting for economic hedge relationships that meet the hedge accounting criteria detailed in note 1. The Group manages all other risks derived by these exposures, such as credit risk, but they do not apply hedge accounting for these risks.

The Group assesses hedge effectiveness by comparing the changes in fair value of a hypothetical derivative reflecting the terms of the foreign currency debt security issued due to movements in the foreign currency rate with the changes in fair value of the cross currency interest rate swaps used to hedge the exposure. The Group uses the hypothetical derivative method to determine the changes in fair value of the hedged item. The Group excludes from the designation the foreign currency basis spread element of the swap, which is recognised in OCI and amortised to profit and loss on a rational basis.

The Group determines the hedge ratio by comparing the notional of the derivatives with the principal of the debt securities issued. The Group has identified the following possible sources of ineffectiveness in its cash flow hedge relationships:

- The use of derivatives as a protection against currency and interest rate risk creates an exposure to the derivative counterparty's credit risk which is not offset by the hedged item. This risk is minimised by entering into derivatives with high credit quality counterparties.

- Difference in tenor of hedged items and hedging instruments.

- Use of different discounting curves for hedged item and hedging instrument, because for cross currency interest rate swaps the discounting curve used depends on collateralisation and the type of collateral used.

- Difference in timing of settlement of the hedging instrument and hedged item.

- Designation of off-market hedging instruments.

Notes to the consolidated financial statements (continued)

16. Derivative financial instruments (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

16. Derivative financial instruments (continued)

Hedge accounting (continued)

Cash flow hedges (continued)

No other sources of ineffectiveness affected these hedge relationships.

The Group has not designated any net positions as hedged items on cash flow hedges of foreign currency risk.

The tables below summarise the derivatives designated as hedging instruments in qualifying cash flow hedge relationships.

Cash flow hedges	Nominal amount of the hedging instrument CUm	Carrying amount of the hedging instrument Year ended 20XX Assets CUm	Carrying amount of the hedging instrument Year ended 20XX Liabilities CUm	Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness for 20XX CUm
Foreign exchange risk					
– Cross currency interest rate swaps (CCY1:CCY2)	[X]	[X]	[X]	Derivative financial instruments	[X]

Cash flow hedges	Nominal amount of the hedging instrument CUm	Carrying amount of the hedging instrument Year ended 20YY Assets CUm	Carrying amount of the hedging instrument Year ended 20YY Liabilities CUm	Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness for 20YY CUm
Foreign exchange risk					
– Cross currency interest rate swaps (CCY1:CCY2)	[X]	[X]	[X]	Derivative financial instruments	[X]

A table summarising the derivatives designated as hedging instruments in qualifying cash flow hedge relationships to manage the Group's exposure to foreign currency risk by tenor can be found in note 5.

The amounts relating to items designated as hedged items in qualifying cash flow hedge relationships to manage the Group's exposure to interest rate and foreign currency risk were as follows.

Cash flow hedges	Line item in the statement of financial position in which the hedged item is included	Changes in fair value used for calculating hedge ineffectiveness for 20XX CUm	Cash flow hedge reserve Year ended 20XX CUm	Cost of hedging reserve Year ended 20XX CUm
Foreign exchange risk				
– Debt securities in issue	Debt securities in issue	[X]	[X]	[X]

Cash flow hedges	Line item in the statement of financial position in which the hedged item is included	Changes in fair value used for calculating hedge ineffectiveness for 20YY CUm	Cash flow hedge reserve Year ended 20YY CUm	Cost of hedging reserve Year ended 20YY CUm
Foreign exchange risk				
– Debt securities in issue	Debt securities in issue	[X]	[X]	[X]

Notes to the consolidated financial statements (continued)

16. Derivative financial instruments (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

16. Derivative financial instruments (continued)

The table below summarises the amounts that have affected the statement of comprehensive income as a result of applying cash flow hedge accounting.

Cash flow hedges	Change in the value of the hedging instrument recognised in cash flow hedge reserve	Change in the value of the hedging instrument recognised in cost of hedging reserve	Hedge ineffectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness	Amount reclassified from cash flow hedge reserve to profit or loss	Cost of hedging amortised to profit or loss	Line item affected in profit or loss because of the reclassification
Year ended 20XX	**CUm**	**CUm**	**CUm**		**CUm**	**CUm**	
Foreign exchange risk	[X]	[X]	[X]	[e.g. Net gain/ (loss) from foreign exchange]	[X]	[X]	[e.g. Net gain/ (loss) from foreign exchange]

Cash flow hedges	Change in the value of the hedging instrument recognised in cash flow hedge reserve	Change in the value of the hedging instrument recognised in cost of hedging reserve	Hedge ineffectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness	Amount reclassified from cash flow hedge reserve to profit or loss	Cost of hedging amortised to profit or loss	Line item affected in profit or loss because of the reclassification
Year ended 20YY	**CUm**	**CUm**	**CUm**		**CUm**	**CUm**	
Foreign exchange risk	[X]	[X]	[X]	[e.g. Net gain/ (loss) from foreign exchange]	[X]	[X]	[e.g. Net gain/ (loss) from foreign exchange]

The following table shows a reconciliation of the separate components of equity that relate to the Group's cash flow hedge relationships.

Notes to the consolidated financial statements (continued)

16. Derivative financial instruments (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

16. Derivative financial instruments (continued)

Hedge accounting (continued)

Cash flow hedges (continued)

	Cash flow hedge reserve CUm	Cost of hedging (currency basis) CUm
Balance at 1 January 20XX	**[X]**	**[X]**
Cash flow hedge of foreign exchange risk		
Effective portion of changes in fair value of cross currency interest rate swaps	[X]	N/A
Currency basis spread element recognised in OCI	N/A	[X]
Amounts recycled from reserves to profit or loss	[X]	[X]
Income tax related to amounts transferred	[X]	[X]
Balance at 31 December 20XX	**[X]**	**[X]**

	Cash flow hedge reserve CUm	Cost of hedging (currency basis) CUm
Balance at 1 January 20YY	**[X]**	**[X]**
Cash flow hedge of foreign exchange risk		
Effective portion of changes in fair value of cross currency interest rate swaps	[X]	N/A
Currency basis spread element recognised in OCI	N/A	[X]
Amounts recycled from reserves to profit or loss	[X]	[X]
Income tax related to amounts transferred	[X]	[X]
Balance at 31 December 20YY	**[X]**	**[X]**

108, 109, 110, 111, 112

Net investment hedges

The Group's net investments in foreign operations, including monetary items accounted for as part of the net investment create a foreign currency exposure because the functional currency equivalent of the investment value varies as the foreign currency rate of exchange changes. The Group's risk management strategy is to monitor these exposures and enter into derivatives to hedge them once these might impact the Group's regulatory capital ratios significantly.

The hedged risk in net investment hedges is forward foreign currency risk, because if CCY1 weakens against CCY2, the functional currency of the Group's foreign operations, the CCY1 equivalent of the net investment in the CCY2 subsidiaries will increase. The foreign currency basis spread is excluded from the hedge, recognised in OCI and amortised to profit or loss on a rational basis. This risk is hedged using foreign currency forwards. The Group assesses hedge effectiveness by comparing the changes in fair value of the net assets designated, due to movements in the forward foreign currency rate with the changes in fair value of the foreign currency forwards used to hedge the exposure. The Group uses the hypothetical derivative method to determine the changes in fair value of the hedged item. .

The Group's policy is to hedge a portion of net assets equal to the notional amount of the foreign currency leg of the derivative, as the subsidiaries will be held longer than the tenor of the hedging derivative.

The Group determines the hedge ratio by comparing the notional of the derivative with the portion of net assets designated as hedged item.

Where the forward exchange risk is designated as the hedged risk the only source of ineffectiveness is 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.

Notes to the consolidated financial statements (continued)

16. Derivative financial instruments (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

16. Derivative financial instruments (continued)

Hedge Accounting (continued)

Net investment hedges (continued)

The table below summarises the derivatives designated as hedging instruments in qualifying net investment hedges.

Net investment hedges	Nominal amount of the hedging instrument Year ended 20XX CUm	Carrying amount of the hedging instrument Year ended 20XX Assets CUm	Carrying amount of the hedging instrument Year ended 20XX Liabilities CUm	Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness for 20XX CUm
Foreign exchange risk					
– FX Forwards (CCY1:CCY2)	[X]	[X]	[X]	Derivative financial instruments	[X]

Net investment hedges	Nominal amount of the hedging instrument Year ended 20YY CUm	Carrying amount of the hedging instrument Year ended 20YY Assets CUm	Carrying amount of the hedging instrument Year ended 20YY Liabilities CUm	Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness for 20YY CUm
Foreign exchange risk					
– FX Forwards (CCY1:CCY2)	[X]	[X]	[X]	Derivative financial instruments	[X]

Table summarising the derivatives designated as hedging instruments in qualifying net investment hedge relationships to manage the Group's exposure to foreign currency risk by tenor, can be found in note 5.

The amounts relating to items designated as hedged items in net investment hedges to manage the Group's exposure to foreign exchange risk were as follows.

Net Investment hedges	Change in value used for calculating hedge ineffectiveness for the year ended 20XX CUm	Currency translation reserve Year ended 20XX CUm
Foreign exchange risk		
– CCY 2 net investment	[X]	[X]

Net Investment hedges	Change in value used for calculating hedge ineffectiveness for the year ended 20YY CUm	Currency translation reserve Year ended 20YY CUm
Foreign exchange risk		
– CCY 2 net investment	[X]	[X]

Notes to the consolidated financial statements (continued)

16. Derivative financial instruments (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

16. Derivative financial instruments (continued)

Hedge Accounting (continued)

Net investment hedges (continued)

The table below summarises the amounts that have affected the statement of comprehensive income as a result of applying net investment hedging.

Net investment hedges	Change in the value of the hedging instrument recognised in currency translation reserve	Change in the value of the hedging instrument recognised in cost of hedging reserve	Hedge ineffectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness	Amount reclassified from cash flow hedge reserve to profit or loss	Cost of hedging amortised to profit or loss	Line item affected in profit or loss because of the reclassification
Year ended 20XX	**CUm**	**CUm**	**CUm**		**CUm**	**CUm**	
Foreign exchange risk	[X]	[X]	[X]	[e.g. Net gain/ (loss) from foreign exchange]	[X]	[X]	[e.g. Net gain/ (loss) from foreign exchange]

Net investment hedges	Change in the value of the hedging instrument recognised in currency translation reserve	Change in the value of the hedging instrument recognised in cost of hedging reserve	Hedge ineffectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness	Amount reclassified from cash flow hedge reserve to profit or loss	Cost of hedging amortised to profit or loss	Line item affected in profit or loss because of the reclassification
Year ended 20YY	**CUm**	**CUm**	**CUm**		**CUm**	**CUm**	
Foreign exchange risk	[X]	[X]	[X]	[e.g. Net gain/ (loss) from foreign exchange]	[X]	[X]	[e.g. Net gain/ (loss) from foreign exchange]

Notes to the consolidated financial statements (continued)

16. Derivative financial instruments (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

16. Derivative financial instruments (continued)

Hedge Accounting (continued)

Net investment hedges (continued)

The following table shows a reconciliation of the separate components of equity that relate to the Group's net investment hedge relationships.

	Currency translation reserve CUm	Cost of hedging (currency basis) CUm
Balance at 1 January 20XX	**[X]**	**[X]**
Exchange gains/ (losses) arising from translating the foreign operations	[X]	N/A
Net investment hedge of foreign exchange risk		
Change in fair value of foreign currency forwards excluding currency basis spread element	[X]	N/A
Currency basis spread element recognised in OCI	N/A	[X]
Amounts recognised from reserves to profit or loss	[X]	[X]
Income tax related to amounts transferred	[X]	[X]
Balance at 31 December 20XX	**[X]**	**[X]**

	Currency translation reserve CUm	Cost of hedging (currency basis) CUm
Balance at 1 January 20YY	**[X]**	**[X]**
Exchange gains/ (losses) arising from translating the foreign operations	[X]	N/A
Net investment hedge of foreign exchange risk		
Change in fair value of foreign currency forwards excluding currency basis spread element	[X]	N/A
Currency basis spread element recognised in OCI	N/A	[X]
Amounts recognised from reserves to profit or loss	[X]	[X]
Income tax related to amounts transferred	[X]	[X]
Balance at 31 December 20YY	[X]	[X]

Notes to the consolidated financial statements (continued)

17. Loans and advances to banks
18. Loans and advances to customers

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

17. Loans and advances to banks

Loans and advances to banks are measures at amortised cost, because these instruments meet the SPPI criterion and are held to collect the contractual cash flows.

	Year ended 20XX CUm	Year ended 20YY CUm
Reverse sale and repurchase agreements	[X]	[X]
Other	[X]	[X]
Less impairment loss allowance	[X]	[X]
	[X]	**[X]**

18. Loans and advances to customers

The total loans and advances to customers balance is comprised of corporate customers at amortised cost, [X] % retail customers at amortised cost and [X] % other.

	Year ended 20XX CUm	Year ended 20YY CUm
Loans and advances to customers at amortised cost	[X]	[X]
Lease receivables	[X]	[X]
Less impairment loss allowance	[X]	[X]
	[X]	**[X]**
Loans and advances to customers at FVTPL	[X]	[X]
Total loans and advances to customers	**[X]**	**[X]**

Loans and advances to customers at amortised cost

	31 December 20XX			31 December 20YY		
31 December 20XX	**Gross carrying amount CUm**	**ECL allowance CUm**	**Carrying amount CUm**	**Gross carrying amount CUm**	**ECL allowance CUm**	**Carrying amount CUm**
Retail customers						
Mortgage lending	[X]	[X]	[X]	[X]	[X]	[X]
Personal loans	[X]	[X]	[X]	[X]	[X]	[X]
Credit cards	[X]	[X]	[X]	[X]	[X]	[X]
Retail lending	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**
Corporate lending	[X]	[X]	[X]	[X]	[X]	[X]
Total	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

18. Loans and advances to customers (continued)
19. Investment securities

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

18. Loans and advances to customers (continued)

Lease receivables

The group is the lessor for leases of property and equipment.

Gross investment in lease receivable

	Year ended 20XX CUm	Year ended 20YY CUm
Less than 1 year	[X]	[X]
1 to 5 years	[X]	[X]
More than 5 years	[X]	[X]
Unearned finance income	**[X]**	**[X]**
Net investment in lease receivables	[X]	[X]
Less impairment allowance	[X]	[X]
	[X]	**[X]**

Net lease receivable

	Year ended 20XX CUm	Year ended 20YY CUm
Less than 1 year	[X]	[X]
1 to 5 years	[X]	[X]
More than 5 years	[X]	[X]
	[X]	**[X]**

Loans and advances to customers at FVTPL

The loans and advances to customers at FVTPL are held by investment banking and their cash flows are not considered to meet the SPPI criterion therefore they do not qualify for amortised cost or FVTOCI measurement.

19. Investment securities

	Year ended 20XX CUm	Year ended 20YY CUm
Investment securities mandatorily measured at FVTPL	[X]	[X]
Investment securities designated at FVTPL	[X]	[X]
Investment securities measured at amortised cost	[X]	[X]
Investment securities measured at FVTOCI – debt instruments	[X]	[X]
Investment securities measured at FVTOCI – equity instruments	[X]	[X]
	[X]	**[X]**

Notes to the consolidated financial statements (continued)

19. Investment securities (continued)

113 ***IFRS 7:B5*****(aa)** Paragraph 21 requires disclosure of the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements. For financial instruments, such disclosure may include:

(aa) for financial assets designated as measured at fair value through profit or loss:

i. the nature of the financial assets the entity has designated as measured at fair value through profit or loss; and

ii. how the entity has satisfied the criteria in **IFRS 9:4.1.5** for such designation.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

19. Investment securities (continued)

Investment securities mandatorily measured at FVTPL

	Year ended 20XX CUm	Year ended 20YY CUm
Asset-backed securities	[X]	[X]
Corporate bonds	[X]	[X]
Total debt securities	**[X]**	**[X]**
Equity securities	[X]	[X]
	[X]	**[X]**

113 **Investment securities designated at FVTPL**

The Group has designated investments in fixed rate debt securities and corporate bonds at FVTPL in order to eliminate an accounting mismatch when the Group holds derivatives at FVTPL to economically hedge against the risk exposure these investment securities create. The designation is made on initial recognition and it is irrevocable. The table below outlines the carrying amount of the investment securities designated at FVTPL.

	Year ended 20XX CUm	Year ended 20YY CUm
Sovereign bonds	[X]	[X]
Corporate bonds	[X]	[X]
Total debt securities	**[X]**	**[X]**

Investment securities measured at amortised cost

	Year ended 20XX CUm	Year ended 20YY CUm
Sovereign bonds	[X]	[X]
Corporate bonds	[X]	[X]
Total debt securities	**[X]**	**[X]**

Debt instruments measured at FVTOCI

	Year ended 20XX CUm	Year ended 20YY CUm
Sovereign bonds	[X]	[X]
Corporate bonds	[X]	[X]
Asset-backed securities	[X]	[X]
Total debt securities	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

23. Debt securities in issue

114 ***IFRS 7:8(h)(ii)*** The carrying amounts of each of the following categories, as specified in **IFRS 9**, shall be disclosed either in the statement of financial position or in the notes:

(h) financial assets measured at fair value through other comprehensive income, showing separately

ii. investments in equity instruments designated as such upon initial recognition in accordance with **IFRS 9:5.7.5**.

IFRS 7:11A If an entity has designated investments in equity instruments to be measured at fair value through other comprehensive income, as permitted by **IFRS 9:5.7.5**, it shall disclose:

(a) which investments in equity instruments have been designated to be measured at fair value through other comprehensive income.

(b) the reasons for using this presentation alternative.

(c) the fair value of each such investment at the end of the reporting period.

(d) dividends recognised during the period, showing separately those related to investments derecognised during the reporting period and those related to investments held at the end of the reporting period.

(e) any transfers of the cumulative gain or loss within equity during the period including the reason for such transfers.

115 ***IFRS 7:11B*** If an entity derecognised investments in equity instruments measured at fair value through other comprehensive income during the reporting period, it shall disclose:

(a) the reasons for disposing of the investments;

(b) the fair value of the investments at the date of derecognition; and

(c) the cumulative gain or loss on disposal.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

19. Investment securities (continued)

114 **Equity instruments measured at FVTOCI**

The Group has designated some investments in equity instruments at FVTOCI as these are investments that the Group plans to hold in the long term for strategic reasons. The table below shows these investments as well as the dividends income recognised from these investments.

	Fair value		Dividend income recognised	
	20XX CUm	20YY CUm	20XX CUm	20YY CUm
Investment in [X]	[X]	[X]	[X]	[X]
Investment in [X]	[X]	[X]	[X]	[X]
Total equity investments at FVTOCI	**[X]**	**[X]**	**[X]**	**[X]**

114, 115 During the financial year ended 31 December 20XX the Group sold an investment in [X] that was classified at FVTOCI because [add reason]. The dividend received income related to this investment is not included in the table above and was CU[X]m. The fair value of the investment at the date of derecognition ([add date]) was CU[X]m. The cumulative gain/ (loss) on disposal was CU[X]m which was transferred from equity revaluation reserve to retained earnings on disposal.

20. Trading liabilities

	Year ended 20XX CUm	Year ended 20YY CUm
Non Derivative trading liabilities		
Short sold positions – debt	[X]	[X]
Short sold positions-equity	[X]	[X]
Total trading liabilities	**[X]**	**[X]**

21. Deposits from banks

	Year ended 20XX CUm	Year ended 20YY CUm
Money market deposits	[X]	[X]
Sale and repurchase agreements and security lending	[X]	[X]
Other	[X]	[X]
Total deposits from banks	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

23. Debt securities in issue

116 ***IFRS 7:21C*** When paragraphs 22A–24F require the entity to separate by risk category the information disclosed, the entity shall determine each risk category on the basis of the risk exposures an entity decides to hedge and for which hedge accounting is applied. An entity shall determine risk categories consistently for all hedge accounting disclosures.

IFRS 7:B5(a) Paragraph 21 requires disclosure of the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements. For financial instruments, such disclosure may include:

(a) for financial liabilities designated as at fair value through profit or loss:

i. the nature of the financial liabilities the entity has designated as at fair value through profit or loss;

ii. the criteria for so designating such financial liabilities on initial recognition; and

iii. how the entity has satisfied the conditions in **IFRS 9:4.2.2** for such designation.

117 ***IFRS 7:10(a)*** If the entity has designated a financial liability as at fair value through profit or loss in accordance with **IFRS 9:4.2.2** and is required to present the effects of changes in that liability's credit risk in other comprehensive income (see **IFRS 9:5.7.7**), it shall disclose:

(a) the amount of change, cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability (see **IFRS 9:B5.7.13-B5.7.20** for guidance on determining the effects of changes in a liability's credit risk).

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

22. Deposits from customers

The total deposits from customers is comprised of [X]% retail customers and [X]% corporate customers.

	Year ended 20XX CUm	Year ended 20YY CUm
Retail customers		
Term deposits	[X]	[X]
Current deposits	[X]	[X]
Corporate customers		
Term deposits	[X]	[X]
Current deposits	[X]	[X]
Other	[X]	[X]
Total deposits from customers	**[X]**	**[X]**

23. Debt securities in issue

	Year ended 20XX CUm	Year ended 20YY CUm
At amortised cost		
Floating rate debt securities in issue	[X]	[X]
Fixed rate debt securities in issue	[X]	[X]
Total debt securities in issue at amortised cost	**[X]**	**[X]**
Debt securities in issue designated at FVTPL	[X]	[X]
Total debt securities in issue	**[X]**	**[X]**

116, 117 The Group enters into derivatives to economically hedge its exposure to interest rate risk that arises from debt securities in issue. The respective debt securities in issue are designated at FVTPL to eliminate or significantly reduce the accounting mismatch that would otherwise arise.

The Group has designated certain fixed rate debt securities issued as hedged items in fair value hedges of interest rate risk and the certain foreign currency debt securities issued as hedged items in cash flow hedges of foreign currency risk. See note 16 for more details.

The following table outlines the terms of the Group's debt securities in issue.

	Year of maturity	Carrying amount Year ended 20XX CUm	Carrying amount Year ended 20YY CUm
CU[X]m floating rate debt securities	[add year]	[X]	[X]
CU[X]m fixed rate notes	[add year]	[X]	[X]
Currency B[X]m fixed rate notes	[add year]	[X]	[X]
Total		**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

24. Subordinated liabilities

118 ***IFRS 7:11(a)*** The entity shall also disclose:

(a) detailed description of the methods used to comply with the requirements in **IFRS 9:9(c), 10(a), 10A(a)** and **5.7.7(a)**, including an explanation of why the method is appropriate.

119 ***IFRS 7:10(b)*** If the entity has designated a financial liability as at fair value through profit or loss in accordance with **IFRS 9:4.2.2** and is required to present the effects of changes in that liability's credit risk in other comprehensive income (see **IFRS 9:5.7.7**), it shall disclose:

(b) the difference between the financial liability's carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.

120 ***IFRS 7:18*** For loans payable recognised at the end of the reporting period, an entity shall disclose:

(a) details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable;

(b) the carrying amount of the loans payable in default at the end of the reporting period; and

(c) whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.

IFRS 7:19 If, during the period, there were breaches of loan agreement terms other than those described in paragraph 18, an entity shall disclose the same information as required by paragraph 18 if those breaches permitted the lender to demand accelerated repayment (unless the breaches were remedied, or the terms of the loan were renegotiated, on or before the end of the reporting period).

121 ***IFRS 7:7*** An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance.

IFRS 7:17 If an entity has issued an instrument that contains both a liability and an equity component (see **IAS 32:28**) and the instrument has multiple embedded derivatives whose values are interdependent (such as a callable convertible debt instrument), it shall disclose the existence of those features.

122 ***IAS 1:79(a)(v)*** An entity shall disclose the following, either in the statement of financial position or the statement of changes in equity, or in the notes:

(a) for each class of share capital:

i. the number of shares authorised;

ii. the number of shares issued and fully paid, and issued but not fully paid;

iii. par value per share, or that the shares have no par value;

iv. a reconciliation of the number of shares outstanding at the beginning and at the end of the period;

v. the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;

vi. shares in the entity held by the entity or by its subsidiaries or associates; and

vii. shares reserved for issue under options and contracts for the sale of shares, including terms and amounts.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

23. Debt securities in issue (continued)

The table below outlines the change in the fair value of the debt securities in issue designated at FVTPL that is attributable to changes in credit risk of these debt securities and is recognised in OCI.

	Year ended 20XX CUm	Year ended 20YY CUm
Balance at 1 January	[X]	[X]
Recognised in OCI during the year		
– New issuances	[X]	[X]
– Redemptions	[X]	[X]
Balance at 31 December	**[X]**	**[X]**

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

119 The carrying amount of the debt securities in issue at 31 December 20XX designated at FVTPL was CU[X]m higher (/lower) than the contractual amount due at maturity (20YY: CU[X]m higher/lower).

120 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 20XX and 20YY.

24. Subordinated liabilities

	Year ended 20XX CUm	Year ended 20YY CUm
Redeemable preference shares	[X]	[X]
Subordinated notes issued	[X]	[X]
Total subordinated liabilities	**[X]**	**[X]**

121 The following table outlines the terms of the redeemable preference shares and subordinated notes issued.

	Year of maturity	Carrying amount Year ended 20XX CUm	Carrying amount Year ended 20YY CUm
CU[X]m redeemable preference shares with mandatory fixed dividend payment	[add year]	[X]	[X]
CU[X]m callable subordinated floating rate notes	[add year]	[X]	[X]
CU[X]m undated floating rate notes primary capital notes	[add year]	[X]	[X]
Total		**[X]**	**[X]**

The above liabilities are subordinated to the claims of depositors and other creditors of the issuer in the event of liquidation.

122 The redeemable preference shares bear non-discretionary fixed coupons of [X] %, do not carry voting rights and are redeemable at the option of the holder. On liquidation, preference shareholders have priority over ordinary shareholders but participate only to the extent of the face value of the shares plus any accrued dividends.

120 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 20XX and 20YY.

Notes to the consolidated financial statements (continued)

27. Retained Earnings

123 ***IAS 1:106A*** For each component of equity an entity shall present, either in the statement of changes in equity or in the notes, an analysis of other comprehensive income by item (see paragraph 106(d)(ii)).

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

122

25. Share capital

	Year ended 20XX CUm	Year ended 20YY CUm
Authorised:		
[X] million ordinary shares of CU[X] each	[X]	[X]
Issued and fully paid:		
[X] million ordinary shares of CU[X] each	[X]	[X]

[*Give details of changes in share capital during the period.*]

The Bank has one class of ordinary shares which carry no right to fixed income.

Additionally the Bank has authorised, issued and fully paid [X] million redeemable cumulative preference shares of CU[X] which are classified as liabilities. These shares do not carry voting rights. Further details are provided in note 24.

122

26. Share premium

	Share premium CUm
Balance at 1 January and 31 December 20YY	[X]
Premium arising on issue of equity shares	[X]
Expenses of issue of equity shares	[X]
Balance at 31 December 20XX	**[X]**

123

27. Retained Earnings

	20XX CUm	20YY CUm
Balance at 1 January	[X]	[X]
Effect of change in accounting policy (see note [X])	[X]	[X]
Restated balance at 1 January	**[X]**	**[X]**
Dividends paid	[X]	[X]
Net profit for the year	[X]	[X]
OCI arising from measurement of defined benefit obligation net of income tax	[X]	[X]
Credit to equity for equity-settled share-based payments	[X]	[X]
Cumulative (gain)/loss liabilities designated at FVTPL attributable to changes in own credit released on derecognition	[X]	[X]
Cumulative (gain)/loss on investments in equity instruments designated as at FVTOCI transferred to retained earnings upon disposal	[X]	[X]
Adjustment arising from change in non-controlling interest (see note [X])	[X]	[X]
Balance at 31 December	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

28. Other reserves

124 ***IAS 1:79(b)*** An entity shall disclose the following, either in the statement of financial position or the statement of changes in equity, or in the notes:

(b) a description of the nature and purpose of each reserve within equity.

IAS 1:82A The other comprehensive income section shall present line items for the amounts for the period of:

(a) items of other comprehensive income (excluding amounts in paragraph (b)), classified by nature and grouped into those that, in accordance with other IFRSs:

i. will not be reclassified subsequently to profit or loss; and

ii. will be reclassified subsequently to profit or loss when specific conditions are met.

(b) the share of the other comprehensive income of associates and joint ventures accounted for using the equity method, separated into the share of items that, in accordance with other IFRSs:

i. will not be reclassified subsequently to profit or loss; and

ii. will be reclassified subsequently to profit or loss when specific conditions are met.

125 ***IFRS 7:11A (e)*** If an entity has designated investments in equity instruments to be measured at fair value through other comprehensive income, as permitted by **IFRS 9:5.7.5**, it shall disclose:

(e) any transfers of the cumulative gain or loss within equity during the period including the reason for such transfers.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

28. Other reserves

Other reserves (net of tax)	Year ended 20XX CUm	Year ended 20YY CUm
Investment revaluation reserve		
– Debt	[X]	[X]
– Equity	[X]	[X]
Financial liabilities at FVTPL credit risk reserve	[X]	[X]
Hedging reserve	[X]	[X]
Cost of hedging		
– Currency basis spread	[X]	[X]
Currency retranslation reserve	[X]	[X]
Other	[X]	[X]
Total other reserves	**[X]**	**[X]**

Investment revaluation reserve

	Year ended 20XX CUm	Year ended 20YY CUm
Balance at the beginning of the year	[X]	[X]
Fair value gain/(loss) on investments in equity instruments designated as at FVTOCI	[X]	[X]
Income tax relating to fair value gain on investments in equity instruments designated as at FVTOCI	[X]	[X]
Cumulative (gain)/loss on investments in equity instruments designated as at FVTOCI transferred to retained earnings upon disposal	[X]	[X]
Fair value gain/(loss) on investments in debt instruments classified as at FVTOCI	[X]	[X]
Income tax relating to fair value gain on investments in debt instruments classified as at FVTOCI	[X]	[X]
Cumulative (gain)/loss on investments in debt instruments classified as at FVTOCI reclassified to profit or loss upon disposal	[X]	[X]
Cumulative (gain)/loss on investments in debt instruments classified as at FVTOCI reclassified to profit or loss upon reclassification from FVTOCI to FVTPL	[X]	[X]
Cumulative impairment loss recognised on investments in debt instruments classified as at FVTOCI	[X]	[X]
Balance at the year end	**[X]**	**[X]**

124 The investment revaluation reserve represents the cumulative gains and losses arising on the revaluation of:

- investments in equity instruments designated as at FVTOCI, net of cumulative gain/loss transferred to retained earnings upon disposal, and
- investments in debt instruments classified as at FVTOCI, net of cumulative loss allowance recognised on these investments and cumulative gain/loss reclassified to profit or loss upon disposal or reclassification of these investments.

An analysis of the movement in the loss allowance for financial assets at FVTOCI is provided in note 3.

125 Investments in equity instruments designated as at FVTOCI are not subject to impairment, and their cumulative fair value gain/loss included in the investments revaluation reserve is not subsequently reclassified to profit or loss. There has been a transfer of CU[X]m cumulative gain/loss arising from these equity investments within equity during the current or prior period, due to [add reason].

Notes to the consolidated financial statements (continued)

126 **28. Other reserves (continued)**

IFRS 7:10 If the entity has designated a financial liability as at fair value through profit or loss in accordance with **IFRS 9:4.2.2** and is required to present the effects of changes in that liability's credit risk in other comprehensive income (see **IFRS 9:5.7.7**), it shall disclose:

(a) the amount of change, cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability (see **IFRS 9:B5.7.13-B5.7.20** for guidance on determining the effects of changes in a liability's credit risk).

(b) the difference between the financial liability's carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.

(c) any transfers of the cumulative gain or loss within equity during the period including the reason for such transfers.

(d) if a liability is derecognised during the period, the amount (if any) presented in other comprehensive income that was realised at derecognition.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

126 **28. Other reserves (continued)**

Financial liabilities at FVTPL credit risk reserve

The group has designated financial liabilities at FVTPL and is required to present the effects of changes in those liabilities credit risk in OCI (see also note 23). The table below provides information for the movement of the credit risk reserve.

	Year ended 20XX CUm	Year ended 20YY CUm
Balance at the beginning of the year	[X]	[X]
Changes in fair value of liabilities designated at FVTPL attributable to changes in own credit risk	[X]	[X]
Income tax relating to changes in fair value on liabilities designated at FVTPL attributable to changes in own credit risk	[X]	[X]
Cumulative (gain)/loss liabilities designated at FVTPL attributable to changes in own credit released on derecognition	[X]	[X]
Balance at the year end	**[X]**	**[X]**

The cumulative change in fair value of liabilities designated at FVTPL attributable to changes in own credit risk is CU[X]m as at 31 December 20XX (20YY: CU[X]m).

Equity reserve

This reserve represents the equity component of convertible debt instruments (see note 23).

	Year ended 20XX CUm	Year ended 20YY CUm
Balance at the beginning of the year	[X]	[X]
Recognition of equity component of convertible loan notes (see note 24)	[X]	[X]
Transferred to share capital on exercise of conversion option	[X]	[X]
Deferred tax liability arising on recognition of equity component of convertible loan notes	[X]	[X]
Balance at the year end	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

28. Other reserves (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

28. Other reserves (continued)

Cash flow hedging reserve

	Year ended 20XX CUm	Year ended 20YY CUm
Balance at the beginning of the year	[X]	[X]
Gain/(loss) arising on changes in fair value of hedging instruments entered into for cash flow hedges:		
Cross currency interest rate swaps	[X]	[X]
Income tax related to gains/losses recognised in OCI	[X]	[X]
Cumulative (gain)/loss arising on changes in fair value of hedging instruments reclassified to profit or loss:		
Cross currency interest rate swaps	[X]	[X]
Income tax related to amounts reclassified to profit or loss	[X]	[X]
(Gain)/loss transferred to initial carrying amount of hedged items	[X]	[X]
Income tax related to amounts transferred to initial carrying amount of hedged item	[X]	[X]
Others [describe]	[X]	[X]
Balance at the year end	**[X]**	**[X]**

The cash flow hedging reserve represents the cumulative effective portion of gains and losses arising on changes in fair value of hedging instruments designated as cash flow hedges. The cumulative gains and losses arising on changes in fair value of the hedging instruments will be reclassified to profit or loss when the hedged transaction affects the profit or loss or when it is determined that a hedged forecast transaction is no longer expected to occur.

Cumulative gains and losses arising on changes in fair value of hedging instruments reclassified from equity into profit or loss during the year are included in the following line items:

	Year ended 20XX CUm	Year ended 20YY CUm
Interest income	[X]	[X]
Other revenue	[X]	[X]
Others [describe]	[X]	[X]
Total	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

28. Other reserves (continued)

127 ***IFRS 7:24E(b) and (c)*** An entity shall provide a reconciliation of each component of equity and an analysis of other comprehensive income in accordance with **IAS 1** that, taken together:

(b) differentiates between the amounts associated with the time value of options that hedge transaction related hedged items and the amounts associated with the time value of options that hedge time-period related hedged items when an entity accounts for the time value of an option in accordance with **IFRS 9:6.5.15**; and

(c) differentiates between the amounts associated with forward elements of forward contracts and the foreign currency basis spreads of financial instruments that hedge transaction related hedged items, and the amounts associated with forward elements of forward contracts and the foreign currency basis spreads of financial instruments that hedge time-period related hedged items when an entity accounts for those amounts in accordance with **IFRS 9:6.5.16**.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

28. Other reserves (continued)

127 **Cost of hedging**

Forward element of a forward and currency basis spread

As explained in note 1 and in note 16 in some hedge relationships the group excludes from the designation the currency basis spread element of foreign currency derivatives designates as hedging instruments and elects to defer the fair value change of the currency basis element in OCI to be reclassified through profit or loss over the hedged period on a rational basis. The table below provides an analysis of the component of equity that relates to the currency basis spread element.

	Year ended 20XX CUm	Year ended 20YY CUm
Balance at the beginning of the year	[X]	[X]
Gain/(loss) arising on changes in fair value of the forward element of the forward contract and currency basis element related to the hedged item	[X]	[X]
Income tax related to gains/losses recognised in OCI	[X]	[X]
Cumulative (gain)/loss arising on changes in fair value of the forward element of the forward contract and currency basis element related to the hedged item reclassified to profit or loss.	[X]	[X]
Income tax related to amounts reclassified to profit or loss	[X]	[X]
Others [describe]	[X]	[X]
Balance at the year end	**[X]**	**[X]**

Currency translation reserve

The table below provides an analysis of the currency translation reserve.

	Year ended 20XX CUm	Year ended 20YY CUm
Balance at the beginning of the year	[X]	[X]
Exchange gains/(losses) arising on translating the foreign operations	[X]	[X]
Income tax relating to gains/(losses) arising on translating the net assets of foreign operations	[X]	[X]
Gains/(losses) on hedging instruments designated in hedges of the net assets of foreign operations	[X]	[X]
Income tax relating to gains/(losses) on hedge of the net assets of foreign operations	[X]	[X]
(Gains)/losses reclassified to profit or loss on disposal of foreign operations or on partial disposal of foreign operation which is not a subsidiary	[X]	[X]
(Gains)/losses re-attributed to NCI on partial disposal of a subsidiary which includes a foreign operation	[X]	[X]
Income tax related to (gains)/losses reclassified on disposal of foreign operations	[X]	[X]
(Gains)/losses on hedging instruments reclassified to profit or loss on disposal of foreign operations	[X]	[X]
Income tax related to (gains)/losses on hedging instruments reclassified on disposal of foreign operation	[X]	[X]
Others (describe)	[X]	[X]
Balance at the year end	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

29. Transfers of financial assets

128 ***IFRS 7:42A*** The disclosure requirements in paragraphs 42B–42H relating to transfers of financial assets supplement the other disclosure requirements of this IFRS. An entity shall present the disclosures required by paragraphs 42B–42H in a single note in its financial statements. An entity shall provide the required disclosures for all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset, existing at the reporting date, irrespective of when the related transfer transaction occurred. For the purposes of applying the disclosure requirements in those paragraphs, an entity transfers all or a part of a financial asset (the transferred financial asset) if, and only if, it either:

(a) transfers the contractual rights to receive the cash flows of that financial asset; or

(b) retains the contractual rights to receive the cash flows of that financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement.

129 **Transfers of financial assets that are not derecognised in their entirety**

IFRS 7:42B (a) An entity shall disclose information that enables users of its financial statements to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities.

IFRS 7:42D An entity may have transferred financial assets in such a way that part or all of the transferred financial assets do not qualify for derecognition. To meet the objectives set out in paragraph 42B(a), the entity shall disclose at each reporting date for each class of transferred financial assets that are not derecognised in their entirety:

(a) the nature of the transferred assets.

(b) the nature of the risks and rewards of ownership to which the entity is exposed.

(c) a description of the nature of the relationship between the transferred assets and the associated liabilities, including restrictions arising from the transfer on the reporting entity's use of the transferred assets.

130 (d) when the counterparty (counterparties) to the associated liabilities has (have) recourse only to the transferred assets, a schedule that sets out the fair value of the transferred assets, the fair value of the associated liabilities and the net position (the difference between the fair value of the transferred assets and the associated liabilities).

130 (e) when the entity continues to recognise all of the transferred assets, the carrying amounts of the transferred assets and the associated liabilities.

131 (f) when the entity continues to recognise the assets to the extent of its continuing involvement (see paragraphs 3.2.6(c)(ii) and 3.2.16 of IFRS 9), the total carrying amount of the original assets before the transfer, the carrying amount of the assets that the entity continues to recognise, and the carrying amount of the associated liabilities.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

28. Other reserves (continued)

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. CUs) are recognised directly in OCI and accumulated in the foreign currency translation reserve. Gains and losses on hedging instruments that are designated as hedging instruments for hedges of net investments in foreign operations are included in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve (in respect of translating both the net assets of foreign operations and hedges of foreign operations) are reclassified to profit or loss on the disposal of the foreign operation or on partial disposal of foreign operation which is not a subsidiary. Exchange differences previously accumulated in the foreign currency translation reserve are re-attributed to NCI on partial disposal of a subsidiary which includes a foreign operation.

Other reserves

	Year ended 20XX CUm	Year ended 20YY CUm
Balance at the beginning of the year	[X]	[X]
[add description]	[X]	[X]
Income tax relating to [add description]	[X]	[X]
Balance at the year end	**[X]**	**[X]**

128 ## 29. Transfers of financial assets

The Group enters into transactions resulting in transfers of financial assets. As explained in note 1, a transfer of a financial asset may result in derecognition of the asset in its entirety, recognition of the Group's retained interest in the asset and an associated liability for amounts it may have to pay, or continued recognition of the financial asset in its entirety and recognition of a collateralised borrowing for the proceeds received.

129 **Transfers of financial assets that are not derecognised in their entirety**

When the transfer does not result in derecognition, it is viewed as a secured financing transaction, with any consideration received resulting in a corresponding liability. The Group is not entitled to use these financial assets for any other purposes. The most common transactions under which the Group has continued involvement of the transferred assets are:

- Sale and repurchase agreements: under these agreements the Group may sell securities subject to a commitment to repurchase them. The securities are retained on the balance sheet as the Group retains substantially all the risks and rewards of ownership. The consideration received is accounted for as a financial liability at amortised cost, unless it is designated at FVTPL.

- Securities lending agreements: under these agreements the Group lends securities to other banks and/or customers for a fee and receives collateral in the form of cash. The securities are retained on the balance sheet as the Group retains substantially all the risks and rewards of ownership. The cash collateral received is accounted for as a financial liability at amortised cost, unless it is designated at FVTPL.

- Sale of a security with a total return swap, in which the Group retains substantially all of the associated credit, equity price, interest rate and foreign exchange risks and rewards associated with the assets as well as the associated income streams. The securities are retained on the balance sheet as the Group retains substantially all the risks and rewards of ownership. The cash received is accounted for as a financial asset and a respective financial liability is recognised at amortised cost, unless it is designated at FVTPL. The Group does not separately recognise the total return swap that is an impediment to derecognition of the transferred asset, as this would result in accounting for the same risks and rewards twice.

- Securitisations: the Group uses securitisations as a source of finance and a means of risk transfer. Such transactions generally result in the transfer of contractual cash flows from portfolios of financial assets to holders of issued debt securities. Securitisations may, depending on the individual arrangement, result in continued recognition of the securitised assets and the recognition of the debt securities issued in the transaction; lead to partial continued recognition of the assets to the extent of the Group's continuing involvement in those assets or to derecognition of the assets and the separate recognition, as assets or liabilities, of any rights and obligations created or retained in the transfer. Full derecognition only occurs when the Group transfers both its contractual right to receive cash flows from the financial assets, or retains the contractual rights to receive the cash flows, but assumes a contractual obligation to pay the cash flows to another party without material delay or reinvestment, and also transfers substantially all the risks and rewards of ownership, including credit risk, prepayment risk and interest rate risk.

Notes to the consolidated financial statements (continued)

29. Transfers of financial assets (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

129, 130

29. Transfers of financial assets (continued)

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

	Financial assets at FVTPL		Amortised cost		FVTOCI
31 December 20XX	**Trading assets**	**Derivative financial instruments**	**Loans and advances to customers (mortgages)**	**Loans and advances to customers (personal loans)**	**Investment securities (equities)**
	CUm	**CUm**	**CUm**	**CUm**	**CUm**
Carrying amount of assets	[X]	[X]	[X]	[X]	[X]
Carrying amount of associated liabilities	[X]	[X]	[X]	[X]	[X]
For those liabilities that recourse only to the transferred assets:					
Fair value of assets	[X]	[X]	[X]	[X]	[X]
Fair value of associated liabilities	[X]	[X]	[X]	[X]	[X]
Net position	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

	Financial assets at FVTPL		Amortised cost		FVTOCI
31 December 20YY	**Trading assets**	**Derivative financial instruments**	**Loans and advances to customers (mortgages)**	**Loans and advances to customers (personal loans)**	**Investment securities (equities)**
	CUm	**CUm**	**CUm**	**CUm**	**CUm**
Carrying amount of assets	[X]	[X]	[X]	[X]	[X]
Carrying amount of associated liabilities	[X]	[X]	[X]	[X]	[X]
For those liabilities that recourse only to the transferred assets:					
Fair value of assets	[X]	[X]	[X]	[X]	[X]
Fair value of associated liabilities	[X]	[X]	[X]	[X]	[X]
Net position	**[X]**	**[X]**	**[X]**	**[X]**	**[X]**

Notes to the consolidated financial statements (continued)

29. Transfers of financial assets (continued)

Transfers of financial assets that are derecognised in their entirety

132 ***IFRS 7:42B (b)*** An entity shall disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets.

133 ***IFRS 7:42E*** To meet the objectives set out in paragraph 42B(b), when an entity derecognises transferred financial assets in their entirety (see **IFRS 9:3.2.6(a)** and **(c)(i)**) but has continuing involvement in them, the entity shall disclose, as a minimum, for each type of continuing involvement at each reporting date:

(a) the carrying amount of the assets and liabilities that are recognised in the entity's statement of financial position and represent the entity's continuing involvement in the derecognised financial assets, and the line items in which the carrying amount of those assets and liabilities are recognised.

(b) the fair value of the assets and liabilities that represent the entity's continuing involvement in the derecognised financial assets.

(c) the amount that best represents the entity's maximum exposure to loss from its continuing involvement in the derecognised financial assets, and information showing how the maximum exposure to loss is determined.

(d) the undiscounted cash outflows that would or may be required to repurchase derecognised financial assets (e.g. the strike price in an option agreement) or other amounts payable to the transferee in respect of the transferred assets. If the cash outflow is variable then the amount disclosed should be based on the conditions that exist at each reporting date.

134 (e) a maturity analysis of the undiscounted cash outflows that would or may be required to repurchase the derecognised financial assets or other amounts payable to the transferee in respect of the transferred assets, showing the remaining contractual maturities of the entity's continuing involvement.

135 (f) qualitative information that explains and supports the quantitative disclosures required in (a)–(e).

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

29. Transfers of financial assets (continued)

131 The table below outlines the total carrying amount before the transfer of financial assets for which the Group does not retain or transfer substantially all of the risks and rewards.

	Year ended 20XX CUm	Year ended 20YY CUm
Trading assets	[X]	[X]
Derivative financial instruments	[X]	[X]
Loans and advances to customers at amortised cost(mortgages)	[X]	[X]
Loans and advances to customers at amortised cost (personal loans)	[X]	[X]
Investment securities at FVTOCI (equities)	[X]	[X]

Transfers of financial assets that are derecognised in their entirety

132 The Group could retain some exposure to the future performance of a transferred asset either through new or existing contractual rights and obligations and still be eligible to derecognise the asset. This continuing involvement will be recognised as a new instrument which may be different from the financial asset transferred. Typical transactions include retaining senior notes of non-consolidated securitisations to which originated loans have been transferred; financing arrangements with structured entities to which the Group has sold a portfolio of assets. The Group's exposure to such transactions is not considered to be significant because when the Group retains substantial risk and rewards derecognition is not achieved. Transactions not considered to result in a continuing involvement include normal warranties on fraudulent activities that could invalidate a transfer in the event of legal action, qualifying pass-through arrangements and standard trustee or administrative fees that are not linked to performance.

133 The table below outlines details for each type of continued involvement relating to transferred assets derecognised in their entirety.

31 December 20XX	Cash outflows to repurchase transferred (derecognised) assets CUm	Carrying amount of continuing involvement in statement of financial position CUm			Fair value of continuing involvement CUm		Maximum exposure to loss CUm
Type of continuing involvement		**Financial assets at FVTPL**	**Financial assets at FVTOCI**	**Financial liabilities at FVTPL**	**Assets**	**Liabilities**	
Securitisation notes	[X]	[X]	N/A		[X]		[X]
Derivatives	[X]	[X]	N/A	[X]	[X]	[X]	[X]
Total		[X]		[X]	[X]	[X]	[X]

Notes to the consolidated financial statements (continued)

29. Transfers of financial assets (continued)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

29. Transfers of financial assets (continued)

31 December 20YY	Cash outflows to repurchase transferred (derecognised) assets CUm	Carrying amount of continuing involvement in statement of financial position CUm			Fair value of continuing involvement CUm		Maximum exposure to loss CUm
Type of continuing involvement		**Financial assets at FVTPL**	**Financial assets at FVTOCI**	**Financial liabilities at FVTPL**	**Assets**	**Liabilities**	
Securitisation notes	[X]	[X]	N/A		[X]		[X]
Derivatives	[X]	[X]	N/A	[X]	[X]	[X]	[X]
Total		[X]		[X]	[X]	[X]	[X]

The table below outlines a maturity analysis for each type of continuing involvement.

Undiscounted cash flows to repurchase transferred assets

31 December 20XX	Maturity of continuing involvement						
Type of continuing involvement	**Total CUm**	**less than 1 month CUm**	**1–3 months CUm**	**3–6 months CUm**	**6 months – 1 year CUm**	**1–3 years CUm**	**3–5 years CUm**	**more than 5 years CUm**
Securitisation notes	[X]							[X]
Derivatives	[X]	[X]	[X]	[X]	[X]	[X]		

Notes to the consolidated financial statements (continued)

29. Transfers of financial assets (continued)

136 ***IFRS 7:42G*** For each type of continuing involvement, the transferor is also required to disclose:

(a) the gain or loss recognised at the date of transfer of the assets;

(b) income and expenses recognised, both in the reporting period and cumulatively, from the entity's continuing involvement in the derecognised financial assets (e.g. fair value changes in derivative instruments); and

(c) if the total amount of proceeds from transfer activity (that qualifies for derecognition) in a reporting period is not evenly distributed throughout the reporting period (e.g. if a substantial proportion of the total amount of transfer activity takes place in the closing days of a reporting period):

   i. when the greatest transfer activity took place within that reporting period (e.g. the last five days before the end of the reporting period);

   ii. the amount (e.g. related gains or losses) recognised from transfer activity in that part of the reporting period; and

   iii. the total amount of proceeds from transfer activity in that part of the reporting period.

Entities are required to provide this information for each period for which a statement of comprehensive income is presented.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 20XX

29. Transfers of financial assets (continued)

Undiscounted cash flows to repurchase transferred assets

31 December 20YY	Maturity of continuing involvement							
Type of continuing involvement	**Total**	**less than 1 month**	**1–3 months**	**3–6 months**	**6 months – 1 year**	**1–3 years**	**3–5 years**	**more than 5 years**
	CUm	**CUm**	**CUm**	**CUm**	**CUm**	**CUm**	**CUm**	**CUm**
Securitisation notes	[X]							[X]
Derivatives	[X]	[X]	[X]	[X]	[X]	[X]		

For all the transfers that resulted in derecognition the total amount of proceeds was evenly distributed throughout the period. The table below summarises the impact on the Group's consolidated profit or loss of continuing involvement relating to transferred assets derecognised in their entirety.

136 **31 December 20XX**	**Gain/loss at the date of transfer of the assets**	**Income/expense during the year from continuing involvement**	**Cumulative income/expense from continuing involvement**
	CUm	**CUm**	**CUm**
Securitisation notes	[X]	[X]	[X]
Derivatives	[X]	[X]	[X]

31 December 20YY	**Gain/loss at the date of transfer of the assets**	**Income/expense during the year from continuing involvement**	**Cumulative income/expense from continuing involvement**
	CUm	**CUm**	**CUm**
Securitisation notes	[X]	[X]	[X]
Derivatives	[X]	[X]	[X]

Notes

Designed and produced by Deloitte CoRe Creative Services, Rzeszów. 219314 5