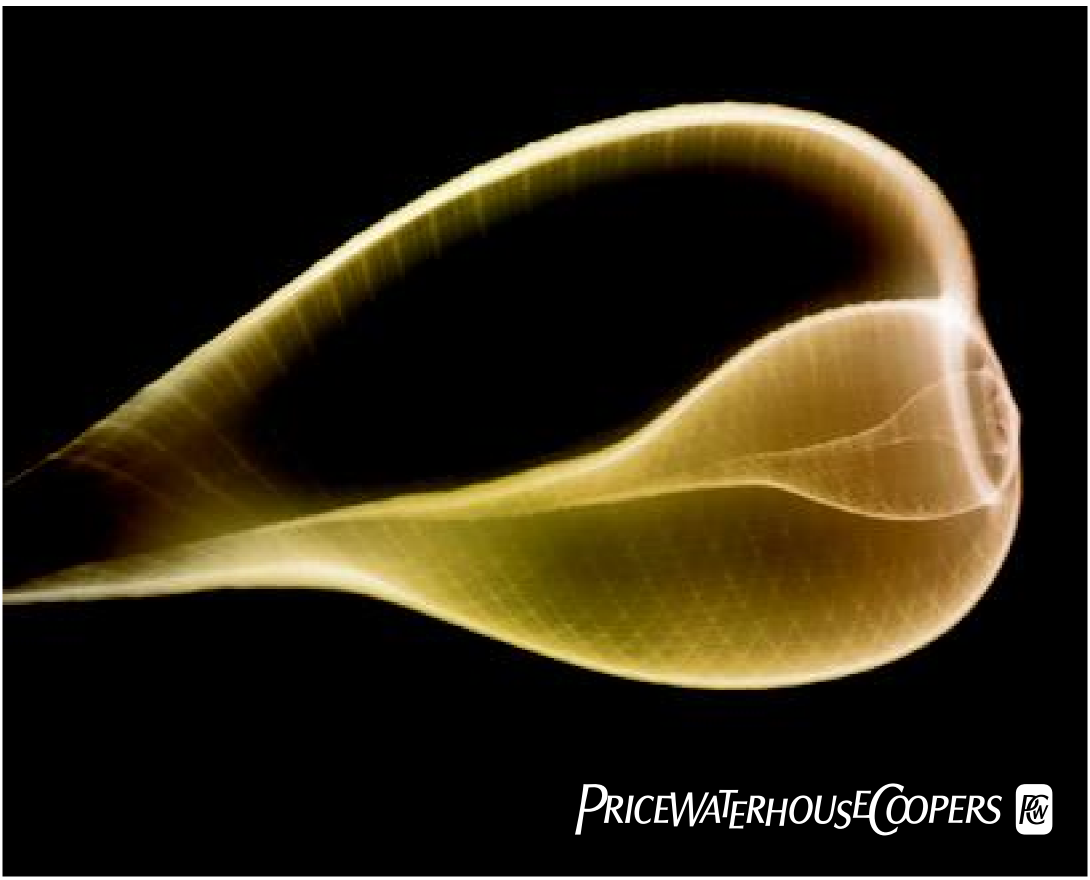
Illustrative IFRS consolidated financial statements 2009

Banks



PricewaterhouseCoopers' IFRS and corporate governance publications and tools 2009

IFRS technical publications

Manual of accounting – IFRS 2010
Global guide to IFRS providing comprehensive practical guidance on how to prepare financial statements in accordance with IFRS. Includes hundreds of worked examples and extracts from company reports. The Manual is a three-volume set comprising:
- *Manual of accounting – IFRS 2010*
- *Manual of accounting – Financial instruments 2010*
- *Illustrative IFRS corporate consolidated financial statements for 2009 year ends*

A practical guide to capitalisation of borrowing costs
Guidance in question and answer format addressing the challenges of applying IAS 23R, including how to treat specific versus general borrowings, when to start capitalisation and whether the scope exemptions are mandatory or optional.

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Answers the questions we have been asked by entities and includes practical examples to help management draw similarities between the requirements in the standard and their own share-based payment arrangements. November 2008.

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High-level summary of IAS 32, IAS 39 and IFRS 7, updated in June 2009. For existing IFRS preparers and first-time adopters.

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Covers in detail the practical issues in achieving hedge accounting under IAS 39. It provides answers to frequently asked questions and step-by-step illustrations of how to apply common hedging strategies.

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Explains the requirements of IAS 39, providing answers to frequently asked questions and detailed illustrations of how to apply the requirements to traditional and innovative structures.

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IFRS pocket guide 2009
Provides a summary of the IFRS recognition and measurement requirements. Including currencies, assets, liabilities, equity, income, expenses, business combinations and interim financial statements.

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Illustrative information, prepared in accordance with IAS 34, for a fictional existing IFRS preparer. Includes a disclosure checklist and IAS 34 application guidance. Reflects standards issued up to 31 March 2009.

Illustrative IFRS corporate consolidated financial statements for 2009 year ends
Illustrative set of consolidated financial statements for an existing preparer of IFRS. Includes an appendix showing example disclosures under IFRS 3 (revised). Included with *Manual of accounting – IFRS 2010*; also available separately.

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Comprehensive guidance on all aspects of the requirements for financial instruments accounting. Detailed explanations illustrated through worked examples and extracts from company reports. Included with *Manual of accounting – IFRS 2010*; also available separately.

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IFRS Illustrative consolidated financial statements 2009 – Banks

This publication provides an illustrative set of consolidated financial statements, prepared in accordance with International Financial Reporting Standards (IFRS), for a fictional banking entity (ABC Banking Group).

ABC Banking Group is an existing preparer of IFRS consolidated financial statements; IFRS 1, 'First-time adoption of International Financial Reporting Standards', is not applicable.

We have attempted to create a realistic set of financial statements for a banking group. Certain types of transaction have not been included, as they are not relevant to the Group's operations. Other disclosure items and transactions have been included in other publications in the 'Illustrative' series. See inside front cover for details.

We have provided additional guidance throughout the financial statements in the form of helpful hints. These appear next to the issues being addressed in the main text. The disclosures have been prepared based on general guidance provided in the relevant standard. It is also necessary to disclose more specific entity-related information.

The implementation guidance accompanying IAS 1 (revised) gives examples of the statement of comprehensive income, showing (a) the statement of comprehensive income as a single statement, and (b) the alternative approach showing two statements: a separate income statement and a separate statement of comprehensive income. ABC Banking Group chose to disclose the two-statement approach. An example for the single-statement approach is provided in Appendix I.

Appendix II contains business combination disclosures under IFRS 3 (Revised). Appendix III outlines the forthcoming IFRS requirements.

The example disclosures should not be considered the only acceptable form of presentation. The form and content of each reporting entity's financial statements are the responsibility of the entity's management; forms of presentation alternative to those proposed in this publication that are equally acceptable may be preferred and adopted if they comply with the specific disclosure requirements prescribed in IFRS.

These illustrative financial statements are not a substitute for reading the standards and interpretations themselves or for professional judgement as to the fairness of presentation. They do not cover all possible disclosures that IFRS requires, nor do they take account of any specific legal framework. Further specific information may be required in order to ensure fair presentation under IFRS. We recommend that readers refer to our separate publication *IFRS disclosure checklist 2009.* Additional accounting policies and disclosures may be required in order to comply with local laws, national financial reporting standards and stock exchange regulations.

Structure

Format

The references in the left-hand margin of the financial statements represent the paragraph of the standards and interpretations in which the disclosure appears – for example, ‘8p40’ indicates IAS 8 paragraph 40. The reference to IFRS appears in full – for example ‘IFRS2p6’ indicates IFRS 2 paragraph 6. The designation ‘DV’ (disclosure voluntary) indicates that the relevant IAS or IFRS encourages, but does not require, the disclosure.

These financial statements also include disclosures that may represent best practice. Additional notes and explanations are shown in grey boxes. The extent of disclosure required depends on facts and circumstances including the extent of the entity’s use of financial instruments and of its exposure to risk.

All amounts that are shown in brackets are negative amounts.

Due to roundings, variations/differences may occur.

ABC Banking Group
Consolidated financial statements

31 December 2009

Contents

Consolidated income statement

		Note	Year ended 31 December	
1p10(b), 12, 1p81(b), 84				
1p38, 113			**2009**	**2008**
IFRS7p20(b)	Interest and similar income	6	7,882	6,346
18p35(b)(v)	Dividend income	7	87	33
IFRS7p20(b), 1p82(b)	Interest and similar expenses	6	(6,183)	(4,936)
	Net interest income		**1,786**	**1,443**
IFRS7p20(e)	Loan impairment charges	8	(530)	(196)
	Net interest income after loan impairment charges		**1,256**	**1,247**
IFRS7p20(c)	Fee and commission income	9	1,095	1,044
IFRS7p20(c)	Fee and commission expense	9	(298)	(309)
	Net fee and commission income		**797**	**735**
IFRS7p20(a)(i)	Net gains/(losses) on financial instruments classified as held for trading	10	56	(318)
IFRS7p20(a)(i)	Net gains on financial instruments designated at fair value	11	110	100
IFRS7p24	Hedge ineffectiveness	12	56	37
IFRS7p20(a)(ii)-(v)	Net gains/(losses) on investment securities	13	(66)	112
1p85	Personnel expenses	14	(774)	(832)
1p85	General and administrative expenses	15	(248)	(276)
1p85	Depreciation and amortisation expense	16	(355)	(352)
1p85	Other operating expenses	17	(219)	(151)
1p85	**Operating profit**		**613**	**302**
1p82(c)	Share of profit of associates and joint ventures accounted for using the equity method	30	7	7
1p85	**Profit before income tax**		**620**	**309**
1p82(d), 12p77	Income tax expense	18	(184)	(84)
1p85	**Profit for the year from continuing operations**		**436**	**225**
IFRS5p33(a)	Profit for the year from discontinued operations	37	15	0
1p82(f)	**Profit for the year**		**451**	**225**
1p83(a)	**Profit attributable to:**			
1p83(a)(ii)	Equity holders of the parent entity (total)		442	220
IFRS 5p33(d)	– Profit for the year from continuing operations		427	220
IFRS 5p33(d)	– Profit for the year from discontinued operations		15	0
1p83(a)(i)	Non-controlling interests (total)		9	5
IFRS 5p33(d)	– Profit for the year from continuing operations		9	5
IFRS 5p33(d)	– Profit for the year from discontinued operations		0	0
			451	225
33p66	**Earnings per share for the profit from continuing operations attributable to the equity holders of the parent entity during the year (expressed in C per share):**			
	– Basic	19	0.34	0.20
	– Diluted	19	0.34	0.20
33p68	**Earnings per share for the profit from discontinued operations attributable to the equity holders of the parent entity during the year (expressed in C per share):**			
	– Basic	19	0.013	0
	– Diluted	19	0.013	0

The notes on pages 16 to 137 are an integral part of these financial statements.

Consolidated statement of comprehensive income

		Note	Year ended 31 December	
1p90			2009	2008
1p91(b)	**Profit for the year**		**451**	**225**
	Exchange differences on translation of foreign operations		35	34
	Net gains on available-for-sale financial assets		**163**	**5**
IFRS7p20 (a) (ii)	– Unrealised net gains arising during the period, before tax		187	6
1p92	– Net reclassification adjustments for realised net losses, before tax		(24)	(1)
	Cash flow hedges		**(16)**	**(40)**
IFRS7p23 (c)	– Net losses arising on hedges recognised in other omprehensive income, before tax		(40)	(40)
1p92, IFRS 7p23 (d)	– Net amount reclassified to the income statement, before tax		24	0
19p93A, B	**Actuarial gains in defined benefit pension schemes**		**9**	**34**
1p82(h)	**Share of other comprehensive income of associates and joint ventures accounted for by the equity method**		**(6)**	**13**
	Income tax relating to components of other comprehensive income	**20**	**(75)**	**(19)**
	Other comprehensive income for the year, net of tax		**110**	**27**
1p82(i)	**Total comprehensive income for the year**		**561**	**252**
	Total comprehensive income attributable to:			
1p83(b)(ii)	Equity holders of the parent entity (total)		550	247
	– Total comprehensive income for the year from continuing operations		534	247
	– Total comprehensive income for the year from discontinued operations		16	0
1p83(b)(i)	Non-controlling interests (total)		11	5
	– Total comprehensive income for the year from continuing operations		11	5
	– Total comprehensive income for the year from discontinued operations		0	0
			561	**252**

Note: Dividend income

The line item 'Dividend income' could alternatively be presented after 'Net gains on investment securities' or within the financial instrument line item to which it relates.

Note: Actuarial gains and losses

The reporting entity applies IAS 19p93A and recognises actuarial gains and losses in other comprehensive income. It presents these actuarial gains and losses in the consolidated statement of comprehensive income (IAS 19p93B). Under IAS 1 (revised), a separate statement of recognised income and expense (SORIE) is no longer presented.

If the entity applies the 'corridor' approach in IAS 19, the adjustments arising from the limit in IAS 19p58(b) are presented in the consolidated statement of comprehensive income (IAS 19p93C).

Note: Statement of comprehensive income

The implementation guidance accompanying IAS 1 (revised) gives examples of the consolidated statement of comprehensive income, showing the consolidated statement of comprehensive income as a single statement and the alternative approach showing two statements: a separate consolidated income statement, and a separate consolidated statement of comprehensive income. An example of the single-statement approach is provided in the Appendix I of this publication.

The notes on pages 16 to 137 are an integral part of these financial statements.

Consolidated statement of financial position (balance sheet)[1]

		Note	As at 31 December	
1p10(a)			2009	2008
1p54, 63, 38				
1p113	**Assets**			
1p54(i)	Cash and balances with central banks	21	5,080	3,315
IFRS7p8(c)	Loans and advances to banks	23	9,167	6,145
IFRS7p8(c)	Loans and advances to customers	24	60,513	52,950
IFRS7p8(a)(ii)	Financial assets held for trading	25	6,479	8,305
IFRS7p8(a)(i)	Financial assets designated at fair value	26	2,520	1,102
39p46, 1p59, 1p58(b), IFRS7p6	Hedging derivatives	27	2,865	3,341
	Investment securities:			
IFRS7p8(d)	– Available for sale	28	2,321	1,577
IFRS7p8(c)	– Loans and receivables	28	1,212	0
IFRS7p8(b)	– Held to maturity	28	2,999	2,009
39p37(a), IFRS7p14(a)	Assets pledged as collateral	29	1,004	1,083
1p54(e)	Investments in associates and joint ventures accounted for using the equity method	30	112	108
1p54(b)	Investment properties	31	98	0
1p54(a)	Property, plant and equipment	32	1,471	1,555
1p54(c)	Intangible assets	33	213	275
1p54(n)	Current income tax assets	34	54	48
1p54(o)	Deferred income tax assets	35	273	255
1p55	Other assets	36	1,917	2,016
			98,298	**84,084**
1p54(j)	Assets classified as held for sale and discontinued operations	37	20	0
	Total assets		**98,318**	**84,084**
	Liabilities			
IFRS7p8(f)	Deposits from banks	38	30,836	25,549
IFRS7p8(f)	Deposits from customers	39	46,775	42,698
IFRS7p8(e)(ii)	Financial liabilities held for trading	40	3,301	2,829
IFRS7p8(e)(i)	Financial liabilities designated at fair value	41	1,367	1,311
39p46, 1p59, 1p58(b), IFRS7p6	Hedging derivatives	27	2,738	2,848
1p54(m), IFRS7p8(f)	Debt securities in issue	42	1,766	1,232
1p54(l)	Retirement benefit obligations	43	237	221
1p54(l)	Provisions	44	387	229
1p54(n)	Current income tax liabilities	45	101	125
1p54(o)	Deferred income tax liabilities	35	1,109	693
1p55	Other liabilities	46	875	523
	Convertible bonds	47	162	161
32p18(b), 1p(55)	Subordinated debt	48	4,022	2,018
			93,676	**80,437**
1p54(p)	Liabilities included in assets classified as held for sale and discontinued operations	37	17	0
	Total liabilities		**93,693**	**80,437**

[1] Requirements for the balance sheet are set out in IAS 1 (revised), 'Presentation of financial statements'. The standard now refers to the balance sheet as 'statement of financial position'. However, as this new title is not mandatory, entities could elect to retain the better-known title of 'balance sheet'.

Consolidated statement of financial position (balance sheet) (continued)

		Note	As at 31 December	
1p10(a)				
1p54, 63, 38			**2009**	**2008**
	Equity	49		
1p54(r)	**Capital and reserves attributable to equity holders of the parent entity**			
1p78(e)	Share capital		1,200	1,150
1p78(e)	Share premium		857	818
	Treasury shares		(47)	(52)
	Silent participation Government Protection Scheme		750	0
1p78(e)	Revaluation reserve		223	127
1p78(e)	Retained earnings		1,263	1,320
	Cashflow hedge		(13)	(3)
1p78(e)	Other reserves		307	213
			4,540	**3,573**
1p54(q)	**Non-controlling interests in equity**		**85**	**74**
	Total equity		**4,625**	**3,647**
	Total equity and liabilities		**98,318**	**84,084**

Note: Comparative consolidated statement of financial position as at 1 January 2008

According to IAS 1p39, an entity presents a third statement of financial position as at the beginning of the comparative period when it applies a change in an accounting policy retrospectively. As the initial application of the new standards in 2009 produces no changes in retained earnings, no such comparative consolidated statement of financial position as 1 January 2008 is presented.

The notes on pages 16 to 137 are an integral part of these financial statements.

Consolidated statement of changes in equity

1p10(c),1p106
1p108

		Attributable to owners			
1p106(d)		Share capital	Share premium	Treasury shares	Silent partnership Government Protection Scheme
	Balance at 1 January 2008	**1,120**	**788**	**(46)**	**0**
1p106(b),	Changes in accounting policy	–	–	–	–
	Restated balance				
1p106(d)(i)	Profit	–	–	–	–
1p106(d)(ii) 21p52(b)	Foreign currency translation differences, net of tax	–	–	–	–
1p106(d)(ii), IFRS7p20(a)(ii)	Fair value gains on available-for-sale financial assets, net of tax	–	–	–	–
1p106(d)(ii)	Cash flow hedges, net of tax	–	–	–	–
1p106(d)(ii)	Gains on property revaluation	–	–	–	–
1p106(d)(ii)	Actuarial gains in defined benefit pension plans	–	–	–	–
1p106(d)(ii)	Share of other comprehensive income of associates and joint ventures accounted for using the equity method	–	–	–	–
1p106(a)	**Total comprehensive income**	**0**	**0**	**0**	**0**
1p106(d)(iii)	Dividends relating to 2007	–	–	–	–
	Silent partnership Government Protection Scheme	–	–	–	–
	Transfer to general banking reserves	–	–	–	–
	Transfer to statutory reserve	–	–	–	–
	Transfer to retained earnings	–	–	–	–
1p106(d)(iii)	Issue of share capital	–	–	–	–
32p28	Convertible bond – equity component	–	–	–	–
1p106(d)(iii) 1p109, 32p33	Purchases/(sales) of treasury shares	–	15	(6)	–
IFRS2p7	Employee share option scheme:	–	–	–	–
IFRS2p51(a)	– Value of employee services	–	15	–	–
1p106(d)(iii)	– Proceeds from shares issued	30	–	–	–
1p106(d)(iii)	Changes in ownership interests in subsidiaries without a loss of control and other changes	–	–	–	–
	Balance at 31 December 2008	**1,150**	**818**	**(52)**	**0**

of the parent entity				Total before non-controlling interests	Non-controlling interests	Total equity
Revaluation reserve	**Retained earnings**	**Cash flow hedges**	**Other reserves**			
124	**1,512**	**21**	**51**	**3,570**	**69**	**3,639**
–	–	–	–	–	–	–
–	220	–	–	220	5	225
–	–	–	20	20	–	20
3	–	–	–	3	–	3
–	–	(24)	–	(24)	–	(24)
–	–	–	–	–	–	0
–	–	–	20	20	–	20
–	–	–	8	8	–	8
3	**220**	**(24)**	**48**	**247**	**5**	**252**
–	(322)	–	–	(322)	–	(322)
–	–	–	–	–	–	0
–	(49)	–	49	–	–	0
–	(41)	–	41	–	–	0
–	–	–	–	–	–	0
–	–	–	–	–	–	0
–	–	–	24	24	–	24
–	–	–	–	9	–	9
–	–	–	–	–	–	0
–	–	–	–	15	–	15
–	–	–	–	30	–	30
–	–	–	–	–	–	0
127	**1,320**	**(3)**	**213**	**3,573**	**74**	**3,647**

Consolidated statement of changes in equity (continued)

1p10(c),1p106
1p108

					Attributable to owners
1p106(d)		Share capital	Share premium	Treasury shares	Silent partnership Government Protection Scheme
	Balance at 1 January 2009	**1,150**	**818**	**(52)**	**0**
1p106(b),	Changes in accounting policy	–	–	–	–
	Restated balance at 1 January 2009				
1p106(d)(i)	Profit	–	–	–	–
1p106(d)(ii), 21p52(b)	Foreign currency translation differences, net of tax	–	–	–	–
1p106(d)(ii), IFRS7p20(a)(ii)	Fair value gains on available-for-sale financial assets, net of tax	–	–	–	–
1p106(d)(ii),	Cash flow hedges, net of tax	–	–	–	–
1p106(d)(ii),	Gains on property revaluation	–	–	–	–
1p106(d)(ii),	Actuarial gains in defined benefit pension plans	–	–	–	–
1p106(d)(ii),	Share of other comprehensive income of associates and joint ventures accounted for using the equity method	–	–	–	–
1p106(a)	**Total comprehensive income**	**0**	**0**	**0**	**0**
1p106(d)(iii),	Dividends relating to 2008	–	–	–	–
	Transfer to general banking reserves	–	–	–	–
	Transfer to statutory reserve	–	–	–	–
	Transfer to retained earnings	–	–	–	–
1p106(d)(iii)	Issue of share capital	–	–	–	–
IAS 32p28	Convertible bond – equity component	–	–	–	–
1p106(d)(iii), 1p109, 32p33	Purchases of treasury shares	–	9	5	–
IFRS2p7	Employee share option scheme:	–	–	–	–
IFRS2p51(a)	– Value of employee services	–	30	–	–
1p106(d)(iii)	– Proceeds from shares issued	50	–	–	–
1p106(d)(iii)	Changes in ownership interests in subsidiaries without a loss of control and other changes	–	–	–	750
	Balance at 31 December 2009	**1,200**	**857**	**(47)**	**750**

Note: Amendment to IAS 1p106

The consolidated statement of changes in equity is prepared by applying IAS 1p106(d), which was amended by the IAS 27 in January 2008 (IAS 1p139A). According to this amendment, each component of equity, including each item of other comprehensive income, is reconciled between carrying amount at the beginning and the end of the period.

The notes on pages 16 to 137 are an integral part of these financial statements.

of the parent entity				Total before non-controlling interests	Non-controlling interests	Total equity
Revaluation reserve	Retained earnings	Cash flow hedges	Other reserves			
127	**1,320**	**(3)**	**213**	**3,573**	**74**	**3,647**
–	–	–	–	–	–	0
–	442	–	–	442	9	451
–	–	–	21	21	–	21
96	–	–	–	96	2	98
–	–	(10)	–	(10)	–	(10)
–	–	–	–	–	–	0
–	–	–	5	5	–	5
–	–	–	(4)	(4)	–	(4)
96	**442**	**(10)**	**22**	**550**	**11**	**561**
–	(427)	–	–	(427)	–	(427)
–	(58)	–	58	–	–	0
–	(14)	–	14	–	–	0
–	–	–	–	–	–	0
–	–	–	–	–	–	0
–	–	–	–	–	–	0
–	–	–	–	14	–	14
–	–	–	–	–	–	0
–	–	–	–	30	–	30
–	–	–	–	50	–	50
–	–	–	–	750	–	750
223	**1,263**	**(13)**	**307**	**4,540**	**85**	**4,625**

Note: Silent partnership Government Protection Scheme

The Government Protection Scheme is a special fund provided to the ABC Banking Group on 1 January 2009 by the local Government as a response to the current economic turmoil. The scheme aims to stabilise the financial system by strengthening the equity basis of financial sector enterprises. According to the underlying agreement, the term is unlimited, and the Group has no obligation to redeem the fund. For a period of three years commencing on 1 January 2009, government approval is required before dividends can be paid to shareholders. Where dividends are paid in respect of a financial year, the Group is obliged to pay a return on the silent partnership amount of 6% per annum. No return is paid if no dividend is paid in respect of a financial year. As a result of different measures taken by different governments, the Government Protection Scheme referred to above is only illustrative and should be replaced by the appropriate national programme(s), if any, relevant to the reporting entity.

Consolidated statement of cash flows

		Note	Year ended 31 December	
1p10 (d), 1p111, 1p38, 1p113			2009	2008
7p10, 7p18(b)	**Cash flow from operating activities**			
	Profit before income tax (non-controlling interests included)		620	309
7p20	**Adjustments for non-cash items:**			
	Loan impairment charges	8	530	196
	Depreciation, amortization, impairment and reversal of impairment of intangible assets, property, plant and equipment and investment properties	16	355	352
	Net loss/(gain) on disposal of intangible assets and property, plant and equipment	17	15	(5)
	Net impairment losses on investment securities	13	119	0
	Changes in provisions, including pensions	44	174	149
	Changes in deferred tax assets and liabilities	35	398	338
	Share of net profits from equity method investments	30	(7)	(7)
	Net interest income	6	(1,786)	(1,443)
	Net fee and commission income	9	(797)	(735)
	Other non-cash items		788	452
			409	**(394)**
	Loans and advances to banks	23	(2,920)	(2,145)
	Loans and advances to customers	24	(6,550)	(5,019)
	Financial assets held for trading	25	548	695
	Financial assets designated at fair value through profit and loss	26	(974)	(602)
	Investment securities	27	(599)	(341)
	Other assets	37	108	127
	Deposits from banks	38	4,758	3,636
	Deposits from customers	39	3,421	2,175
	Financial liabilities held for trading	40	142	0
	Financial liabilities designated at fair value trough profit and loss	41	0	11
	Debt securities in issue	42	534	168
	Other liabilities	46	354	133
7p31	Interest received	6	6,305	6,091
7p31	Interest paid	6	(4,946	(4,681)
7p31	Dividends received	7	87	33
	Fee and commission income	9	1,095	1,044
	Fee and commission expense	9	(298)	(309)
7p35	Income taxes paid	18	(184)	(84)
	Net cash generated from operating activities		**1,290**	**538**

Consolidated statement of cash flows (continued)

		Note	Year ended 31 December	
1p10 (d), 1p111, 1p38, 1p113			2009	2008
7p10, 7p21	**Cash flow from investing activities**			
7p39	Acquisition of subsidiaries, net of cash aquired	55	(279)	0
7p39	Disposal of subsidiaries, net of cash disposed	55	42	0
7p16(a)	Purchase of property, plant and equipment	32	(429)	(215)
7p16(b)	Proceeds from sale of property, plant and equipment	32	128	35
7p16(a)	Purchase of intangible assets	33	0	0
7p16(b)	Proceeds from sale of intangible assets	33	35	0
7p16(a)	Purchase of long term assets		0	0
7p16(b)	Proceeds from sale of long term assets		0	0
7p16(a)	Purchase of investment properties	31	(80)	0
7p16(b)	Proceeds from sale of investment properties	31	0	0
7p16(c)	Purchase of interests in joint ventures	30	0	0
7p16(d)	Proceeds from sale of joint ventures	30	0	0
	Net cash used in investing activities		**(583)**	**180**
7p10, 7p21	**Cash flow from financing activities**			
7p17(b)	Purchase of treasury shares		(96)	(112)
7p17(a)	Sale of treasury shares		110	121
7p17(c)	Proceeds from borrowed funds and debt securities		3,940	311
7p17(d)	Repayments of borrowed funds and debt securities		(2,004)	(518)
7p31	Dividends paid	51	(427)	(322)
	Other financing activities		750	0
	Net cash used in financing activities		**2,273**	**(520)**
	Cash and cash equivalents at the beginning of the year	22	9,069	8,945
	Net cash provided by operating acitivities		1,290	538
	Net cash used by investing activities		(583)	180
	Net cash provided by financing activities		2,273	(520)
	Effects of exchange-rate changes on cash and cash equivalents		(180)	(74)
	Effects of minority interests		0	0
	Cash and cash equivalents at the end of the year	**22**	**11,869**	**9,069**

Note: Reporting cash flows from operating activities

An entity reports cash flows from operating activities either by using the direct or indirect method. The indirect method – whereby profit or loss is adjusted for the effects of non-cash items, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows – is shown in the example above.

The direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed, could also be used for reporting cash flows from operating activities. Cash flows from investing and financing activities have to be reported using the direct method.

The notes on pages 16 to 137 are an integral part of these financial statements.

Notes to the consolidated financial statements

1 General information

1p138(b) ABC Bank Holdings (the Bank) and its subsidiaries (together, the Group) provide retail, corporate banking and investment banking services in various parts of the world. The Group has operations in over 20 countries and employs over 22,000 people.

1p138(a) The Bank is a limited liability company and is incorporated and domiciled in [name of country]. The address of its registered office is as follows: [address of registered office].

The Bank has a primary listing on the [name] stock exchange, with further listings in [name].

10p17 The consolidated financial statements for the year ended 31 December 2009 have been approved for issue by the Board of Directors on [date/month] 2010. Neither the entity´s owners nor others have the power to amend the financial statements after issue.

2 Summary of significant accounting policies

1p112(a)
1p117(b) The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

1p117(a)
1p14 The Group's consolidated financial statements for the year 2009 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB. Additional information required by national regulations is included where appropriate.

Note: Endorsement by EU Regulation

EU incorporated entities within the scope of Regulation (EC) No 1606/2002 of the European Parliament and of the Council have to prepare their consolidated financial statements in accordance with IFRS adopted by the EU. All other entities prepare their financial statements in accordance with the IFRS as issued by the IASB.

1p10 The consolidated financial statements comprise the consolidated income statement and statement of comprehensive income showing as two statements, the statement of financial positions, the statement of changes in equity, the cash flow statement and the notes.

1p99 The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets, financial assets and financial liabilities held at fair value through profit or loss, all derivative contracts and investment properties, which have been measured at fair value.

The Group classifies its expenses by the nature of expense method.

1p15 The consolidated financial statements are presented in C, which is the Group's presentational currency. The figures shown in the consolidated financial statements are stated in C millions.

The disclosures on risks from financial instruments are presented in the financial risk management report contained in Note 3.

The consolidated statement of cash flows shows the changes in cash and cash equivalents arising during the period from operating activities, investing activities and financing activities. Cash and cash equivalents include highly liquid investments. Note 22 shows in which item of the consolidated statement of financial position cash and cash equivalents are included.

The cash flows from operating activities are determined by using the indirect method. Consolidated net income is therefore adjusted by non-cash items, such as measurement gains or losses, changes in provisions, as well as changes from receivables and liabilities. In addition, all income and expenses from cash transactions that are attributable to investing or financing activities are eliminated. Interest received or paid are classified as operating cash flows (IAS 7p33).

The cash flows from investing and financing activities are determined by using the direct method. The Group's assignment of the cash flows to operating, investing and financing category depends on the Banks business model (management approach).

Note: Nature and extent of risks arising from financial instruments

The disclosures required by IFRS7p31-42 ('Nature and extent of risks arising from financial instruments') should be given either in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time (IFRS 7 Appx B6).

1p125 The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Group's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

8p28 *(a) Standards, amendments and interpretations effective on or after 1 January 2009*

The following standards, amendments and interpretations, which became effective in 2009 are relevant to the Group:

Standard/ interpretation	Content	Applicable for financial years beginning on/after
IFRS 2	Share-based payment – Vesting conditions and cancellations	1 January 2009
IFRS 7	Improving disclosures about financial instruments	1 January 2009
IFRS 8	Operating segments	1 January 2009
IAS 1	Presentation of financial statements	1 January 2009
IAS 23	Borrowing costs	1 January 2009
IAS 32 and IAS 1	Puttable financial instruments and obligations arising on liquidiation	1 January 2009
IFRIC 16	Hedges of a net investment in a foreign operation	1 October 2008

- **IFRS 2, 'Share-based payment' – Vesting conditions and cancellations**
  The IASB published an amendment to IFRS 2, 'Share-based payment', in January 2008. The changes pertain mainly to the definition of vesting conditions and the regulations for the cancellation of a plan by a party other than the company. These changes clarify that vesting conditions are solely service and performance conditions. As a result of the amended definition of vesting conditions, non-vesting conditions should now be considered when estimating the fair value of the equity instrument granted. In addition, the standard describes the posting type if the vesting conditions and non-vesting conditions are not fulfilled. There is no material impact on the financial statements by applying the amendment of IFRS 2 at the date of the consolidated statement of financial position. These amendments are applied retrospectively.

- **Amendments to IFRS 7, 'Financial instruments: Disclosures'**
  The IASB published amendments to IFRS 7 in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the group.

- **IFRS 8, 'Operating segments'**
  IFRS 8 was issued in November 2006 and excluding early adoption would first be required to be applied to the Group's accounting period beginning on 1 January 2009. The standard replaces IAS 14, 'Segment reporting', with its requirement to determine primary and secondary reporting segments. Under the requirements of the revised standard, the Group's external segment reporting will be based on the internal reporting to the group executive board (in its function as the chief operating decision-maker), which makes decisions on the allocation of resources and assess the performance of the reportable segments. The application of IFRS 8 does not have any material effect for the Group but has an impact on segment disclosure (for example, goodwill allocation) and on the measurement bases within segments. The segment results have been changed accordingly.

Note: Nature and extent of risks arising from financial instruments

The disclosures required by IFRS7p31-42 ('Nature and extent of risks arising from financial instruments') should be given either in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time (IFRS 7 Appx B6).

- **IAS 1 (revised), 'Presentation of financial statements'**
  A revised version of IAS 1 was issued in September 2007. It prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also conforms with the revised standard. According to the amendment of IAS 1 in January 2008, each component of equity, including each item of other comprehensive income, should be reconciled between carrying amount at the beginning and the end of the period. Since the change in accounting policy only impacts presentation aspects, there is no impact on retained earnings.

- **IAS 23, 'Borrowing costs'**
  A revised version of IAS 23 was issued in March 2007. It eliminates the option of immediate recognition of borrowing costs as an expense for assets that require a substantial period of time to get ready for their intended use. The application of the IAS 23 amendment does not have a material impact on the consolidated result or items of the consolidated statement of financial position.

- **IAS 32 and IAS 1, 'Puttable financial instruments and obligations arising on liquidiation'**
  The IASB amended IAS 32 in February 2008. It now requires some financial instruments that meet the definition of a financial liability to be classified as equity. Puttable financial instruments that represent a residual interest in the net assets of the entity are now classified as equity provided that specified conditions are met. Similar to those requirements is the exception to the definition of a financial liability for instruments that entitle the holder to a pro rata share of the net assets of an entity only on liquidation. The adoption of the IAS 32 amendment does not have any material effects for the Group.

- **IFRIC 16, 'Hedges of a net investment in a foreign operation'**
  This interpretation clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. This interpretation does not have a material impact on the Group's financial statements.

The following interpretation became effective in 2009, but was not relevant for the Group's operations:

Interpretation	Content	Applicable for financial years beginning on/after
IFRIC 13	Customer loyalty programmes	1 July 2008

- **IFRIC 13, 'Customer loyalty programmes'**
  IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple element arrangement. The consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

8p30 *(b) Standards and interpretations issued but not yet effective*

The following standards and interpretations have been issued and are mandatory for the Group's accounting periods beginning on or after 1 July 2009 or later periods and are expected to be relevant to the Group:

Standard/ interpretation	Content	Applicable for financial years beginning on/after
IFRS 1 and IAS 27	Cost of an investment in a subsidiary, jointly-controlled entity or associate	1 July 2009
IFRS 3	Business combinations	1 July 2009
IAS 27	Consolidated and separate financial statements	1 July 2009
IAS 39	Financial instruments: Recognition and measurement – eligible hedged items	1 July 2009
IFRIC 17	Distribution of non-cash assets to owners	1 July 2009
IFRIC 18	Transfers of assets from customers	1 July 2009
IFRS 9	Financial instruments part 1: Classification and measurement	1 January 2013

- **IFRS 1 and IAS 27, 'Cost of an investment in a subsidiary, jointly-controlled entity or associate'**
  The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and requires an entity to present dividends from investments in subsidiaries, jointly controlled entities and associates as income in the separate financial statements of the investor.

- **IFRS 3, 'Business combinations'**
  The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice, on an acquisition-by-acquisition basis, to measure the non-controlling interest in the acquiree

either at fair vale or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

- **IAS 27, 'Consolidated and separate financial statements'**
  The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost; any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010. In the future, this guidance will also tend to produce higher volatility in equity and/or earnings in connection with the acquisition of interests by the Group.

- **IAS 39, 'Financial instruments: Recognition and measurement – Eligible hedged items'**
  The amendment 'Eligible hedged items' was issued in July 2008. It provides guidance for two situations. On the designation of a one-sided risk in a hedged item, IAS 39 concludes that a purchased option designated in its entirety as the hedging instrument of a one-sided risk will not be perfectly effective. The designation of inflation as a hedged risk or portion is not permitted unless in particular situations. This will not give rise to any changes to the Group's financial statements.

- **IFRIC 17, 'Distribution to non-cash assets to owners'**
  IFRIC 17 was issued in November 2008. It addresses how the non-cash dividends distributed to the shareholders should be measured. A dividend obligation is recognised when the dividend was authorised by the appropriate entity and is no longer at the discretion of the entity. This dividend obligation should be recognised at the fair value of the net assets to be distributed. The difference between the dividend paid and the amount carried forward of the net assets distributed should be recognised in profit and loss

  Additional disclosures are to be made if the net assets being held for distribution to owners meet the definition of a discontinued operation. The application of IFRIC 17 has no impact on the financial statements of the Group.

- **IFRIC 18, 'Transfers of assets from customers'**
  IFRIC 18 was issued in January 2009. It clarifies how to account for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment, and the entity must then use that item to provide the customer with ongoing access to supply of goods and/or services. The Group is not impacted by applying IFRIC 18.

- **Improvements to IFRS**
  'Improvements to IFRS' were issued in May 2008 (endorsed by the EU on 23 January 2009) and April 2009 (not yet endorsed). They contain numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009 and 1 January 2010 respectively, with earlier application permitted. No material changes to accounting policies are expected as a result of these amendments.

- **IFRS 9, 'Financial instruments part 1: Classification and measurement'**
  IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

  - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

8p19(b) *(c) Early adoption of standards*

The Group did not early-adopt new or amended standards in 2009.

Note: Early adoption of standards
Where a change in accounting policy is made on the adoption of an IFRS, an entity provides the disclosures in accordance with the transition provisions of that standard and IAS 1p39.

1p119 **2.2 Consolidation**

The financial statements of the consolidated subsidiaries used to prepare the consolidated financial statements were prepared as of the parent company's reporting date. The consolidation principles are unchanged as against the previous year.

(a) Subsidiaries

27p12 The consolidated financial statements of the Group comprise the financial statements of the parent entity and all consolidated subsidiaries, including certain special purpose entities as of 31 December 2009.

27p13 Subsidiaries are companies in which the Group directly or indirectly holds the majority of the voting rights and where it determines their financial and business policies and is able to
27p14 exercise control over them in order to benefit from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from
27p30 the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

The results of the subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective acquisition date or up to the effective date on which control ceases, as appropriate.

27p24, 25 Inter-company transactions, balances and intragroup gains on transactions between group companies are eliminated. Intragroup losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

27p28 The integration of the subsidiaries into the consolidated financial statements is based on consistent accounting and valuation methods for similar transactions and other occurrences under similar circumstances.

1p119
SIC-12p10(a)-(d)

Even if there is no shareholder relationship, special purpose entities (SPEs) are consolidated in accordance with SIC-12, if the Group controls them from an economic perspective.

When assessing whether the Group controls a SPE in addition to the criteria in IAS 27 it evaluates a range of factors, including whether:

(a) the activities of the SPE are being conducted on the Group's behalf according to its specific business needs so that the Group obtains the benefits from the SPE's operations;

(b) the Group has the decision-making power to obtain the majority of the benefits of the activities of the SPE, or the Group has delegated these decision-making power by setting up an 'autopilot' mechanism, or

(c) the Group has the rights to obtain the majority of the benefits of the activities of the SPE and therefore may be exposed to risks incident to the activities of the SPE; or

(d) the Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain the benefits from its activities.

Whenever there is a change in the substance of the relationship between the Group and the SPE, the Group performs a re-assessment of consolidation. Indicators for a re-assessment of consolidation are especially changes in ownership of the SPE, changes in contractual arrangements and changes in the financing structure.

IAS 27p13
IAS 27p14
IAS 27p15
IAS 27p21

Note: Reconsideration events

Further circumstances that could be deemed a reconsideration event are in:

- Changes in governing rules.
- Vesting of potential rights.
- Changes in value or risk in SPEs' assets.
- Changes in capital structure.

IFRS3p2(b)
IFRS3p14
IFRS3p24
IFRS3p28
IFRS3p36
IFRS3p37
IFRS3p51
IFRS3p56

Accounting for business combinations under IFRS 3 only applies if it is considered that a business has been acquired. Under IFRS 3, 'Business combinations', a business is defined as an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors or lower costs or other economic benefits directly and proportionately to policyholders or participants. A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. If goodwill is present in a transferred set of activities and assets, the transferred set is presumed to be a business.

For acquisitions meeting the definition of a business, the acquisition method of accounting is used. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Any goodwill arising from initial consolidation is tested for impairment at least once a year and whenever events or changes in circumstances indicate the need for an impairment. They are written down if required. If the cost of acquisition is less than the fair value of the Group's share of the net assets acquired, the difference is recognised directly in the consolidated income statement.

For acquisitions not meeting the definition of a business, the Group allocates the cost between the individual identifiable assets and liabilities. The cost of acquired assets and liabilities is determined by (a) accounting for financial assets and liabilities at their fair value at the acquisition date as measured in accordance with IAS 39, 'Financial instruments: Recognition and measurement'; and (b) allocating the remaining balance of the cost of purchasing the assets and liabilities to the individual assets and liabilities, other than financial instruments, based on their relative fair values at the acquisition date.

(b) Transactions and non-controlling interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Interests in the equity of subsidiaries not attributable to the parent are reported in consolidated equity as non-controlling interest. Profits or losses attributable to non-controlling interests are reported in the consolidated comprehensive income as profit or loss attributable to non-controlling interests.

(c) Associates

28p6 Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

28p11 Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

28p29
28p30 The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement; its share of post-acquisition movements is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

28p22
28p26 Intragroup gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Intragroup losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. For preparation of consolidated financial statements, equal accounting polices for similar transactions and other events in similar circumstances are used.

Dilution gains and losses in associates are recognised in the consolidated income statement[1].

For summarised financial information on the Group's associates accounted for using the equity method, see Note 30.

1p119 *(d) Joint ventures*

31p7 A joint venture exists where the Group has a contractual arrangement with one or more parties to undertake activities typically, however not necessarily, through entities that are subject to joint control.

31p38
31p40 As investments in associates, the Group recognises interests in a jointly controlled entity using the equity method. The explanations given in Note 2.2(c) therefore apply for joint ventures.

The Group's share of the results of joint ventures is based on financial statements made up to a date not earlier than three months before the date of the statement of financial position, adjusted to conform with the accounting polices of the Group. Intragroup gains on transactions are eliminated to the extent of the Group's interest in the investee. Intragroup losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

For summarised financial information on the Group's joint ventures accounted for using the equity method, see Note 30.

A complete list of all holdings of the Group is presented in Note 54.

[1] The entity may alternatively adopt an accounting policy to recognise dilution gains or losses in equity.

1p119 **2.3 Foreign currency translation**

1p119 *(a) Functional and presentation currency*

21p9 Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

21p17 The consolidated financial statements are presented in C millions, which is the Group's presentation currency.

1p119 *(b) Transactions and balances*

21p21 Foreign currency transactions that are transactions denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

21p26
21p28 Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. If several exchange rates are available, the forward rate is used at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

21p32
39p95(a)
39p102(a) Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in equity as gains or losses from qualifying cash flow hedging instruments or qualifying net investment hedging instruments.

All foreign exchange gains and losses recognised in the income statement are presented net in the consolidated income statement within the corresponding item. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available for sale, a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security.

39AG83 Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount, except impairment, are recognised in equity.

21p30 Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

1p119 *(c) Group companies*

21p39 The results and financial position of all the Group's entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

21p39(a)
- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

21p39(b) • Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

21p39(c) • All resulting exchange differences are recognised in other comprehensive income

1p79(b) Exchange differences arising from the above process are reported in shareholders' equity as 'Foreign currency translation differences'.

39p102 On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to 'Other comprehensive income'. When a foreign operation is disposed of, or partially disposed of, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale.

21p47 Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.4 Sale and repurchase agreements

39AG51
39p37 Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits from banks or deposits from customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

1p119
2.5 Financial assets and liabilities

32p11 In accordance with IAS 39, all financial assets and liabilities – which include derivative financial instruments – have to be recognised in the consolidated statement of financial position and measured in accordance with their assigned category.

2.5.1 Financial assets

39p9
39p45 The Group allocates financial assets to the following IAS 39 categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its financial instruments at initial recognition.

1p119 *(a) Financial assets at fair value through profit or loss*

39p9 This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Group as at fair value through profit or loss upon initial recognition.

39p9 A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. Financial assets held for trading consist of debt instruments, including money-market paper, traded corporate and bank loans, and equity instruments, as well as financial assets with embedded derivatives. They are recognised in the consolidated statement of financial position as 'Financial assets held for trading'.

39p43 Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to the consolidated income statement. Gains and losses arising from changes in fair value are included directly in the consolidated income statement and are reported as 'Net gains/(losses) on financial instruments classified as held for trading'. Interest
39p17 income and expense and dividend income and expenses on financial assets held for trading are included in 'Net interest income' or 'Dividend income', respectively. The instruments are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognising.

Note: Disclosure of interest income and expense

Interest income, interest expense and dividend income on financial instruments at fair value through profit or loss (either designated at fair value through profit and loss or non-derivatives held for trading) can be disclosed as part of 'Net gains/(losses) on financial instruments classified as held for trading' or separated as part of 'Interest and similar income', 'Interest and similar expenses' or 'Dividend income'. Both treatments are acceptable provided they are consistently applied and properly disclosed (IFRS 7, Appx B5).

It is possible to adopt one treatment for interest income and interest expenses and a different treatment for dividend income provided that the method is applied consistently.

Note: Interest accruals

There are two ways to to treat the interest accruals:

- Interest accruals are included in fair value measurements – that is, they are not accounted for separately. Changes in fair value are determined on a dirty-price basis.
- Interest accruals are recorded separately from fair value measurements. Changes in fair value are determined on a clean-price basis.

39p9 The Group designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed. According to IAS 39, the fair value option is only applied when the following conditions are met:

- the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise or
- the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis or
- the financial assets consists of debt host and an embedded derivatives that must be separated.

To reduce accounting mismatch, the fair value option is applied to certain loans and receivables that are hedged with credit derivatives or interest rate swaps but for which the hedge accounting conditions of IAS 39 are not fulfilled. The loans would have been otherwise accounted for at amortised cost, whereas the derivatives are measured at fair value through profit or loss.

The fair value option is also applied to investment funds that are part of a portfolio managed on a fair value basis. Furthermore, the fair value option is applied to structured instruments that include embedded derivatives.

Financial assets for which the fair value option is applied are recognised in the consolidated statement of financial position as 'Financial assets designated at fair value'. Fair value changes relating to financial assets designated at fair value through profit or loss are recognised in 'Net gains on financial instrumetns designated at fair value through profit or loss'.

1p119 *(b) Loans and receivables*

39p9 Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

(a) those that the Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;

(b) those that the Group upon initial recognition designates as available for sale; or

(c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

39p43
39p46(a)
Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Loans and receivables are reported in the consolidated statement of financial position as loans and advances to banks or customers or as investment securities. Interest on loans is included in the consolidated income statement and is reported as 'Interest and similar income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the consolidated income statement as 'Loan impairment charges'.

1p119 *(c) Held-to-maturity financial assets*

39p9 Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity, other than:

(a) those that the Group upon initial recognition designates as at fair value through profit or loss;

(b) those that the Group designates as available for sale; and

(c) those that meet the definition of loans and receivables.

39p43
39p46(b)
These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

39p17 Interest on held-to-maturity investments is included in the consolidated income statement and reported as 'Interest and similar income'. In the case of an impairment, the impairment loss is been reported as a deduction from the carrying value of the investment and recognised in the consolidated income statement as 'Net gains/(losses) on investment securities'. Held-to-maturity investments are corporate bonds.

1p119 *(d) Available-for-sale financial assets*

39p9 Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

39p46 Available-for-sale financial assets are initial recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in the consolidated statement of comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the consolidated statement of comprehensive income is recognised in the consolidated income statement. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the consolidated income statement. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement in 'Dividend income' when the Group's right to receive payment is established.

(e) Recognition

39p38
IFRS7AppxB5(c)

The Group uses trade date accounting for regular way contracts when recording financial asset transactions. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the consolidated statement of financial position as 'Assets pledged as collateral', if the transferee has the right to sell or repledge them.

2.5.2 Financial liabilities

The Group's holding in financial liabilities is in financial liabilities at fair value through profit or loss (including financial liabilities held for trading and those that designated at fair value), financial liabilities at amortised cost and hedging derivatives. Financial liabilites are derecognised when extinguished.

(a) Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the Group as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. Financial liabilities held for trading also include obligations to deliver financial assets borrowed by a short seller. Those financial instruments are recognised in the consolidated statement of financial position as 'Financial liabilites held for trading'.

Gains and losses arising from changes in fair value of financial liabilities classified held for trading are included in the consolidated income statement and are reported as 'Net gains/(losses) on financial instruments classified as held for trading'. Interest expenses on financial liabilities held for trading are included in 'Net interest income'.

The group designated certain debt securities upon initial recognition as at fair value through profit or loss (fair value option); this designation cannot be changed subsequently. According to IAS 39, the fair value option is applied, as the debt securities consists of debt host and embedded derivatives that must otherwise be separated.

Financial liabilities for which the fair value option is applied are recognised in the consolidated statement of financial position as 'Financial liabilities designated at fair value'. Fair value changes relating to financial liabilities designated at fair value through profit or loss are recognised in 'Net gains on financial instruments designated at fair value through profit or loss'.

(b) Other liabilities measured at amortised cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost. Financial liabilities measured at amortised cost are deposits from banks or customers, debt securities in issue for which the fair value option is not applied, convertible bonds and subordinated debts.

(c) Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges (for example, FTSE, NYSE) and broker quotes from Bloomberg and Reuters.

39pAG71–AG73 A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial
39pAG74–AG79 instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at the dates of the consolidated statement of financial position.

The Group uses widely recognised valuation models for determining fair values of non-standardised financial instruments of lower complexity, such as options or interest rate and currency swaps. For these financial instruments, inputs into models are generally market-observable.

For more complex instruments, the Group uses internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models are used primarily to value derivatives transacted in the over-the-counter market, unlisted debt securities (including those with embedded derivatives) and other debt instruments for which markets were or have become illiquid. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions. The impact on net profit of financial instrument valuations reflecting non-market observable inputs (level 3 valuations) is disclosed in Note 3.

The Group uses its own credit risk spreads in determining the current value for its derivative liabilities and all other liabilities for which it has elected the fair value option. When the Group's credit spreads widen, the Group recognises a gain on theses liabilities because the value of the liabilities has decreased. When the Group's credit spreads narrow, the Group recognises a loss on these liabilities because the value of the liabilities has increased.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Group holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risks, liquidity risk and counterparty credit risk. Based on the established fair value model governance policies, and related controls and procedures applied, management believes that these valuation adjustments are necessary and appropriate to fairly state the values of financial instruments carried at fair value in the consolidated statement of financial position. Price data and parameters used in the measurement procedures applied are generally reviewed carefully and adjusted, if necessary – particularly in view of the current market developments.

The measurement of asset-backed securities (predominantly CMBS and RMBS) held for trading is partly based on generally accepted valuation models and partly based on indicative prices given the absence of such models. Such indicative prices are first validated against other source of price data. In addition, the Group's analysis takes into account factors such as tranche-specific collateralisation status and collateral structures; analyses of underlying receivables ('look-through' analysis of ABS), primarily regarding redemption schedules and (payment) defaults of securitised receivables; and trigger events and rating changes.

Asset-backed securities in the Group's US portfolio are measured based on indicative prices. For the Group's European portfolio of asset-backed securities, the Group uses generally accepted valuation models.

The fair value of over-the-counter (OTC) derivatives is determined using valuation methods that are commonly accepted in the financial markets, such as present value techniques and option pricing models. The fair value of foreign exchange forwards is generally based on current forward exchange rates. Structured interest rate derivatives are measured using appropriate option pricing models (for example, the Black-Scholes model) or other procedures such as Monte Carlo simulation.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment. The fair value for loans and advances as well as liabilities to banks and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs.

The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

(d) Recognition of deferred day-one profit and loss

The best evidence of fair value at initial recognition is the transaction price (that is, the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (that is, without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

39AG76
39AG76A
IFRS7p28

The Group has entered into transactions, some of which will mature after more than 10 years, where fair value is determined using valuation models for which not all inputs are market observable prices or rates. Such financial instruments are initially recognised at the transaction price, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as 'day one profit and loss', is not recognised immediately in the consolidated income statement.

The timing of recognition of deferred day one profit and loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred day one profit and loss. Subsequent changes in fair value are recognised immediately in the consolidated income statement without immediate reversal of deferred day one profits and losses.

(e) Derecognition

39p17

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions is not derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Bank retains a portion of the risks.

1p119

2.6 Reclassification of financial assets

39p50(c) 39p50B

The Group may choose to reclassify a non-derivative financial asset held for trading out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near-term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification. The Group reclassified asset backed securities (CMBS, RMBS and ABS) from the held for trading category to loans and receivables. (Note 28).

39p50F

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

IFRIC9p7

On reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives are re-assessed and, if necessary, separately accounted for.

2.7 Classes of financial instrument

Note

IFRS 7 requires certain disclosures by class of financial instrument, such as the reconciliation of an allowance account. It does not provide a prescriptive list of classes of financial instruments. The only guideline in IFRS7p6 is that a class should contain financial instruments of the same nature and characteristics and that the classes should be reconciled to the line items presented in the statement of financial position.

A 'class' of financial instruments is not the same as a 'category' of financial instruments. Categories are defined in IAS 39. However, the level of detail for a class should be determined on a basis specific for the entity.

The Group classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table below:

IFRS7pB1

Category (as defined by IAS 39)		Class (as determined by the Group)		Subclasses
Financial assets	Financial assets at fair value through profit or loss	Financial assets held for trading	Debt securities	
			Equity securities	
			Derivatives – non-hedging	
		Financial assets designated at fair value through profit and loss	Debt securities	
			Equity securities	
			Loans and advances to banks	
			Loans and advances to customers	
	Loans and receivables	Loans and advances to banks		
		Loans and advances to customers	Loans to individuals (retail)	Overdrafts
				Credit cards
				Term loans
				Mortgages
			Loans to corporate entities	Large corporate customers
				SMEs
				Others
		Investment securities – debt instruments		Listed
				Unlisted
	Held-to-maturity Investments	Investment securities – debt securities		Listed
				Unlisted
	Available-for-sale financial assets	Investment securities – debt securities		Listed
		Investment securities – equity securities		Listed
				Unlisted
	Hedging derivatives	Hedging instruments in fair value hedges		
		Hedging instruments in cash flow hedges		
		Hedging instruments in net investment hedges		

IFRS7pB1

Category (as defined by IAS 39)		Class (as determined by the Group)	
Financial liabilities	Financial liabilities at fair value through profit or loss	Financial liabilities held for trading (Derivatives – Non Hedging only)	
		Designated at fair value through profit and loss – Debt securities in issue	
	Financial liabilities at armortised cost	Deposits from banks	
		Deposits from customers	Retail customers
			Large corporate customers
			SMEs
		Debt securities in issue	
		Convertible bonds	
		Subordinated debt	
	Hedging derivatives	Hedging instruments in fair value hedges	
		Hedging instruments in cash flow hedges	
		Hedging instruments in net investment hedges	
Off-balance sheet financial Instruments	Loan commitments		
	Guarantees, acceptances and other financial facilities		

2.8 Offsetting financial instruments

32p42 Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.9 Interest income and expense

18p30(a)
IFRS7 AppB5(e) Interest income and expense for all interest-bearing financial instruments are recognised within ‘interest income’ and ‘interest expense’ in the consolidated income statement using the effective interest method.

39p9 The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future 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.

39AG93 Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.10 Fee and commission income

18Appx14 Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

2.11 Dividend income

18p30(c) Dividends are recognised in the consolidated income statement in 'Dividend income' when the entity's right to receive payment is established.

39p58

2.12 Impairment of financial assets

(a) Assets carried at amortised cost

39p58
39p59 The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

IFRS7 AppxB5(f) The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

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

(b) a breach of contract, such as a default or delinquency in interest or principal payments;

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

(d) it becomes 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) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

   (i) adverse changes in the payment status of borrowers in the portfolio; and

   (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

Note

The disclosures shown have been prepared based on general guidance provided in the relevant standard. It is also necessary to disclose more specific, entity-related information.

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between three months and 12 months; in exceptional cases, longer periods are warranted.

39p64 The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

39p63
39AG84 The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

39AG84 The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

39AG87 For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

39AG89 Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

39AG89 Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

IFRS7 AppxB5(d) When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to loans and advances to banks and customers are classified in loan impairment charges whilst impairment charges relating to investment securities (hold to maturity and loans and receivables categories) are classified in 'Net gains/(losses) on investment securities'.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated income statement.

(b) Assets classified as available for sale

39p58 39p67 39p68 39p69 39p70

The Group assesses at each date of the consolidated statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

Note

In May 2009, the IFRIC clarified the following regarding the meaning of 'significant or prolonged' (IFRIC update May 2009 p5):

IAS 39 cannot be read to require the decline in value to be both significant and prolonged. Thus, either a significant or a prolonged decline is sufficient to require the recognition of an impairment loss.

A significant or prolonged decline cannot be considered only an indicator of possible impairment in determining whether there is objective evidence. When such a decline exists, recognition of an impairment loss is required.

The fact that the decline in the value of an investment is in line with the overall level of decline in the relevant market does not mean that an entity can conclude the investment is not impaired.

The existence of a significant or prolonged decline cannot be overcome by forecasts of an expected recovery of market values, regardless of their expected timing.

(c) Renegotiated loans

IFRS7 AppxB5(g) IFRS7IG27

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated again.

1p119

2.13 Impairment of non-financial assets

36p9 36p10

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. No non-financial assets were impaired in 2009.

2.14 Share-based payments

IFRS2p2(a) The Group engages in equity settled share-based payment transactions in respect of services received from certain of its employees.

IFRS2p10 The fair value of the services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost of the employee services received in respect of the shares or share options granted is recognised in the consolidated income statement over the period that the services are received, which is the vesting period.

IFRS2AppxB6 The fair value of the options granted is determined using option pricing models, which take into account the exercise price of the option, the current share price, the risk free interest rate, the expected volatility of the share price over the life of the option and other relevant factors. Except for those which include terms related to market conditions, vesting conditions included in the terms of the grant are not taken into account in estimating fair value.

Non-market vesting conditions are taken into account by adjusting the number of shares or share options included in the measurement of the cost of employee services so that ultimately, the amount recognised in the consolidated income statement reflects the number of vested shares or share options. Where vesting conditions are related to market conditions, the charges for the services received are recognised regardless of whether or not the market related vesting condition is met, provided that the non-market vesting conditions are met.

1p119 2.15 Cash and cash equivalents

7p45
7p46 Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.16 Repossessed property

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within 'Other assets'.

2.17 Derivative financial instruments and hedge accounting

39p88 Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets (for example, for exchange-traded options), including recent market transactions, and valuation techniques (for example for swaps and currency transactions), including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

39p11 Certain derivatives embedded in other financial instruments, such as the conversion option in a purchased convertible bond, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the consolidated income statement unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

39p86 The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

(a) Hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges);

(b) Hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedges); or

(c) Hedges of a net investment in a foreign operation (net investment hedges).

Note

The disclosures shown have been prepared based on general guidance provided in the relevant standard. It is also necessary to disclose more specific entity related information.

39p88 The Group documents, at the inception of the transaction, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

39p89 *(a) Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the consolidated income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The net result is included as ineffectiveness in the 'Hedge ineffectiveness'.

39p92 If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity and recorded as net interest income. The adjustment to the carrying amount of a hedged equity security is included in the consolidated income statement when the equity security is disposed of as part of the gain or loss on the sale.

39p97, 39p98 *(b) Cash flow hedge*

39p95
39p100, 39p101 The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement – 'Hedge ineffectivesness'.

Amounts accumulated in equity are recycled to the consolidated income statement in the periods when the hedged item affects profit or loss. They are recorded in the revenue or expense lines in which associated with the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated income statement – 'Hedge ineffectiveness'.

39p102 *(c) Net investment hedge*

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in equity; the gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement – 'Hedge ineffectiveness'. Gains and losses accumulated in equity are included in the consolidated income statement when the foreign operation is disposed of as part of the gain or loss on the disposal.

39p46 *(d) Derivatives that do not qualify for hedge accounting*

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the consolidated income statement under 'Net gains/(losses) on financial instruments classified as held for trading'. However, the gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with financial assets or financial liabilities designated at fair value are included in 'Net gains on financial instruments designated at fair value' (Note 2.5).

1p119 **2.18 Leases**

17p8 Leases are accounted for in accordance with IAS 17 and IFRIC 4. They are divided into finance leases and operating leases.

1p119 *(a) A group company is the lessee*

(i) Operating lease

17p4 17p33 17p14 Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including pre-payments, made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. Refer to Note 2.20 for the accounting policy relating to property held on an operating lease and used as investment property.

(ii) Finance lease

17p4 17p20 17p25 Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in deposits from banks or deposits from customers depending on the counter party. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The investment properties acquired under finance leases are measured subsequently at their fair value.

The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to other operating expenses in the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

1p119 *(b) A group company is the lessor*

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

(c) Fees paid in connection with arranging leases

17p52 The Group makes payments to agents for services in connection with negotiating lease contracts with the Group's lessees. For operating leases, the letting fees are capitalised within the carrying amount of the related investment property, and depreciated over the life of the lease.

2.19 Investment properties

40p5
40p75(b)

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the entities in the consolidated group, are classified as investment properties. Investment properties comprise office buildings and retail parks leased out under operating lease agreements.

40p10
40p75(c)

Some properties may be partially occupied by the Group, with the remainder being held for rental income or capital appreciation. If that part of the property occupied by the Group can be sold separately, the Group accounts for the portions separately. The portion that is owner-occupied is accounted for under IAS 16, and the portion that is held for rental income or capital appreciation or both is treated as investment property under IAS 40. When the portions cannot be sold separately, the whole property is treated as investment property only if an insignificant portion is owner-occupied. The Group considers the owner-occupied portion as insignificant when the property is more than 5% held to earn rental income or capital appreciation. In order to determine the percentage of the portions, the Group uses the size of the property measured in square metre.

40p16

Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably. This is usually the day when all risks are transferred.

40p20
40p33
40p35
40p75(b)

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time the cost has incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the date of the consolidated statement of financial position. Gains or losses arising from changes in the fair value of investment properties are included in the consolidated income statement in the year in which they arise. Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the consolidated income statement during the financial period in which they are incurred.

40p75(d), (e)

The fair value of investment properties is based on the nature, location and condition of the specific asset. The fair value is calculated by discounting the expected net rentals at a rate that reflects the current market conditions as of the valuation date adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure. These valuations are performed annually by external appraisers.

Group companies only enter as lessor into lease agreements that are classified as operating leases (IAS 17). A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. The properties leased out under operating leases are included in 'Investment 'roperties'. Lease incentives are recognised as a reduction of rental income on a straight-line basis over the lease term. The Group makes payments to agents for services in connection with negotiating lease contracts with the Group's lessees. The letting fees are capitalised within the carrying amount of the related investment property and depreciated over the lease term.

Note: Choice between fair value model and cost model

IAS 40 permits entities to choose either a fair value model, under which an investment property is measured, after initial measurement, at fair value with changes in fair value recognised in profit or loss, or a cost model. The cost model is specified in IAS 16 and requires an investment property to be measured after initial measurement at depreciated cost. An entity that chooses the cost model discloses the fair value of its investment property.

2.20 Property, plant and equipment

16p15 Land and buildings comprise mainly branches and offices. All property, plant and equipment used by the parent or its subsidiaries is stated at historical cost less depreciation. Historical
16p30 cost includes expenditure that is directly attributable to the acquisition of the items.

16p12 Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to other operating expenses during the financial period in which they are incurred.

16p73(b) Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to
16p50 allocate their cost to their residual values over their estimated useful lives, as follows:
16p73(c)

– Buildings	25-40 years
– Leasehold improvements	25 years, or over the period of the lease if less than 25 years
– Equipment and motor vehicles	3-8 years

16p51 The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each
36p59 date of the consolidated statement of financial position. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. No property, plant and equipment were impaired as at 31 December 2009 (2008: nil).

16p71 Gains and losses on disposals are determined by comparing proceeds with carrying amount.
16p68 These are included in other operating expenses in the consolidated income statement.

1p119
2.21 Intangible assets

Intangible assets comprise separately identifiable intangible items arising from business
38p24, 74 combinations, computer software licences and other intangible assets. Intangible assets are
38p33 recognised at cost. The cost of an intangible asset acquired in a business combination is its
38p97 fair value at the date of acquisition. Intangible assets with a definite useful life are amortized
38p107 using the straight-line method over their estimated useful economic life, generally not exceeding 20 years. Intangible assets with an indefinite useful life are not amortised. Generally, the identified intangible assets of the Group have a definite useful life. At each date of the consolidated statement of financial position, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the
36p24 intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognized if the carrying amount exceeds the recoverable amount.

38p72 The Group chooses to use the cost model for the measurement after recognition.

Intangible assets with indefinite useful life are annually tested for impairment and whenever there is an indication that the asset may be impaired.

1p119 *(a) Goodwill*

IFRS3p32 Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of acquired subsidiairies and associates at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates.

36p80 Goodwill is allocated to cash-generating units or groups of cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified in accordance with IFRS 8.

Goodwill is tested annually as well as whenever a trigger event has been observed for impairment by comparing the present value of the expected future cash flows from a cash-generating unit with the carrying value of its net assets, including attributable goodwill and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Computer software licences

38p4
38p118(a), (b) Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of 5 years.

(c) Other intangible assets

Other intangible assets consist of brands, customer lists, licences and other contracts and customer relationships. Other intangible assets are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use. The value of intangible assets which are acquired in a business combination is generally determined using income approach methodologies such as the discounted cash flow method.

Other intangible assets are stated at cost less amortisation and provisions for impairment, if any, plus reversals of impairment, if any. They are amortised over their useful lives in a manner that reflects the pattern to which they contribute to future cash flows, generally over 4-25 years.

2.22 Discontinued operations

IFRS5p33(a) The Group presents discontinued operations in a separate line in the consolidated income statement if an entity or a component of an entity has been disposed of or is classified as held for sale and:

IFRS5p32 (a) Represents a separate major line of business or geographical area of operations;

(b) Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or

(c) Is a subsidiary acquired exclusively with a view to resale (for example, certain private equity investments).

IFRS5p33(a) Net profit from discontinued operations includes the net total of operating profit and loss before tax from operations, including net gain or loss on sale before tax or measurement to fair value less costs to sell and discontinued operations tax expense. A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Group´s operations and cash flows. If an entity or a component of an entity is classified as a discontinued operation, the Group restates prior periods in the consolidated income statement.

IFRS5p15
IFRS5p5 Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. This measurement provisions do not apply to deferred tax assets and liabilities (IAS 12), financial assets in the scope of IAS 39, investment properties that are accounted for in accordance with the fair value model in IAS 40. Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale
IFRS5p7 transaction rather than through continuing use. This condition is regarded as met only when

the sale is highly probable and the asset is available for immediate sale in its present condition, IFRS5p8 subject to terms that are usual and customary for sales of such assets. Management must be committed to the sale and must actively market the property for sale at a price that is reasonable in relation to the current fair value. The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

1p119 **2.23 Income tax**

(a) Current income tax

12p58 12p61A Income tax payable (receivable) is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognised as an expense (income) for the period except to the extent that current tax related to items that are charged or credited in other comprehensive income or directly to equity. In these circumstances, current tax is charged or credit to other comprehensive income or to equity (for example, current tax on of available-for-sale investment).

Where the Group has tax losses that can be relieved against a tax liability for a previous year, it recognises those losses as an asset, because the tax relief is recoverable by refund of tax previously paid. This asset is offset against an existing current tax balance.

Where tax losses can be relieved only by carry-forward against taxable profits of future periods, a deductible temporary difference arises. Those losses carried forward are set off against deferred tax liabilities carried in the consolidated statement of financial position.

12p74 The Group does not offset income tax liabilies and current income tax assets.

(b) Deferred income tax

12p47 12p15 12p24 Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of the consolidated statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

12p47 12p24 12p15 The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions for pensions and other post-retirement benefits and carry-forwards; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

12p24 12p34 Deferred tax assets are recognised when it is probable that future taxable profit will be available against which these temporary differences can be utilised.

12p39 12p44 Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

12p34 The tax effects of carry-forwards of unused losses or unused tax credits are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

12p61A Deferred tax related to fair value re-measurement of available-for-sale investments and cash flow hedges, which are recognised in other comprehensive income, is also recognised in the other comprehensive income and subsequently in the consolidated income statement together with the deferred gain or loss.

2.24 Employee benefits

1p119 *(a) Pension benefits*

19p27 19p25 19p7 19p120A(b) Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

19p80 19p64 The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the date of the consolidated statement of financial position less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

19p92 19p93 19p120A(a) 19p96 Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives. Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Note: Actuarial gains and losses

If the reporting entity applies IAS 19.93A and recognises actuarial gains and losses in other comprehensive income (other reserves), the disclosure requirements differ slighty compared to those presented in Note 43.

The total amount recognised in other comprehensive income (actuarial gains/losses and the effect of the limit in IAS 19.58(b)) for the current period as well as the cumulative amount recognised in other comprehensive income have to be disclosed additionally.

19p44 For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

1p119 *(b) Post-employment medical benefits*

19p122(b) The Group operates a number of post-employment medical benefit schemes, principally in the US. The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension schemes.

1p119 *(c) Termination benefits*

19p133 Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy
19p134 in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: termination the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due
19p139 more than 12 months after the date of the consolidated statement of financial position are discounted to present value. The Group had no liabilities or expenses from termination benefits in 2009.

1p119 **2.25 Provisions**

37p14 Provisions for restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has
37p63 been reliably estimated. The Group recognises no provisions for future operating losses.

37p24 Where there is a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

37p45 Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.26 Financial guarantee contracts

39p9 Financial guarantee contracts are contracts that require 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. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on
39p43 the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the bank's liabilities under
39p47 such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee.These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee.
Any increase in the liability relating to guarantees is reported in the consolidated income statement within other operating expenses.

Note: Financial guarantee contracts

IAS 39 requires the financial guarantee contract to be initially recorded at fair value, which is likely to equal the premium received (IAS 39 AG4(a)). Where the issuer of a financial guarantee is entitled to receive recurring future premiums over the life of the contract, IFRS allows but does not require recognition of a gross receivable for future premiums not yet due together with a liability for the guarantee.

The entity should select a presentation policy and apply it consistently to all issued financial guarantee contracts.

Note: Financial guarantee contracts – insurance contracts

If the Group has previously asserted explicitly that it regards issued financial guarantee contracts as insurance contracts and has used accounting applicable to insurance contracts, the Group may elect to apply either IAS 39 or IFRS 4 to such financial guarantee contracts.

2.27 Convertible bonds

32p28 The liability component and the equity component of convertible bonds are presented separately:

32AG31
- The Group's obligation to make scheduled payments of interest and principal is a financial liability that exists as long as the instrument is not converted. On initial recognition, the fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the rate of interest for an equivalent non-convertible bond.
- The equity instrument is an embedded option to convert the liability into equity of the Group. The fair value of the option comprises its time value and its intrinsic value.

32p35 Interest, losses and gains relating to the financial liability component of the convertible bonds are recognised in profit or loss.

2.28 Share capital

(a) Share issue costs

IFRS3p31
32p37 Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders.

10p12 Dividends for the year that are declared after the date of the consolidated statement of financial position are dealt with in the subsequent events note.

(c) Treasury shares

32p33, 32AG36 Where the Company or other members of the Group purchase the Company's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

(d) Government Protection Scheme

The Government Protection Scheme provided the Group with a silent participation of C750 on 1 January 2009. Details of this participation are in Note 49. The silent partnership has an indefinite life, and the Group has no contractual obligation to make distributions or other payments. The silent partnership is classified as an equity instrument on initial recognition in accordance with the substance of the contractual arrangement and the definitions in IAS 32.

1p119 2.29 Comparatives

1p38 Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

Where IAS 8 applies, comparative figures have been adjusted to conform with changes in presentation in the current year.

1p119 **2.30 Segment reporting**

IFRS8p5(b) Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Group executive board as its chief operating decision-maker.

All transactions between business segments are conducted on an arm´s length basis, with intra-segment revenue and costs being eliminated in head office. Income and expenses directly associated with each segment are included in determining business segment performance.

IFRS8p5 In accordance with IFRS 8, the Group has the following business segments: retail banking, corporate banking and investment banking.

3 Financial risk management

Note: Disclosure of nature and extent of risks arsing from financial instruments

The disclosures required by IFRS7p31-42 ('Nature and extent of risks arising from financial instruments') should either be given in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time (IFRS 7 Appx B6).

IFRS7p31 The Group's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Group's risk management are to identify all key risks for the Group, measure these risks, manage the risk positions and determine capital allocations. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Group's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The risks arising from financial instruments to which the Group is exposed are financial risks, which includes credit risk, liquidity risk, market risk (which are discussed below) and operational risk.

Note: Qualitative and quantitative disclosures for financial instruments only

IFRS 7p33-34 require qualitative and quantitative disclosures relating to financial instruments only. Liabilities and assets, such as tax liabilities and constructive obligations, that are not contractual are not financial liabilities or assets and should not be included in the financial risk disclosures (IAS 32.AG12).

3.1 Credit risk

IFRS7p33(a), (b) Credit risk is the risk of suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group. Credit risk arises mainly from commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as credit derivatives (credit default swaps), financial guarantees, letters of credit, endorsements and acceptances.

The Group is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets, derivatives and settlement balances with market counterparties and reverse repurchase loans.

Credit risk is the single largest risk for the Group's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralised in a credit risk management team, which reports to the Board of Directors and head of each business unit regularly.

3.1.1 Credit risk measurement

(a) Loans and advances (incl. loan commitments and guarantees)

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

The Group has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring credit risk of loan and advances at a counterparty level, the Group considers three components: (i) the 'probability of default' (PD) by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Group derive the 'exposure at default' (EAD); and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default') (LGD). The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

These credit risk measurements, which reflect expected loss (the 'expected loss model'), are required by the Basel Committee on Banking Regulations and the Supervisory Practices (the Basel Committee) and are embedded in the Group's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the date of the consolidated statement of financial position (the 'incurred loss model') rather than expected losses (Note 3.1.3).

IFRS7IG23, 25(a), (c) (i) Probability of default

The Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit officer judgement. They are validated, where appropriate, by comparison with externally available data. The Group's rating method comprises 25 rating levels for loans not in default (1 to 25) and five default classes (26 to 30). The master scale assigns each rating category exactly one range of probabilities of default, which is stable over time.

The rating methods are subject to an annual validation and recalibration so that they reflect the latest projection in the light of all actually observed defaults.

The Group's internal ratings scale and mapping of external ratings as supplemented by the Group's own assessment through the use of internal rating tools are as follows:

ABC Group rating	PD mid-point as percentage	PD range as percentage	S&P		Description of the grade
1	0.00	0	AAA	AAA	Investment grade
2	0.01	0 – 0.02			
3	0.02	0.02 – 0.03	AA+	AA	
4	0.04	0.03 – 0.05	AA, AA-		
5	0.07	0.05 – 0.08	A+, A	A	
6	0.11	0.08 – 0.13	A-		
7	0.17	0.13 – 0.21	BBB+	BBB	Standard monitoring
8	0.26	0.21 – 0.31	BBB		
9	0.39	0.31 – 0.47			
10	0.57	0.47 – 0.68	BBB-		
11	0.81	0.68 – 0.96	BB+	BB	
12	1.14	0.96 – 1.34	BB		
13	1.56	1.34 – 1.81			
14	2.10	1.81 – 2.40	BB-		
15	2.74	2.40 – 3.10	B+	B	
16	3.50	3.10 – 3.90			
17	4.35	3.90 – 4.86	B		
18	5.42	4.86 – 6.04			
19	6.74	6.04 – 7.52			
20	8.39	7.52 – 9.35	B-		
21	10.43	9.35 – 11.64			
22	12.98	11.64 – 14.48	CCC+	CCC	Special monitoring
23	16.15	14.48 – 18.01			
24	20.09	18.01 – 22.41	CCC to CC-		
25	47.34	22.41 – 99.99			
26	100.00	Imminent insolvency	C, D-I, D-II		Default
27	100.00	Restructuring			
28	100.00	Restructuring with recapitalisation/ partial waiving of claims			
29	100.00	Cancellation without insolvency			
30	100.00	Insolvency			

(ii) Exposure at default

EAD is is based on the amounts the Group expects to be owed at the time of default. For example, for a loan this is the face value. For a commitment, the Group includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

(iii) Loss given default/loss severity

Loss given default or loss severity represents the Group's expectation of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure. It typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support.

The measurement of exposure at default and loss given default is based on the risk parameters standard under Basel II

For measuring the exposure for credit risk on a portfolio basis (for example, mortgage loans) see Note 2.12(a)

(b) Debt securities

For debt securities, external rating such as Standard & Poor's rating or their equivalents are used by Group Treasury for managing of the credit risk exposures as supplemented by the Group's own assessment through the use of internal ratings tools.

(c) Over-the-counter (OTC) derivatives

Credit valuation adjustments (CVA) are applied to OTC derivatives, in which the base valuation generally discounts expected cash flows using LIBOR interest rate curves. Because not all counterparties have the same credit risk as that implied by the relevant LIBOR curve, a CVA is necessary to incorporate the market view of both counterparty credit risk and the Group's own credit risk in the valuation.

The Group's CVA measurement methodology comprises two steps. First, the exposure profile for each counterparty is determined using the terms of all individual derivative positions and a Monte Carlo simulation or other quantitative analysis to generate a series of expected cash flows at future points in time. The calculation of this exposure profile considers the effect of credit risk mitigants, including pledged cash or other collateral and any legal right of offset that exists with a counterparty through arrangements such as netting agreements. Individual derivative contracts that are subject to an enforceable master netting agreement with a counterparty are aggregated for this purpose, as it is those aggregate net cash flows that are subject to non-performance risk. This process identifies specific, point in time future cash flows that are subject to non-performance risk, rather than using the current recognised net asset or liability as a basis to measure the CVA. Second, market-based views of default probabilities derived from observed credit spreads in the credit default swap market are applied to the expected future cash flows determined in step one. Own-credit CVA is measured using group-specific CDS spreads for the relevant tenor.

3.1.2 Risk limit control and mitigation policies

The Group manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and countries.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and country are approved quarterly by the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

Some other specific control and mitigation measures are outlined below:

IFRS7p36(b) *(a) Collateral*

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties.
- Charges over business assets such as premises, inventory and accounts receivable.
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Group will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

IFRS7AppxB10(b) *(b) Lending limits (for derivative and loan books)*

The Group maintains strict control limits on net open derivative positions (that is, the difference between purchase and sale contracts) by both amount and term. The amount subject to credit risk is limited to expected future net cash inflows of instruments, which in relation to derivatives are only a fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not always obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Group's market transactions on any single day.

IFRS7p36(b) *(c) Master netting arrangements*

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities of the consolidated statement of financial position, as transactions are either usually settled on a gross basis or under most netting agreements the right of set off is triggered only on default. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

IFRS7AppxB10 (c)(d)

(d) Financial govenants (for credit related commitments and loan books)

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards (often referred to as financial covenants).

The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(e) Credit derivatives

The Group uses single-name credit default swaps to help mitigate credit risk in its loan portfolio. Contingent credit default swaps (CCDS) provide default protection for an uncertain amount of exposure based on the market value of a reference swap. The Group uses CCDS to help mitigate credit risk in its currency and interest rate swap portfolios. The counterparty risk arising on the Group's credit derivatives has been significantly reduced in 2009 by CDS convention changes, by signing up to the Big Bang Protocol and Auction Settlement Supplement, and by the introduction of centralised clearing.

3.1.3 Impairment and provisioning policies

The internal and external rating systems described in Note 3.1.1 focus on expected credit losses – that is, taking into account the risk of future events giving rise to losses. In contrast, impairment allowances are recognised for financial reporting purposes only for losses that have been incurred at the date of the consolidated statement of financial position based on objective evidence of impairment (see Note 2.12). Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements is usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

The impairment allowance shown in the consolidated statement of financial position at year-end is derived from each of the four internal rating grades. However, the largest component of the impairment allowance comes from the special monitoring grades. The table below shows the percentage of the Group's on- and off-balance sheet items, like financial guarantees, loan commitments and other credit related obligations, relating to loans and advances and the associated impairment allowance for each of the Group's internal rating categories.

Group's rating	**2009**		**2008**	
	Credit risk exposure (%)	**Impairment allowance (%)**	**Credit risk exposure (%)**	**Impairment allowance (%)**
1. Investment grade	24	0.2	26	0.1
2. Standard monitoring	52	0.7	59	0.6
3. Special monitoring	21	7.1	14	6.9
4. Default	3	42.0	1	36.1
	100	**3.2**	**100**	**2.9**

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to on-balance sheet assets are as follows:

IFRS7p34 (a), 36(a)
IFRS7 Appx B9, 10
IFRS7IG21

	Maximum exposure	
	2009	**2008**
Loans and advances to banks	9,736	6,581
Loans and advances to customers:		
Loans to individuals:		
– Overdrafts	2,198	2,432
– Credit cards	2,817	2,876
– Term loans	2,827	2,633
– Mortgages	30,942	30,625
Loans to corporate entities:		
– Large corporate customers	17,769	12,201
– Small and medium size enterprises (SMEs)	4,236	2,348
– Other	1,431	1,144
Financial assets held for trading		
– Debt securities	3,364	5,023
– Derivative financial instruments	2,460	2,101
Financial assets designated at fair value:		
– Debt securities	200	–
– Loans and advances to banks	128	135
– Loans and advances to customers	432	277
Hedging derivatives	2,865	3,341
Investment securities		
– Debt securities	5,396	3,271
Pledged assets	1,004	1,083
Other assets	2,003	2,111
	89,808	**78,182**

Credit risk exposures relating to off-balance sheet items are as follows:

	Maximum exposure	
	2009	**2008**
Financial guarantees	660	789
Loan commitments and other credit related obligations	5,769	3,656
	6,429	**4,445**
At 31 December	**96,237**	**82,627**

IFRS7p36
IFRS7AppxB9

The above table represents a worse-case scenario of credit risk exposure to the Group at 31 December 2009 and 2008, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

As shown above, 75% of the total maximum exposure is derived from loans and advances to banks and customers (2008: 74%); 9% represents investments in debt securities (2008: 10%).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from both its loan and advances portfolio and debt securities based on the following:

- 76% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2008: 85%);
- Mortgage loans, which represents the biggest group in the portfolio, are backed by collateral;

- 81% of the loans and advances portfolio are considered to be neither past due nor impaired (2008: 76%);
- The Group has introduced a more stringent selection process upon granting loans and advances; and
- More than 90% of the investments in debt securities and other bills have at least an A-credit rating.

Concentration of risks of financial assets with credit risk exposure

IFRS7p31-33 *(a) Geographical sectors*

The following table breaks down the Group's credit exposure at their carrying amounts (without taking into account any collateral held or other credit support), as categorised by geographical region as of 31 December 2009. For this table, the Group has allocated exposures to regions based on the country of domicile of its counterparties.

	Europe	Canada and US	Australia	South-East Asia	Other countries	Total
Loans and advances to banks	7,290	656	867	114	809	9,736
Loans and advances to customers:						
Loans to individuals:						
– Overdrafts	643	759	469	301	27	2,198
– Credit cards	1,380	811	417	120	88	2,817
– Term loans	1,585	147	893	188	15	2,827
– Mortgages	28,645	1,105	1,026	12	153	30,942
Loans to corporate entities:						
– Large corporate customers	13,969	3.552	138	92	18	17,769
– SMEs	2,684	1.075	124	87	266	4,236
– Other	272	123	239	775	22	1,431
Financial assets held for trading:						
– Debt securities	1,686	1,409	101	0	168	3,364
– Derivative financial instruments	1,217	867	175	38	163	2,460
Financial assets designated at fair value:						
– Debt securities	111	89	0	0	0	200
– Loans and advances to banks	100	28	0	0	0	128
– Loans and advances to customers	201	125	87	9	10	432
Hedging derivatives	2,006	573	287	0	0	2,865
Investment securities:						
– Debt securities	2,688	1,621	658	393	37	5,396
Pledged assets	816	123	65	0	0	1,004
Other assets	789	651	563	0	0	2,003
As at 31 December 2009	**66,082**	**13,714**	**6,107**	**2,128**	**1,777**	**89,808**

Credit risk exposures relating to off-balance sheet items are as follows:

	Europe	Canada and US	Australia	South-East Asia	Other countries	Total
Financial guarantees	495	132	33	0	0	660
Loan commitments and other credit related obligations	4,327	1,154	288	0	0	5,769
As at 31 December 2009	**4,822**	**1,286**	**321**	**0**	**0**	**6,429**

Loans and advances to banks	4,927	444	586	77	547	6.581
Loans and advances to customers:						0
Loans to individuals:						0
– Overdrafts	712	839	518	333	29	2,432
– Credit cards	1,409	828	426	122	90	2,876
– Term loans	1,476	137	831	175	14	2,633
– Mortgages	28,352	1,094	1,016	12	152	30,625
Loans to corporate entities:						0
– Large corporate customers	9,592	2,439	94	63	13	12,201
– SMEs	1,488	596	69	48	148	2,348
– Other	217	98	191	620	18	1,144
Financial assets held for trading:						0
– Debt securities	2,517	2,104	151	0	251	5,023
– Derivative financial instruments	1,040	740	149	33	139	2,101
Financial assets designated at fair value:						0
– Debt securities	0	0	0	0	0	0
– Loans and advances to banks	105	30	0	0	0	135
– Loans and advances to customers	129	80	56	6	6	277
Hedging derivatives	2,339	668	334	0	0	3,341
Investment securities:						0
– Debt securities	1,629	983	399	238	22	3,271
Pledged assets	880	133	70	0	0	1,083
Other assets	832	686	593	0	0	2,111
As at 31 December 2008	**57,644**	**11,898**	**5,484**	**1,726**	**1,429**	**78,182**

Credit risk exposures relating to off-balance sheet items are as follows:

	Europe	Canada and US	Australia	South-East Asia	Other countries	Total
Financial guarantees	592	118	39	32	8	789
Loan commitments and other credit related obligations	2,559	731	219	146	0	3,656
As at 31 December 2008	**3,151**	**850**	**259**	**178**	**8**	**4,445**

(b) Industry sectors

The following table breaks down the Group's credit exposure at carrying amounts (without taking into account any collateral held or other credit support), as categorised by the industry sectors of the Group's counterparties.

	Financial institutions	**Manu-fac-turing**	**Real estate**	**Whole-sale and retail trade**	**Public sector**	**Other ind-ustries**	**Indivi-duals**	**Total**
Loans and advances to banks	9,736	–	–	–	–	–	–	9,736
Loans and advances to customers:								
Loans to individuals:								
– Overdrafts	–	–	–	–	–	–	2,198	2,198
– Credit cards	–	–	–	–	–	–	2,817	2,817
– Term loans	–	–	–	–	–	–	2,827	2,827
– Mortgages	–	–	–	–	–	–	30,942	30,942
Loans to corporate entities:								
– Large corporate customers	–	10,946	5,757	873	–	193	–	17,769
– SMEs	–	2,094	995	583	–	564	–	4,236
– Other	–	304	384	–	621	122	–	1,431
Financial assets held for trading								
– Debt securities	2,302	197	846	19	–	–	–	3,364
– Derivative financial instruments	1,444	867	57	26	–	67	–	2,460
Financial assets designated at fair value:								
– Debt securities	200	–	–	–	–	–	–	200
– Loans and advances to banks	128	–	–	–	–	–	–	128
– Loans and advances to customers	–	34	352	46	–	–	–	432
Hedging derivatives	1,289	573	430	430	143	–	–	2,865
Investment securities:								
– Debt securities	915	1,029	2,053	103	1,260	35	–	5,396
Pledged assets	–	65	–	–	939	–	–	1,004
Other assets	1,012	345	329	129	88	100	–	2,003
As at 31 December 2009	**17,026**	**16,454**	**11,203**	**2,209**	**3,052**	**1,080**	**38,784**	**89,808**

Credit risk exposures relating to off-balance sheet items are as follows:

	Financial institutions	**Manu-facturing**	**Real estate**	**Whole-sale and retail trade**	**Public sector**	**Other ind-ustries**	**Indivi-duals**	**Total**
Financial guarantees	132	99	66	66	–	–	297	660
Loan commitments and other credit related obligations	1,154	865	1,731	577	–	–	1,442	5,769
As at 31 December 2009	**1,286**	**964**	**1,797**	**643**	**–**	**–**	**1,739**	**6,429**
Loans and advances to banks	6,581	–	–	–	–	–	–	6,581
Loans and advances to customers:								
Loans to individuals:								
– Overdrafts	–	–	–	–	–	–	2,432	2,432
– Credit cards	–	–	–	–	–	–	2,876	2,876
– Term loans	–	–	–	–	–	–	2.633	2,633
– Mortgages	–	–	–	–	–	–	30,625	30,625
Loans to corporate entities:								–
– Large corporate customers	–	7,516	3,953	599	–	132	–	12,201
– SMEs	–	1,161	551	323	–	313	–	2,348
– Other	–	243	307	–	497	97	–	1,144
Financial assets held for trading								
– Debt securities	3,437	294	1,263	28	–	–	–	5,023
– Derivative financial instruments	1,233	740	49	22	–	57	–	2,101
Financial assets designated at fair value:								
– Debt securities	–	–	–	–	–	–	–	–
– Loans and advances to banks	135	–	–	–	–	–	–	135
– Loans and advances to customers	–	22	226	29	–	–	–	277
Hedging derivatives	2,339	835	167	–	–	–	–	3,341
Investment securities								
– Debt securities	555	624	1,245	63	764	21	–	3,271
Pledged assets	–	70	–	–	1,013	–	–	1,083
Other assets	1,067	364	347	136	93	105	–	2,111
As at 31 December 2008	**15,346**	**11,869**	**8,107**	**1,201**	**2,366**	**726**	**38,566**	**78,182**

Credit risk exposures relating to off-balance sheet items are as follows:

	Financial institutions	Manu-fac-turing	Real estate	Whole-sale and retail trade	Public sector	Other ind-ustries	Indivi-duals	Total
Financial guarantees	158	118	79	118	118	–	197	789
Loan commitments and other credit related obligations	731	548	1,097	366	–	–	914	3,656
As at 31 December 2008	**889**	**667**	**1,176**	**484**	**118**	**–**	**1,111**	**4,445**

3.1.5 Loans and advances

Loans and advances are summarised as follows:

	2009		2008	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Neither past due nor impaired	49,776	6,815	40,694	5,265
Past due but not impaired	8,337	–	8,681	–
Individually impaired	4,107	2,921	4,883	1,316
Gross	**62,220**	**9,736**	**54,259**	**6,581**
Less: allowance for impairment	(1,707)	(569)	(1,309)	(436)
Net	**60,513**	**9,167**	**52,950**	**6,145**
Individually impaired	(512)	(142)	(393)	(109)
Portfolio allowance	(1,195)	(427)	(916)	(327)
Total	**(1,707)**	**(569)**	**(1,309)**	**(436)**

The total impairment charge for loans and advances is C2,276 (2008: C1,745) of which C654 (2008: C502) represents the individually impaired loans and the remaining amount of C1,622 (2008: C1,243) represents the portfolio allowance. Further information of the impairment allowance for loans and advances to banks and to customers is provided in Notes 23 and 24.

During the year ended 31 December 2009, the Group's total loans and advances increased by 26% as a result of the expansion of the lending business, especially in [Name of country]. When entering into new markets or new industries, in order to minimise the potential increase of credit risk exposure, the Group focused more on the business with large corporate enterprises or banks with good credit rating or retail customers providing sufficient collateral.

(a) Loans and advances neither past due nor impaired

IFRS7p36(c) IFRS7 IG25(b) The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group.

	Loans and advances to customers								
	Individual (retail customers)				Corporate entities				
	Overdrafts	Credit cards	Term loans	Mortgages	Large corporate customers	SMEs	Other	Total loans and advances to customers	Loans and advances to banks
31 December 2009									
Grades:									
1. Investment grade	1,447	576	752	5,503	5,146	1,169	923	15,518	5,550
2. Standard monitoring	116	39	832	22,039	9,545	919	326	33,817	883
3. Special monitoring	81	69	90	59	96	33	12	441	381
Total	**1,644**	**685**	**1,674**	**27,602**	**14,788**	**2,122**	**1,262**	**49,776**	**6,815**
31 December 2008									
Grades:									
1. Investment grade	1,609	255	617	3,366	5,417	34	170	11,468	3,823
2. Standard monitoring	124	39	21	22,940	3,871	92	579	27,666	837
3. Special monitoring	85	17	86	26	1,276	32	38	1,560	605
Total	**1,817**	**311**	**724**	**26,332**	**10,565**	**158**	**787**	**40,694**	**5,265**

IFRS7p37(a) *(b) Loans and advances past due but not impaired*

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans and advances less than 90 days past due are not usually considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

31 December 2009

		Individual (retail customers)				
		Overdrafts	Credit cards	Term loans	Mortgages	Total
	Past due up to 30 days	–	975	390	1,884	3,249
	Past due 30-60 days	–	204	463	695	1,363
	Past due 60-90 days	–	790	–	435	1,225
	Total	**–**	**1,969**	**853**	**3,014**	**5,836**
IFRS7p37(c)	**Fair value of collateral**	–	0	667	2,832	**3,499**
DV	**Amount of undercollateralisation**	–	1,969	186	182	**2,337**

		Corporate entities			
		Large corporate customers	SMEs	Other	Total
	Past due up to 30 days	575	1,801	125	2,501
	Past due 30-60 days	–	–	–	–
	Past due 60-90 days	–	–	–	–
	Total	**575**	**1,801**	**125**	**2,501**
IFRS7p37(c)	**Fair value of collateral**	562	1,926	106	**2,594**
DV	**Amount of undercollateralisation**	13	(125)	19	**(93)**

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is assessed by reference to market price or indexes of similar assets.

31 December 2008

		Individual (retail customers)				
		Overdrafts	Credit cards	Term loans	Mortgages	Total
	Past due up to 30 days	226	692	742	1,872	3,533
	Past due 30-60 days	–	389	523	832	1,745
	Past due 60-90 days	–	857	-	333	1,190
	Total	**226**	**1,938**	**1,265**	**3,038**	**6,468**
IFRS7p37(c)	**Fair value of collateral**	–	–	1,156	3,534	**4,690**
DV	**Amount of undercollateralisation**	–	–	109	(496)	**1,778**

		Corporate entities			
		Large corporate customers	SMEs	Other	Total
	Past due up to 30 days	425	1,700	89	2,214
	Past due 30-60 days	–	–	–	–
	Past due 60-90 days	–	–	–	–
	Total	**425**	**1,700**	**89**	**2,214**
IFRS7p37(c)	**Fair value of collateral**	401	1,839	98	**2,338**
DV	**Amount of undercollateralisation**	24	(139)	(9)	**(124)**

Note: Financial assets either past due or impaired

'Past due', as defined in IFRS 7 Appx A, is when a counterparty has failed to make a payment when contractually due. Therefore, past due means one or more days after the actual due date unless there is a provision in the loan contract that allows payment to be received for a certain period of time after the actual due date (grace period).

In accordance with IFRS 7 BC55(a), the analysis in Note 3.1.5(b) includes the whole balance, which relates to the amount past due and not just the instalment not paid when contractually due. Other associated balances of the same debtor should not be disclosed, as the debtor has not failed to make a payment on these when contractually due.

IFRS7p37(b)(c) *(c) Loans and advances individually impaired*

(i) Loans and advances to customers

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is C1,707 (2008: C1,309).

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Group as security, are as follows:

		Individual (retail customers)				Corporate entities			Total
		Over-drafts	Credit cards	Term loans	Mort-gages	Large corporate customers	SMEs	Other	
	31 December 2009								
IFRS7p37(b)	Gross amount	411	2,053	821	493	205	123	1	4,107
IFRS7p20(e)	Individually impaired loans	171	854	341	205	68	68	–	1,707
IFRS7p37(c)	Fair value of collateral	85	470	171	68	43	17	–	854
	31 December 2008								
IFRS7p37(b)	Gross amount	488	2,442	977	586	244	146	–	4,883
IFRS7p20(e)	Individually impaired loans	236	183	366	301	157	66	–	1,309
IFRS7p37(c)	Fair value of collateral	102	131	178	206	27	10	–	654

(ii) Loans and advances to banks

IFRS7p37(b)(c) The total amount of individually impaired loans and advances to banks as at 31 December 2009 was C569 (2008: C436). No collateral is held by the Group, and a full impairment charge has been provided against the gross amount.

IFRS7p36(d) *(d) Loans and advances renegotiated*

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria that, in the judgement of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans – in particular, customer finance loans. In the majority of cases, restructuring results in the asset continuing to be impaired:

		2009	2008
	Renegotiated loans and advances to customers – individuals:		
DV	– Continuing to be impaired after restructuring	54	62
	Loans to individuals:		
IFRS7p36(d)	– Non–impaired after restructuring – would otherwise have been impaired	27	35
DV	– Non–impaired after restructuring – would otherwise not have been impaired	33	47
DV	**Total**	**114**	**144**

3.1.6 Debt securities

IFRS7p36(c) The tables below presents an analysis of debt securities by rating agency designation at 31 December 2009 and at 31 December 2008, based on Standard & Poor's ratings or their equivalent:

					Assets pledged as collateral	
At 31 December 2009	**Trading securities**	**Investment securities**	**Designated at fair value**	**Total**	**Trading securities**	**Investment securities**
AAA	2,355	2,860	200	5,415	950	34
AA- to AA+	673	1,349	–	2,022	20	–
A- to A+	235	701	–	936	–	–
Lower than A-	101	486	–	587	–	–
Unrated	–	–	–	–	–	–
Total	**3,364**	**5,396**	**200**	**8,960**	**970**	**34**
At 31 December 2008						
AAA	3,767	1,799	–	5,566	1,032	19
AA- to AA+	1,005	818	–	1,823	32	–
A- to A+	151	490	–	641	–	–
Lower than A-	100	164	–	264	–	–
Unrated	–	–	–	–	–	–
Total	**5,023**	**3,271**	**–**	**8,294**	**1,064**	**19**

IFRS7p36(b), 38

3.1.7 Repossessed collateral

IG22

During 2009, the Group obtained assets by taking possession of collateral held as security as follows:

IFRS7p38(a)

Nature of assets	Carrying amount
Residential property	128

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the consolidated statement of financial position within other assets.

3.2 Market risk

IFRS7p31
IFRS7p33(a)

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group separates exposures to market risk into either trading or non-trading portfolios.

The market risks arising from trading and non-trading activities are concentrated in Group Treasury and monitored by two teams separately. Regular reports are submitted to the Board of Directors and heads of each business unit.

Trading portfolios include those positions arising from market-making transactions where the Group acts as principal with clients or with the market.

Non-trading portfolios primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Group's held-to-maturity and available-for-sale investments.

IFRS7p33(b)

3.2.1 Market risk measurement techniques

As part of the management of market risk, the Group undertakes various hedging strategies with hedge accounting being applied (Note 27). The Group also enters into interest rate swaps to match the interest rate risk associated with the fixed-rate long-term debt securities and loans to which the fair value option has been applied. The major measurement techniques used to measure and control market risk are outlined below.

(a) Value at risk

IFRS7p41

The Group applies a 'value at risk' (VAR) methodology to its trading portfolios (including assets and liabilities designated at fair value) and at a group level to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Board sets limits on the value of risk that may be accepted for the Group, which are monitored on a daily basis by Group Treasury. Interest rate risk in the non-trading book is measured through the use of interest rate repricing gap analysis (Note 3.2.4).

VAR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the 'maximum' amount the Group might lose, but only to a certain level of confidence (98%). There is therefore a specified statistical probability (2%) that actual loss could be greater than the VAR estimate. The VAR model assumes a certain 'holding period' until positions can be closed (10 days). It also assumes that market moves occurring over this holding period will follow a similar pattern to those that have occurred over 10-day periods in the past. The Group's assessment of past movements is based on data for the past five years. The Group applies these historical changes in rates, prices, indices, etc. directly to its current positions – a method known as historical simulation. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/factors used in the VAR calculation. The use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

As VAR constitutes an integral part of the Group's market risk control regime, VAR limits are established by the Board annually for all trading portfolio operations and allocated to business units. Actual exposure against limits, together with a consolidated group-wide VAR, is reviewed daily by Group Treasury. Average daily VAR for the Group was C187 in 2009 (2008: C173).

The quality of the VAR model is continuously monitored by back-testing the VAR results for trading books. All back-testing exceptions and any exceptional revenues on the profit side of the VAR distribution are investigated, and all back-testing results are reported to the Board of Directors.

(b) Stress tests

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by Group Treasury include: risk factor stress testing, where stress movements are applied to each risk category; emerging market stress testing, where emerging market portfolios are subject to stress movements; and ad hoc stress testing, which includes applying possible stress events to specific positions or regions – for example, the stress outcome to a region following a currency peg break.

The results of the stress tests are reviewed by senior management in each business unit and by the Board of Directors. The stress testing is tailored to the business and typically uses scenario analysis.

3.2.2 VAR summary for 2009 and 2008

(a) Group VAR by risk type

	12 months to 31 December 2009			**12 months to 31 December 2008**		
	Average	**High**	**Low**	**Average**	**High**	**Low**
Foreign exchange risk	17	18	15	15	18	12
Interest rate risk	165	179	135	154	173	134
Equity risk	5	5	2	4	6	2
Total VAR	**187**	**202**	**152**	**173**	**197**	**148**

(b) Trading portfolio VAR by risk type

	12 months to 31 December 2009			**12 months to 31 December 2008**		
	Average	**High**	**Low**	**Average**	**High**	**Low**
Foreign exchange risk	17	18	15	15	18	12
Interest rate risk	148	159	141	139	143	148
Equity risk	3	3	1	2	3	1
Total VAR	**168**	**180**	**157**	**156**	**164**	**161**

The increase of VAR in 2009, especially the interest rate risk, mainly relates to the increased volatility of market interest rates in global principal financial markets.

3.2.3 Foreign exchange risk

IFRS7AppxB23 The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2009. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

At 31 December 2009	EUR	USD	CHF	GBP	Other	Total
Assets						
Cash and balances with central banks	1,524	762	1,067	1,016	711	5,080
Loans and advances to banks	2,658	2,108	1,742	1,925	733	9,167
Loans and advances to customers	20,574	16,339	6,656	7,867	9,077	60,513
Financial assets held for trading	1,749	1,620	1,685	1,425	–	6,479
Hedging derivatives	860	774	201	945	86	2,865
Financial assets designated at fair value	1,058	756	630	76	–	2,520
Investment securities:						
– Available for sale	924	284	308	806	47	2,370
– Loans and receivables	485	230	109	388	–	1,212
– Held to maturity	720	660	–	1,529	90	2,999
Pledged assets	914	40	–	50	–	1,004
Other assets	1,142	260	501	100	–	2,003
Total financial assets	**32,608**	**23,833**	**12,898**	**16,128**	**10,745**	**96,212**
Liabilities						
Deposits from banks	9,251	6,784	8,017	4,625	2,159	30,836
Deposits due to customers	14,500	10,758	4,210	13,097	4,210	46,775
Financial liabilities held for trading	2,641	660	–	–	–	3,301
Hedging derivatives	821	411	383	904	219	2,738
Debt securities in issue	1,183	177	212	194	0	1,766
Financial liabilities designated at fair value	697	–	–	670	–	1,367
Other liabilities	41	52	62	788	93	1,037
Total financial liabilities	**29,135**	**18,842**	**12,885**	**20,278**	**6,681**	**87,820**
Net on-balance sheet financial position	**3,473**	**4,992**	**13**	**(4,150)**	**4,064**	**8,392**
Credit commitments	**1,208**	**1,562**	**1.278**	**1,324**	**1,057**	**6,429**

At 31 December 2008	EUR	USD	CHF	GBP	Other	Total
Assets						
Cash and balances with central banks	995	497	696	663	464	3,315
Loans and advances to banks	1,782	1,413	1,168	1,290	492	6,145
Loans and advances to customers	18,003	14,297	5,825	6,884	7,943	52,950
Financial assets held for trading	2,242	2,076	2,159	1,827	–	8,305
Hedging derivatives	1,002	902	234	1,103	100	3,341
Financial assets designated at fair value	463	331	276	33	–	1,102
Investment securities:						
– Available for sale	615	189	205	536	32	1,577
– Loans and receivables	–	–	–	–	–	–
– Held to maturity	482	442	–	1,025	60	2,009
Pledged assets	986	43	–	54	–	1,083
Other assets	1,203	274	528	106	–	2,111
Total financial assets	**27,773**	**20,465**	**11,090**	**13,520**	**9,090**	**81,938**
Liabilities						
Deposits from banks	7,665	5,621	6,643	3,832	1,788	25,549
Deposits due to customers	13,236	9,821	3,843	11,955	3,843	42,698
Financial liabilities held for trading	2,263	566	–	–	–	2,829
Hedging derivatives	854	427	399	940	228	2,848
Debt securities in issue	825	123	148	136	–	1,232
Financial liabilities designated at fair value	669	–	–	642	–	1,311
Other liabilities	27	34	41	520	62	684
Total financial liabilities	**25,540**	**16,592**	**11,073**	**18,025**	**5,921**	**77,151**
Net on-balance sheet financial position	**2,233**	**3,873**	**16**	**(4,505)**	**3,170**	**4,787**
Credit commitments	**835**	**1,080**	**884**	**915**	**731**	**4,445**

3.2.4 Interest rate risk

IFRS7p31
IFRS7p33

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing and value at risk that may be undertaken, which is monitored daily by Group Treasury.

IFRS7p34(a)(b)

The tables below summarise the Group's non-trading book fair value exposure to interest rate risks. Value at risk exposure is disclosed in Note 3.2.2. It includes the Group's financial instruments at carrying amounts (non-derivatives), categorised by the earlier of contractual repricing (for example for floating rate notes).

(All amounts in C thousands unless otherwise stated)

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2009							
Assets							
Cash and balances with central banks	5,080	–	–	–	–	–	5,080
Loans and advances to banks	3,375	3,898	1,611	283	–	–	9,167
Loans and advances to customers	16,024	16,948	22,498	4,528	503	12	60,513
Investment securities:							
– Available for sale	–	–	–	532	604	1,185	2,321
– Loans and receivables	133	182	303	424	61	109	1,212
– Held to maturity	–	1	602	595	811	990	2,999
Pledged assets	862	–	–	142	–	–	1,004
Other assets	328	342	15	32	882	318	1,917
Total financial assets	**25,802**	**21,371**	**25,029**	**6,536**	**2,861**	**2,614**	**84,213**
Liabilities							
Deposits from banks	9,924	9,281	6,633	4,209	789	–	30,836
Deposits due to customers	24,803	10,831	8,738	1,220	1,156	27	46,775
Debt securities in issue	55	69	1,076	566	–	–	1,766
Other liabilities	–	12	292	–	–	733	1,037
Total financial liabilities	**34,782**	**20,193**	**16,739**	**5,995**	**1,945**	**760**	**80,414**
Total interest repricing gap	**(8,980)**	**1,178**	**8,290**	**541**	**916**	**–**	**1,945**
As at 31 December 2008							
Assets							
Cash and balances with central banks	3,315	–	–	–	–	–	3,315
Loans and advances to banks	2,262	2,613	1,080	190	–	–	6,145
Loans and advances to customers	14,021	14,830	19,686	3,962	440	11	52,950
Investment securities:							–
– Available for sale	–	–	–	354	908	315	1,577
– Loans and receivables	–	–	–	–	–	–	–
– Held to maturity	–	1	602	595	812	–	2,009
Pledged assets	930	–	–	153	–	–	1,083
Other assets	346	360	16	34	930	330	2,016
Total financial assets	**20,874**	**17,803**	**21,384**	**5,288**	**3,090**	**656**	**69,095**
Liabilities							
Deposits from banks	8,223	7,690	5,496	3,487	653	–	25,549
Deposits due to customers	22,641	9,887	7,977	1,113	1,056	25	42,699
Debt securities in issue	38	48	751	395	–	–	1,232
Other liabilities	–	8	193	–	–	483	684
Total financial liabilities	**30,902**	**17,633**	**14,417**	**4,995**	**1,709**	**508**	**70,164**
Total interest repricing gap	**(10,028)**	**170**	**6,967**	**293**	**1,381**	**–**	**1,217**

The tables below summarises the Group's non-trading book fair value exposure to interest rate risks for interest rate derivatives at notional amounts.

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2009						
Assets						
Hedging interest rate derivatives – assets	9,323	1,154	452	1,435	657	13,021
Hedging interest rate derivatives – liabilities	23	1,988	8,454	232	1,544	12,241
Total interest repricing gap	**9,300**	**(834)**	**(8,002)**	**1,203**	**(887)**	**780**
As at 31 December 2008						
Assets						
Hedging interest rate derivatives – assets	10,231	–	–	1,231	11,321	22,783
Hedging interest rate derivatives – liabilities	–	–	6,743	–	11,736	18,479
Total interest repricing gap	**10,231**	**–**	**(6,743)**	**1,231**	**(415)**	**4,304**

3.3 Liquidity risk

IFRS7p31
IFRS7p33
IFRS7p39(c)

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities or margin calls for derivatives. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the consolidated statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Group will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

IFRS7p39(c)

3.3.1 Liquidity risk management process

IFRS7AppxB11F

The Group's liquidity management process, as carried out within the Group and monitored by a separate team in Group Treasury, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios of the consolidated statement of financial position against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets (Notes 3.3.3–3.3.4).

Group Treasury also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

3.3.2 Funding approach

IFRS7p39(c)
IFRS7AppxB11F

Sources of liquidity are regularly reviewed by a separate team in Group Treasury to maintain a wide diversification by currency, geography, provider, product and term.

IFRS7p39(a)

3.3.3 Non-derivative financial liabilities and assets held for managing liquidity risk

IFRS7AppxB11, B14
IFRS7AppxB10A

The table below presents the cash flows payable by the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the date of the consolidated statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flow, whereas the Group manages the liquidity risk based on on a different basis (see Note 3.3.1 for details), not resulting in a significantly different analysis.

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2009						
Liabilities						
Deposits from banks	7,883	9,280	7,296	6,085	2,345	32,889
Deposits due to customers	26,165	8,457	13,459	2,934	2,105	53,120
Financial liabilities held for trading	2,806	340	170	–	–	3,316
Debt securities in issue	55	70	1,123	697	–	1,945
Financial liabilities designated at fair value	–	–	–	1,481	–	1,481
Other liabilities	–	784	262	–	–	1,046
Total liabilities (contractual maturity dates)	**36,909**	**18,931**	**22,310**	**11,197**	**4,450**	**93,797**
IFRS7AppxB11E **Assets held for managing liquidity risk (contractual maturity dates)**	**28,050**	**29,874**	**9,456**	**17,908**	**12,480**	**97,768**
As at 31 December 2008						
Liabilities						
Deposits from banks	6,246	6,909	6,198	5,031	2,555	26,939
Deposits due to customers	22,135	6,278	12,896	2,274	1,007	44,590
Financial liabilities held for trading	2,829	–	–	–	–	2,829
Debt securities in issue	88	65	1,223	727	–	2,103
Financial liabilities designated at fair value	–	–	–	1,422	–	1,422
Other liabilities	–	631	63	–	–	694
Total liabilities (contractual maturity dates)	**31,298**	**13,883**	**20,380**	**9,454**	**3,562**	**78,577**
IFRS7 ppxB11E **Assets held for managing liquidity risk (contractual maturity dates)**	**30,748**	**23,892**	**15,552**	**4.399**	**7,364**	**81,955**

Note: Contractual maturity analysis

The amounts disclosed in the maturity analysis are the contractual undiscounted cash flows (IFRS7 B11D). Therefore, the table in Note 3.3.3 does not reconcile to the discounted cash flows in the consolidated statement of financial position. IFRS 7 does not require such reconciliation.

The requirement in IFRS 7 is to disclose each of the contractual payments in the period when it is due (including principal and interest). Therefore, in the maturity analysis, the cash flows are split into the maturity buckets in which the cash flows occur (including interest cash flows) rather than being included in a single bucket when the instrument matures.

3.3.4 Assets held for managing liquidity risk

The Group holds a diversified portfolio of cash and high-quality highly-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Group's assets held for managing liquidity risk comprise:

- Cash and balances with central banks;
- Certificates of deposit;
- Government bonds and other securities that are readily acceptable in repurchase agreements with central banks; and
- Secondary sources of liquidity in the form of highly liquid instruments in the Group's trading portfolios.

3.3.5 Derivative liabilities

(a) Derivatives settled on a net basis

IFRS7p39(b), AppxB11D(c)

The Group's derivatives that will be settled on a net basis include:

- Foreign exchange derivatives: over-the-counter (OTC) currency options, currency futures, exchange traded currency options; and
- Interest rate derivatives: interest rate swaps for which net cash flows are exchanged, forward rate agreements, OTC interest rate options, other interest rate contracts, exchange traded interest rate futures and exchange traded interest rate options.

The table below analyses the Group's derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the date of the consolidated statement of financial position to the contractual maturity date. Contractual maturities are assessed to be essential for an understanding of all derivatives including derivatives presented in the consolidated statement of financial position as 'liabilities held for trading'. Some of the Group's derivatives are subject to collateral requirements. Cash flows for those derivatives could occur earlier than the contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
At 31 December 2009						
Derivatives held for trading:						
– Foreign exchange derivatives	17	42	59	50	–	168
– Interest rate derivatives	69	129	387	275	–	860
Derivatives held for hedging:						
– Foreign exchange derivatives	3	10	10	3	2	28
– Interest rate derivatives	7	54	90	172	35	358
Total	**96**	**235**	**546**	**500**	**37**	**1,414**
At 31 December 2008						
Derivatives held for trading:						
– Foreign exchange derivatives	16	39	55	46	–	156
– Interest rate derivatives	119	224	641	447	59	1,490
Derivatives held for hedging:						
– Foreign exchange derivatives	14	48	48	14	12	136
– Interest rate derivatives	70	526	877	1,684	352	3,509
Total	**219**	**837**	**1,621**	**2,191**	**423**	**5,291**

Note: Net settled derivatives

IFRS7 p39(b) requires a contractual maturity analysis only of those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows. Some banks consider that derivatives held in a trading portfolio are not essential and are disclosed on the basis of how the risk is managed eg fair value.

In the example above, net settled derivatives that have a negative fair value at the reporting date (that is, that are liabilities) are included in the liquidity analysis at contractual undiscounted amounts. Net settled derivatives that have a positive fair value (that is, that are assets) are not required to be included in the maturity analysis. However, net settled derivative financial assets should be included where such information is necessary to understand the nature and extent of liquidity risk (IFRS 7 Appx B11E). For example, this might be the case where there are offsetting derivative positions.

The amounts to be included for floating rate components and instruments denominated in a foreign currency should be determined by reference to the conditions existing at the reporting date (IFRS7 Appx B11D). This can be viewed as the current spot rate or the forward rate, although use of the latter is more usual. Whichever basis is used it should be applied consistently.

(b) Derivatives settled on a gross basis

IFRS7p39(b), AppxB11D(d)

The Group's derivatives that will be settled on a gross basis include:

- Foreign exchange derivatives: currency forward, currency swaps;
- Interest rate derivatives: interest rate swaps for which cash flows are exchanged on a gross basis, cross currency interest rate swaps; and
- Credit derivatives: all credit default swaps are presented on a gross cash flow basis as periodic payments to the protection seller and one-off payments to the protection buyer in case of a credit event are paid gross.

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the date of the consolidated statement of financial position to the contractual maturity date. Contractual maturities are assessed to be essential for an understanding of the timing of the cashflows on all derivatives including derivatives classified as 'liabilities held for trading'. Some of the Group's derivatives are subject to collateral requirements. Cash flows for those derivatives could occur earlier than the contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
At 31 December 2009						
Derivatives held for trading						
Foreign exchange derivatives:						
– Outflow	6,303	14,182	22,061	36,244	–	78,790
– Inflow	6,274	14,116	21,958	36,073	–	78,421
Interest rate derivatives:						
– Outflow	1,717	5,150	10,013	11,444	285	28,609
– Inflow	1,698	5,094	9,905	11,320	283	28,300
Credit derivatives:						
– Outflow	1	2	14	607	–	624
– Inflow	4	7	38	195	–	244
Derivatives held for hedging						
Foreign exchange derivatives:						
– Outflow	241	321	1,165	1,406	885	4,018
– Inflow	267	368	1,333	1,609	1,010	4,596
Interest rate derivatives:						
– Outflow	339	2,150	3,621	4,413	792	11,315
– Inflow	356	2,257	3,801	4,633	832	11,879
Total outflow	**8,601**	**21,805**	**36,874**	**54,114**	**1,962**	**123,356**
Total inflow	**8,608**	**21,842**	**37,035**	**53,830**	**2,125**	**123,440**
At 31 December 2008						
Derivatives held for trading						
Foreign exchange derivatives:						
– Outflow	6,217	13,989	21,760	35,750	–	77,716
– Inflow	6,179	13,902	21,625	35,526	–	77,232
Interest rate derivatives:						
– Outflow	–	–	–	–	–	–
– Inflow	–	–	–	–	–	–
Credit derivatives:						
– Outflow	0	1	7	1,132	–	1,140
– Inflow	7	13	68	235	–	323
Derivatives held for hedging						
Foreign exchange derivatives:						
– Outflow	49	65	237	286	181	818
– Inflow	39	52	188	227	143	649
Interest rate derivatives:						
– Outflow	219	1,390	2,341	2,853	512	7,315
– Inflow	217	1,376	2,318	2,825	507	7,243
Total outflow	**6,485**	**15,445**	**24,345**	**40,021**	**693**	**86,989**
Total inflow	**6,442**	**15,343**	**24,199**	**38,813**	**650**	**85,447**

Note: Gross settled derivatives

IFRS7 p39(b) requires a contractual maturity analysis only of those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows. Some banks consider that derivatives held in a trading portfolio are not essential and are disclosed on the basis of how the risk is managed eg expected maturity.

In the example above, gross settled derivatives should be included in the maturity analysis at contractual undiscounted amounts (IFRS 7 Appx B11D). The pay leg of all gross-settled derivatives should be included, whether or not the fair value of the derivative is negative. While the standard only requires the gross cash outflows as expected by analogy to IFRS 7 Appx B11E, as that information is necessary to enable users of financial statements to evaluate the nature and extent of liquidity risk.to be included in the maturity analysis, a separate disclosure of the inflows in conjunction with the outflows.

The amounts to be includes for floating rate legs and instruments denominated in a foreign currency should be determined by reference to the conditions existing at the reporting date (IFRS7 Appx B11D). This can be viewed as the current spot rate or the forward rate, although use of the latter is more usual. Whichever basis is used it should be applied consistently.

(c) Collateral calls for derivatives

Collateral calls on derivatives positions can pose a significant liquidity risk: collateral calls may arise at times of market stress and when asset liquidity may be tightening. The timing of the cashflows on a derivative hedging an asset may be different to the timing of the cashflows of the asset being held, even if they are similar in all other respects. Collateral calls may be triggered by a credit downgrading.

The Group manages the aforementioned risks by including collateral calls in stress tests on liquidity, and by maintaining a portfolio of assets held for managing liquidity risk (see Note 3.3.3).

3.3.6 Off-balance sheet items

(a) Loan commitments

The dates of the contractual amounts of the Group's off-balance sheet financial instruments that it commits to extend credit to customers and other facilities (Note 52) are summarised in the table below.

(b) Other financial facilities

Other financial facilities (Note 52) are also included in the table below, based on the earliest contractual maturity date.

(c) Operating lease commitments

Where a Group company is the lessee, the future minimum lease payments under non-cancellable operating leases, as disclosed in Note 52, are summarised in the table below.

(d) Capital commitments

Capital commitments for the acquisition of buildings and equipment (Note 52) are summarised in the table below.

		No later than 1 year	1-5 years	Over 5 years	Total
	At 31 December 2009				
IFRS7 AppxB11B(b)	Loan commitments	1,965	836	776	3,577
IFRS7p39	Acceptances and other financial facilities	2,852	–	–	2,852
17p35	Operating lease commitments	205	920	1,150	2,275
16p74	Capital commitments	–	85	–	85
	Total	**5,022**	**1,841**	**1,926**	**8,789**
	At 31 December 2008				
IFRS7AppxB14(e)	Loan commitments	2,209	30	128	2,367
IFRS7p39	Acceptances and other financial facilities	2,078	–	–	2,078
17p35	Operating lease commitments	195	880	1,320	2,395
16p74	Capital commitments	–	82	–	82
	Total	**4,482**	**992**	**1,448**	**6,922**

3.4 Fair value of financial assets and liabilities

(a) Financial instruments not measured at fair value

IFRS7p25, AppxB2(a)

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's consolidated statement of financial position at their fair value:

	Carrying value		Fair value	
	2009	**2008**	**2009**	**2008**
Financial assets				
Loans and advances to banks	9,167	6,145	9,259	9,213
Loans and advances to customers	60,513	52,950	61,118	60,816
– Retail customers (individual)	37,809	37,818	38,187	37,998
– Large corporate customers	17,525	12,014	17,700	17,613
– SMEs	3,992	2,161	4,032	4,012
– Other	1,187	957	1,199	1,193
Investment securities (available for sale)	474	237	495	240
Investment securities (loans and receivables)	1,212	–	1.220	–
Investment securities (held-to-maturity)	2,999	2,009	3,029	3,014
Financial liabilities				
Deposits from banks	15,797	11,916	15,639	11,678
Due to customers	46,775	42,698	46,307	41,844
– Retail customers	28,355	27,638	28,071	27,085
– Large corporate customers	9,913	8,096	9,814	7,934
– SMEs	8,507	6,964	8,422	6,825
Debt securities in issue	1,766	1,232	1,748	1,207
Convertible bonds	162	161	162	161
Subordinated debts	4,022	2,018	4,156	1,989
Off-balance sheet financial instruments				
Loan commitment			78	15
Guarantees, acceptances and other financial facilities			34	66

IFRS7p27 (i) Loans and advances to banks

Loans and advances to banks include inter-bank placements and items in the course of collection.

The carrying amount of floating rate placements and overnight deposits is a reasonable approximation of fair value.

The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

IFRS7p27 (ii) Loans and advances to customers

Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

IFRS7p27 (iii) Investment securities

The fair value for loans and receivables and held-to-maturity assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Investment securities (available for sale) disclosed in the table above comprise only those equity securities held at cost less impairment. The fair value for these assets is based on estimations using market prices and earning multiples of quoted securities with similar characteristics. All other available for sale assets are already measured and carried at fair value.

IFRS7p29(a) (iv) Deposits from banks and due to customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

IFRS7p27 The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

IFRS7p27 (v) Debt securities in issue

The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

IFRS7p27 (vi) Off-balance sheet financial instruments

The estimated fair values of the off-balance sheet financial instruments are based on markets prices for similar facilities. When this information is not available, fair value is estimated using discounted cash flow analysis.

(b) Financial instruments measured at fair value

See Note 2.6 ‘Determination of fair value’.

(c) Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, London Stock Exchange, Frankfurt Stock Exchange, New York Stock Exchange) and exchanges traded derivatives like futures (for example, Nasdaq, S&P 500).
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

3.4.1 Assets and liabilities measured at fair value

IFRS7p27B(a)
IFRS7IG13A

31 December 2009	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit and loss				
Financial assets held for trading				
– Debt securities	2,520	–	844	3,364
– Equity securities	632	–	23	655
– Derivatives	155	2,305	–	2,460
Financial assets designated at fair value				
– Debt securities	200	–	–	200
– Equity securities	1,760	–	–	1,760
– Loans and advances to banks	–	128	–	128
– Loans and advances to customers	–	200	232	432
Hedging derivatives	–	2,738	–	2,738
Available-for-sale financial assets:				
– Investment securities – debt	1,185	–	–	1,185
– Investment securities – equity	711	–		711
Total assets	**7,163**	**5,371**	**1,099**	**13,633**
Financial liabilities at fair value through profit and loss				
– Financial liabilities held for trading	144	2,727	430	3,301
– Financial liabilities designated at fair value	–	1,367	–	1,367
Hedging derivatives	–	2,738	–	738
Total liabilities	**144**	**6,832**	**430**	**7,406**

IFRS7p27B(c)

Reconciliation of Level 3 Items

	Financial assets at fair value through profit and loss			Total assets	Financial liabilities held for trading	Total liabilities
	Financial assets held for trading		Financial assets desig-nated at fair value			
	Debt securities	Equity securities	Loans and advances to customer			
At 1 January 2009	3,402	101	177	3,680	780	780
Total losses						
– Profit or loss	(432)	(34)	(12)	(478)	(55)	(55)
– Other compre-hensive income	–	–	–	–	–	–
Purchases	–	6	67	73	–	–
Issues	–	–	–	–	–	–
Settlements	(592)	(50)	–	(642)	(295)	(295)
Transfers to loans and receivables	(1,263)	–	–	(1,263)	–	–
Transfers into or out of Level 3	–	–	–	–	–	–
At 31 December 2009	**1,115**	**23**	**232**	**1,370**	**430**	**430**
Total losses for the period included in profit or loss for assets/liabilities held at 31 December 2009	(132)	(4)	(12)	(148)	(20)	(20)

IFRS7p27B(c)(i)
IFRS7p27B(d)

Total gains or losses for the period included in profit or loss as well as total gains or losses relating to assets/liabilities held at the end of the reporting period are presented in 'Net gains/(losses) on financial instruments classified as held for trading' or 'Net gains/(losses) on financial instruments designated at fair value' depending on the category of the related asset/liability with the following exception. Gains or losses relating to derivatives held for trading that are managed in conjunction with financial assets or financial liabilities designated at fair value are presented in 'Net gains on financial instrument designated at fair value'.

The following table shows the sensitivity of level 3 measurements to reasonably possible alternative assumptions:

	Reflected in profit or loss		Reflected in equity	
	Favourable changes	**Unfavourable changes**	**Favourable changes**	**Unfavourable changes**
At 31 December 2009				
Financial assets held for trading	80	(93)	–	–
Financial assets designated at fair value through profit and loss	11	(9)	–	–
Financial liabilities held for trading	69	(132)	–	–
At 31 December 2008				
Financial assets held for trading	287	(365)	–	–
Financial assets designated at fair value through profit and loss	7	(5)	–	–
Available-for-sale financial assets	–	–	12	(9)
Financial liabilities held for trading	121	(276)	–	–

The above favourable and unfavourable changes are calculated independently from each other. Correlations and diversification effects are not taken into account.

3.4.2 Deferred day-one profit or loss

The table reflects financial instruments for which fair value is determined using valuation models where not all inputs are market observable. Such financial instruments are initially recognised at their transaction price,although the values obtained from the relevant valuation model on day one may differ. The table shows 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 (movement of deferred day-one profit or loss).

	31 December 2009	**31 December 2008**
Balance at the beginning of the year	58	12
New transactions during the period	35	54
Released to the consolidated income statement because of:		
– Amortisation	10	8
– Transaction maturing	4	–
– Move to observability	–	–
Balance at the end of the year	**79**	**58**

3.5 Capital management

1p134 The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of the consolidated statement of financial position, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

- To maintain a strong capital base to support the development of its business.

1p135(a)(iii) Capital adequacy and the use of regulatory capital are monitored daily by the Group's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives, as implemented by the [name of country's authority] (the Authority), for supervisory purposes. The required information is filed with the Authority on a quarterly basis.

The Group maintains a ratio of total regulatory capital to its risk-weighted assets (the 'Basel ratio') above a minimum level agreed with the Authority which takes into account the risk
1p136(a)(ii) profile of the Group. In addition, in most jurisdictions regulated subsidiaries of the Group are subject to capital adequacy requirements at a subsidiary level.

The regulatory capital requirements are strictly observed when managing economic capital. The Group's regulatory capital is managed by its central Group Treasury and comprises two tiers:

- Tier 1 capital: share capital (net of any book values of the treasury shares), general bank reserve, statutory reserve, non-controlling interests arising on consolidation from interests in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital; and

- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arsing on the fair valuation of equity instruments held as available for sale.

Investments in associates are deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital. Securitisation positions which receive a risk weight of 1,250 % are decucted from Tier 1 capital. Shortfalls of value adjustments and provisions as compared to expected losses are deducted from Tier 1 and Tier 2 capital to calculate regulatory capital. Excesses of value adjustments and provisions as compared to expected losses are added up to 0.6 % of internal ratings based approach (IRBA) risk-weighted assets.

The risk weighted assets are measured using the IRBA for credit risk. Risk weights are assigned to assets and off balance sheet items according to the Group's own estimates of probabilities of default (PD), loss given default (LGD) and credit fonversion factors (CCF) for retail business and claims to central governments, institutions and corporates. Own estimates of risk parameters are in accordance to the minimum requirements set out by Basel II. For the purposes of applying risk weights to securitisation positions the rating agencies [name(s) of the ECAI's] are used.

Note: Credit risk methodology

Possible alternatives for banks with less complex credit risk capital adequacy requirement methodologies are as follows:

Alternative 1

The risk-weighted assets are measured using the 'standardised approach' (SA) for credit risk. Risk weights are assigned to assets and off balance sheet items according to their asset class and credit assessment. For the determination of credit assessments the rating agencies [name(s) of the ECAI's] are nominated. For the purposes of applying risk weights to securitisation positions, [name(s) of the ECAI's] are used. Any eligible collateral and netting agreements are taken into account for calculating risk-weighted assets.

Alternative 2

The risk-weighted assets are measured using the internal ratings-based approach (IRBA) for credit risk. Risk weights are assigned to assets and off balance sheet items according to the Group's own estimates of probabilities of default (PD), loss given default (LGD) and credit conversion factors (CCF) for retail business. For claims to central governments, institutions and corporates, regulatory determined values for LGD and CCF are used. For the purposes of applying risk weights to securitisation positions the rating agencies [name(s) of the ECAI's] are used.

1p135(b) The table below summarises the composition of regulatory capital and the ratios of the Group for the years ended 31 December. During those two years, the individual entities within the
1p135(d) Group and the Group complied with all of the externally imposed capital requirements to which they are subject.

	2009	2008
Tier 1 capital		
Share capital (net of the treasury shares)	1,153	1,098
Share premium	857	818
General banking reserves	175	125
Retained earnings	1,263	1,320
Non-controlling interests	85	74
Less: intangible assets	(213)	(275)
Silent participation Government Protection Scheme	750	–
Total qualifying Tier 1 capital	**4,070**	**3,160**
Tier 2 capital		
Convertible bonds (including liability and equity portions)	186	185
Revaluation reserve – available-for-sale investments	223	127
Collective impairment allowance	1,621	1,243
Total qualifying Tier 2 capital	**2,030**	**1,555**
Less investments in associates	(112)	(108)
Less securitsation positions risk weighted at 1,250%	(100)	–
Less shortfall amount	(50)	–
– plus excess amounts	–	50
Total regulatory capital	**5,838**	**4,657**
Risk-weighted assets:		
On-balance sheet	55,845	47,079
Off-balance sheet	2,849	1,920
Total risk-weighted assets	**58,694**	**48,999**
Basel ratio	9.95%	9.50%

1p135(c) The increase of the regulatory capital in the year of 2009 is mainly due to the silent participation Government Protection Scheme and the contribution of the current-year profit. The increase of the risk-weighted assets reflects the expansion of the business in SMEs in 2009.

4 Critical accounting estimates and judgements

1p122 The Group's financial statements and its financial result are influenced by accounting policies,
1p125 assumptions, estimates and management judgement, which necessarily have to be made in
1p129 the course of preparation of the consolidated financial statements.

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

Accounting policies and management's judgements for certain items are especially critical for the Group's results and financial situation due to their materiality.

(a) Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgements as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Were the net present value of estimated cash flows to differs by +/-1%, the impairment loss is to be estimated C8 higher or C5 lower.

(b) Impairment of available-for-sale equity investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the volatility in share price. In addition, objective evidence of impairment may be deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Had all the declines in fair value below cost been considered significant or prolonged, the Group would have recognised an additional C105 loss in its 2009 financial statements.

(c) Fair value of financial instruments

IFRS7p27 The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

Changes in assumptions about these factors could affect the reported fair value of financial instruments. For example, to the extent that management used a tightening of 20 basis points in the credit spread, the fair values would be estimated at C1,553 as compared to their reported fair value of C1,548 at 31 December 2009.

Refer to Note 3.4 for additional sensitivity information for financial instruments.

(d) Securitisations and consolidation of special purpose entities

The Group sponsors the formation of special purpose entities (SPEs) primarily to provide structured products to clients, for internal risk management purposes, to obtain liquidity and to achieve favourable capital treatment.

The Group is party to securitisation transactions that transfer various financial assets special purpose entities (SPEs). The SPE then issues securities to investors. The consolidation of SPEs is addressed in Note 2.2.

As a result of securitisation the Group may be subject to the recognition of the issued securities and the continued recognition of the securitised assets. Depending on the individual arrangement, the Group may continue to recognise the securitised assets and issued securities; may continue to recognise only a portion of the assets up to the Group's remaining involvement in those assets; or may derecognise the assets and recognise, as separate assets or liabilities any rights and obligations constituted or retained in the transfer. Disclosures concerning non-consolidated entities are addressed in Note 56.

SPEs are consolidated when the substance of the relationship between the Group and the SPE indicates control. As it can sometimes be difficult to determine whether the Group controls an SPE, management makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question.

If the Group were not to consolidate the assets, liabilities and the results of these consolidated SPEs, the net effect on the consolidated statement of financial position would be a decrease in net assets of C277 (2008: C223) and results of C41 (2008: C40).

(e) Held-to-maturity investments

In accordance with IAS 39 guidance, the Group classifies some non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group were to fail to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – the Group is required to reclassify the entire category as available for sale. Accordingly, the investments would be measured at fair value instead of amortised cost. If all held-to-maturity investments were to be so reclassified, the carrying value would increase by C62, with a corresponding entry in the fair value reserve in shareholders' equity.

(f) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions.

The deferred tax assets recognised at 31 December 2009 have been based on future profitability assumptions over a five year horizon. In the event of changes to these profitability assumptions, the tax assets recognised may be adjusted.

Were the actual final outcome (on the judgement areas) to differ by 10% from management's estimates, the Group would need to:

- Increase the income tax liability by C10 and the deferred tax liability by C20, if unfavourable; or
- Decrease the income tax liability by C9 and the deferred tax liability by C18, if favourable.

(g) Retirement benefits

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations.

The assumptions used in determining the net cost (income) for pensions include the discount rate. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions.

Were the discount rate used to differ by 10% from management's estimates, the defined benefit obligation for pension benefits would be an estimated C52 lower or C47 higher.

(h) Share-based payment

The Group granted shares and share options to the employees as a common feature of employee remuneration. IFRS 2 requires recognition of an expense for those shares and share options at the fair value on the grant date (equity-settled plans). For shares granted to employees, the fair value is measured directly at the market price of the entity's shares, adjusted to take into account the terms and conditions upon which the shares were granted. For share options granted to employees, in many cases market prices are not available because the options granted are subject to terms and conditions that do not apply to traded options. If this is the case, the Group estimates the fair value of the equity instruments granted using a valuation technique, which is consistent with generally accepted valuation methodologies.

(i) Investment properties

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1p116
1p120

Management estimates the fair values of Investment Properties by discouinting expected net rentals at market yields.

Were the market rentals assumed in the discounted cash flow analysis to differ by 10% per annum from management's estimates, the carrying amount of investment properties would be an estimated C8,5 lower or C8,5 higher.

5 Segment analysis

In the financial year 2009, segment reporting by the Group was prepared for the first time in accordance with IFRS 8, 'Operating segments'.

IFRS8p36 Segment information for 2008 that is reported as comparative information for 2009 has been restated to conform to the requirements of IFRS 8.

IFRS8p7 Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Group Executive Board (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses its performance. All operating segments used by the Group meet the definition of a reportable segment under IFRS 8.

IFRS8p22 The Group has three main business segments on a worldwide basis:

- Retail banking – incorporating private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages;
- Corporate banking – incorporating direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products; and
- Investment banking – incorporating financial instruments trading, structured financing, corporate leasing, and merger and acquisitions advice.

Note: Quantitative thresholds

IFRS8p14: An entity may combine information about operating segments that do not meet any of the quantitative thresholds with information about other operating segments that do not meet the quantitative thresholds to produce a reportable segment if the majority of the aggregation criteria in IFRS8p12 are met.

IFRS8p17: If management judges that an operating segment identified as a reportable segment in the immediately preceeding priod is of continuing significance, information about that segment should continue to be reported separately in the current period even if it no longer meets the criteria for reportability.

Example: The Group has a fourth segment asset management, which no longer meet the criteria for reportability according to IFRS 8p13. But the management judges that this operating segment is significant for the business. Thus, the segment is still reported separately.

IFRS8p16 Other group operations comprise fund management, institutional finance and providing computer services, none of which constitutes a separately reportable segment and business activities from head office.

IFRS8p23 As the Group's segment operations are all financial with a majority of revenues deriving from interest and the Group Executive Board relies primarily on net interest revenue to assess the performance of the segment, the total interest income and expense for all reportable segments is presented on a net basis.

IFRS8p29 There were no changes in the reportable segments during the year.

IFRS8p27(a) Transactions between the business segments are carried out at arm's length. The revenue from external parties reported to the Group Executive Board is measured in a manner consistent with that in the consolidated income statement.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expense between the business segments.

Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue-sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

IFRS8p27(b) The Group's management reporting is based on a measure of operating profit comprising net interest income, loan impairment charges, net fee and commission income, other income and non-interest expenses. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses and goodwill impairments when the impairment is the result of an isolated, non-recurring event. As the Group Executive Board reviews operating profit, the results of discontinued operations are not included in the measure of operating profit.

The information provided about each segment is based on the internal reports about segment profit or loss, assets and other information, which are regularly reviewed by the Group Executive Board.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the consolidated statement of financial position, but exclude items such as taxation.

5.1 Segment results of operations

The segment information provided to the Group Executive Board for the reportable segments for the year ended 31 December 2009 is as follows:

	At 31 December 2009	**Retail banking**	**Corporate banking**	**Investment banking**	**All other segments**	**Total**
IFRS8p23(a)	Net interest income from external customers[1]	866	520	295	52	1,733
IFRS8p23(b)	Inter-segment net interest income	9	5	3	(17)	–
	Loan impairment charges	(274)	(164)	(93)	(17)	(548)
	Net fee and commission income	396	238	135	23	792
IFRS8p23(f)	Other income	137	82	46	8	273
	– Personnel expenses	(408)	(244)	(139)	(24)	(815)
	– General and administrative expenses	(123)	(74)	(42)	(7)	(246)
IFRS8p23(e)	– Depreciation and amortisation expense	(146)	(87)	(49)	(9)	(291)
	– Other operating expenses	(165)	(100)	(56)	(11)	(332)
IFRS8p23(f)	– Non-interest expenses	(842)	(505)	(286)	(51)	(1,684)
IFRS8p23	**Operating profit**	**292**	**176**	**100**	**(2)**	**566**
IFRS8p23(g)	Share of profit of associates and joint ventures accounted for by the equity method	4	2	1	–	7
IFRS8p23(h)	Income tax expense	(88)	(53)	(30)	(4)	(175)
	Total assets[2]	**48,913**	**29,348**	**16,630**	**2,935**	**97,826**
	Total liabilities[3]	**46,613**	**27,968**	**15,848**	**2,796**	**93,225**

	[1] Includes:					
IFRS8p23(c)	Interest and similar income	3,929	2,357	1,336	236	7,858
	Dividend income	44	26	15	2	87
IFRS8p23(d)	Interest and similar expenses	(3,098)	(1,859)	(1,053)	(185)	(6,195)
	[2] Includes:					
IFRS8p24(a)	Investments in associates and joint ventures accounted for by using the equity method	56	34	22	–	112
IFRS8p24(b)	Expenditures for reportable segment non-current assets	29	17	9	2	57

[3] The measure of liabilities has been disclosed for each reportable segment as is regularly provided to the Group Executive Board.

The segment information provided to the Group Executive Board for the reportable segments for the year ended 31 December 2008 is as follows:

	At 31 December 2008	Retail banking	Corporate banking	Investment banking	All other segments	Total
IFRS8p23(a)	Net interest income from external customers[1]	698	419	237	43	1,397
IFRS8p23(b)	Intersegment net interest income	7	4	3	(14)	–
	Loan impairment charges	(97)	(58)	(33)	(6)	(194)
	Net fee and commission income	366	219	124	22	731
IFRS8p23(f)	Other income	(35)	(21)	(12)	(1)	(69)
	– Personnel expenses	(414)	(248)	(99)	(66)	(827)
	– General and administrative expenses	(153)	(92)	(37)	(25)	(307)
IFRS8p23(e)	– Depreciation and amortisation expense	(121)	(73)	(29)	(19)	(242)
	– Other operating expenses	(113)	(67)	(27)	(18)	(225)
IFRS8p23(f)	– Non interest expenses	(801)	(480)	(192)	(128)	(1,601)
IFRS8p23	**Operating profit**	**138**	**83**	**127**	**(84)**	**264**
IFRS8p23(g)	Share of profit of associates and joint ventures accounted for by the equity method	4	2	1	–	7
IFRS8p23(h)	Income tax expense	(41)	(25)	(37)	(4)	(77)
	Total assets[2]	**41,832**	**25,099**	**14,223**	**2,510**	**83,664**
	Total liabilities[3]	**40,018**	**24,011**	**13,606**	**2,796**	**80,035**

	[1] Includes:					
IFRS8p23(b)	Interest and similar income	3,162	1,897	1,075	236	6,325
	Dividend income	17	10	6	2	33
IFRS8p23(c)	Interest and similar expenses	(2,473)	(1,484)	(841)	(185)	(4,947)
	[2] Includes:					
IFRS8p24(a)	Investments in associates and joint ventures accounted for by using the equity method	54	32	22	–	108
IFRS8p24(b)	Expenditures for reportable segment non-current assets	26	16	8	2	52

[3] The measurement of liabilities has been disclosed for each reportable segment as is regularly provided to the Group Executive Board.

IFRS8p28

Reconciliation of segment results of operations to consolidated results of operations

	At 31 December 2009	Total management reporting	Consolidation and adjustments	Total consolidated
IFRS8p28(a)	Net interest income	1,733	53	1,786
	Loan impairment charges	(548)	18	(530)
	Net fee and commission income	792	5	797
IFRS8p28(e)	Other income	273	(117)	156
IFRS8p28(e)	Non interest expenses	(1,684)	88	(1,596)
IFRS8p28(b)	**Operating profit**	**566**	**47**	**613**
	Share of profit of associates and joint ventures accounted for by the equity method	7	–	7
	Income tax expense	(175)	(9)	(184)
	Profit for the year from continuing operations	**398**	**38**	**436**
IFRS8p28(c)	Assets	97,826	492	98,318
IFRS8p28(d)	Liabilities	93,225	468	93,693

	At 31 December 2008	Total management reporting	Consolidation and adjustments	Total consolidated
IFRS8p28(a)	Net interest income	1,397	46	1,443
	Loan impairment charges	(194)	(2)	(196)
	Net fee and commission income	731	4	735
IFRS8p28(e)	Other income	(69)	–	(69)
IFRS8p28(e)	Non interest expenses	(1,601)	(10)	(1,611)
IFRS8p28(b)	**Operating profit**	**264**	**38**	**302**
	Share of profit of associates and joint ventures accounted for by the equity method	7	–	7
	Income tax expense	(77)	(7)	(84)
	Profit for the year from continuing operations	**194**	**31**	**225**
IFRS8p28(c)	Assets	83,664	420	84,084
IFRS8p28(d)	Liabilities	80,035	402	80,437

IFRS8p33

Geographical information

	2009		2008	
Geographical information	**Revenues[1]**	**Non-current assets**	**Revenues[1]**	**Non-current assets**
Europe	1,885	22,643	1,588	11,901
America	377	4,528	317	1,543
Asia	200	2.415	168	445
Other countries	53	605	45	75
Total	**2,515**	**30,191**	**2,118**	**13,964**

[1] Revenues are attributed to countries on the basis of the customer´s location

IFRS8p34 There were no revenues deriving from transactions with a single external customer that amounted to 10% or more of the Group's revenues.

Note: Information about major customers

IFRS 8p34 requires the provision of information about the extent of the reporting entity's reliance on its major customers. If revenues from transactions with a single external customer amount to 10% or more of an entity's revenues, the entity should disclose that fact along with the total amount of revenues from each such customer, and the identity of the segments reporting the revenues.

Neither the identity of the customer nor the amount of revenues for each operating segment is required.

6 Net interest income

		2009	2008
IFRS7p20(b)	**Interest income**		
IFRS7IG6	Loans and advances:		
	– To banks	1,143	1,042
	– To customers	5,749	4,368
		6,892	**5,410**
	Cash and balances with central banks	339	210
	Financial assets held for trading	155	280
	Financial assets designated at fair value	123	60
	Investment securities:		
	– Available for sale	122	150
	– Loans and receivables	51	–
	– Held to maturity	78	72
	Assets pledged as collateral	104	147
	Other	18	17
IFRS7p20(b)		**7,882**	**6,346**
IFRS7p20(b)	**Interest expense**		
IFRS7IG6	Deposits from banks	2,191	1,802
	Deposits due to customers	3,465	2,761
		5,656	4,563
	Financial liabilities held for trading	28	–
	Financial liabilities designated at fair value	132	93
	Debt securities in issue	105	89
	Other liabilities	158	84
	Subordinated debt	104	107
IFRS7p20(b)		**6,183**	**4,936**

IFRS7p20(d) Interest income includes C53 (2008: C19) of interest income accrued on impaired financial assets. This represents the unwinding of discounting in accordance with IAS 39.

Note: Disclosure of interest income and expense

Interest income, interest expense and dividend income on financial instruments at fair value through profit or loss (either designated at fair value through profit and loss or non-derivatives held for trading) can be disclosed as part of 'Net gains/losses on financial instruments held for trading' or separated as part of 'Interest income', 'Interest expense' or 'Dividend income'. Both treatments are acceptable provided they are consistently applied and properly disclosed. Dividend income may as well be shown as separate line item below fee and commission income.

It is possible to adopt one treatment for interest income and interest expense and a different treatment for dividend income provided that the method is applied consistently.

7 Dividend income

		2009	2008
18p35(b)(v)	Held for trading securities	64	22
39p55(b)	Available-for-sale securities	23	11
		87	**33**

8 Loan impairment charges

		2009	2008
IFRS7p20(e)	**Loans and advances to banks (Note 23)**	133	70
	Increase in impairment	166	84
	Amounts written off during the year as uncollectible	34	18
	Income received on claims previously written off	(13)	(7)
	Reversal of impairment	(54)	(25)
	Loans and advances to customers (Note 24)	397	126
	Increase in impairment	468	158
	Amounts written off during the year as uncollectible	58	28
	Income received on claims previously written off	(9)	(4)
	Reversal of impairment	(120)	(56)
		530	**196**

Note: Loan impairment charges

Increases in and reversals of impairment are shown separately. Alternatively, they may be shown as a single line item.

Amounts written off during the year as uncollectible refer to loans for which no allowance has been accounted for in previous reporting periods.

Alternatively, income received on claims previously written off and amounts written off during the year as uncollectible may be shown as movements through the allowance account.

9 Net fee and commission income

		2009	2008
IFRS7p20(c)	**Fee and commission income**		
1p112(c)	Credit related fees and commissions	675	631
	Corporate finance fees	201	176
	Brokerage fees	20	15
	Portfolio and other management fees	74	98
	Securities lending and investment activity fees	110	105
IFRS7p20(c)(ii)	Trust and other fiduciary fees	10	15
	Other fees	5	4
		1,095	**1,044**
IFRS7p20(c)	**Fee and commission expense**		
	Brokerage fees paid	42	48
	Other fees paid	256	261
		298	**309**

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties, which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. Some of these arrangements involve the Group accepting targets for benchmark levels of returns for the assets under the Group's care.

10 Net gains/(losses) on financial instruments classified as held for trading

		2009	2008
IFRS7p20(a)(i)	Foreign exchange	62	60
	Interest rate instruments	35	29
	Credit derivatives	(55)	(423)
	Equities	13	16
	Other net gains on financial instruments classified as held for trading	1	–
		56	**(318)**

Foreign exchange net trading income includes gains and losses from spot and forward contracts, options, futures, and translated foreign currency assets and liabilities, which are not designated in a qualifying hedging relationship. Interest rate instruments include the results of making markets in instruments in government securities, corporate debt securities, money market instruments, interest rate and currency swaps, options and other derivatives. Credit derivatives include the result of holding proprietary long positions in certain credit markets through portfolio credit defaults swaps. Equities trading income includes the results of making markets globally in equity securities and equity derivatives such as swaps, options, futures and forward contracts, which are held for risk management purposes but not forming part of qualifying hedging relationships. Net gains/(losses) on derivatives held for trading, which are managed in conjunction with financial assets or financial liabilities designated at fair value, is included in the line item 'Net gains/(losses) on financial instruments designated at fair value'.

11 Net gains/(losses) on financial instruments designated at fair value

		2009	2008
IFRS7p20(a)(i)	Net gains/(losses) arising on:		
	– Equity securities	94	70
	– Trading derivatives managed in conjunction with financial assets or financial liabilities designated at fair value	3	–
	– Loans and advances to banks	12	22
	– Loans and advances to customers	6	9
	– Debt securities in issue	(5)	(1)
		110	**100**

12 Hedge ineffectiveness

		2009	2008
	Losses on hedging instruments	(550)	(230)
	Gains on hedged items attributable to the hedge risk	581	249
	Net gains representing ineffective portions of fair value hedges	31	19
IFRS7p24(b)	Ineffectiveness that arises from fair value hedges	31	19
	Ineffectiveness that arises from cash flow hedges	24	17
IFRS7p24(c)	Ineffectiveness that arises from hedges of net investments in foreign operations	1	1
		56	**37**

13 Net gains/(losses) on investment securities

IFRS7p20(a)
IFRS7p20(e)

Net gains/(losses) on investment securities comprise:

		2009	2008
	Financial assets classified as available for sale		
21p52(a)	Exchange differences on monetary items	72	12
	Allowance for impairment	(49)	–
	Financial assets classified as loans and receivables		
21p52(a)	Exchange differences on monetary items	–	–
	Allowance for impairment	(51)	–
	Financial assets classified as held to maturity		
21p52(a)	Exchange differences on monetary items	81	18
	Allowance for impairment	(19)	–
	Net valuation result	34	30
	Financial assets classified as available for sale		
	Net result on disposals	(100)	82
		(66)	**112**

14 Personnel expenses

1p104		2009	2008
	Wages and salaries	302	401
	Social security costs	212	230
	Pension costs:		
19p46	– Defined contribution plans	132	114
19p120	– Defined benefit plans (Note 43)	118	78
19p131	Post-employment medical benefits (Note 43)	10	9
		774	**832**

15 General and administrative expenses

		2009	2008
38p126	IT and software costs	64	60
	Occupancy, furniture and equipment	58	75
	Marketing and public relations	51	71
	Travel and entertainment	29	39
	Telecommunication and postage	22	30
	Other administrative expenses	24	1
		248	**276**

16 Depreciation and amortisation

		2009	2008
1p104	Depreciation and impairment of property, plant and equipment (Note 32)	323	298
IFRS3p75(e)	Impairment of goodwill	–	–
38p118(d)	Amortisation of software and other intangible assets	32	54
		355	**352**

17 Other operating expenses

		2009	2008
	Loss/(gain) on sale of intangible assets and property and equipment	15	(5)
1p98(b)	Restructuring costs (Note 44)	116	118
	Guarantees and other credit related commitments	28	31
	Other provisions	34	–
	Consulting and auditing costs	14	7
	Other	12	–
		219	**151**

18 Income tax expense

		2009	2008
12p80(a)	Current taxes on income for the reporting period	114	30
12p80(b)	Current taxes referring to previous periods	5	–
12p80(e)	Amount of previously unused tax losses	–	–
12p80(h)	Amount relating to changes in accounting policies and errors	–	–
	Total current tax	**119**	**30**
	Deferred tax (Note 35)	65	54
12p80(c)	Origination and reversal of temporary differences	–	–
12p80(d)	Impact of change in tax rate	–	–
12p80(f)	Amount of previously unused tax losses	–	–
12p80(g)	Write down or reversal of deferred tax assets	–	–
	Total deferred tax	**65**	**54**
	Income tax expense	**184**	**84**

12p81(c)
12p81(d)

The income tax rate applicable to the majority of the Group's 2009 income is 28% (2008: 30%). The income tax rate applicable to the majority of income of subsidiaries ranges from 25% to 35% (2008: from 25% to 30%). The weighted average applicable tax rate was 33% (2008: 30%).

12p81(c)(i) Further information about deferred income tax is presented in Note 35. The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the parent as follows:

	2009	2008
Profit before income tax	620	309
Tax calculated at the weighted average Group tax rate of 33% (2008: 30%)	205	93
Effect of:		
– Adjustments for prior periods	–	–
– Different tax rates in other countries	(37)	(22)
– Changes in tax rates	23	31
– Income not subject to tax	(23)	(21)
– Non–taxable amortisation of goodwill	–	–
– Expenses not deductible for tax purposes	57	52
– Utilisation of previously unrecognised tax losses	(41)	(49)
Income tax expense	**184**	**84**

12p81(c)(ii)

Note

IAS 12 permits two alternative methods of explaining the relationship between tax expense (income) and accounting profit: a numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate (see above); or a numerical reconciliation between the average effective tax rate (tax expense divided by profit before tax) and the applicable tax rate.

19 Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Company and held as treasury shares.

		2009	2008
33p70(a)	Profit attributable to equity holders of the Company	442	220
	Profit attributable to Government Protection Scheme	(45)	–
	Net profit attributable to equity holders of the Company	397	220

Net profit attributable to equity holders of the Company have been calculated on the basis of and as if all the profit for the year is distributed. In these circumstances, a return is attributable to the Government Protection Scheme (Note 49).

		2009	2008
33p70(b)	Weighted average number of ordinary shares in issue	1,149	1,101
	Basic earnings per share (expressed in C per share)	0.34	0.20

Basic earnings per share from discontinued operations amounts to C 0.013 (2008: nil).

(b) Diluted

33p70(d) Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible debt and share options. The convertible debt is assumed to have been converted into ordinary shares. The net result is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

		2009	2008
33p70(a)	Profit attributable to equity holders in the Company	442	220
	Profit attributable to Government Protection Scheme	(45)	–
	Subtotal	397	220
	Interest expense on convertible debt (net of tax)	8	8
	Net profit used to determine diluted earnings per share	405	228
33p70(b)	Weighted average number of ordinary shares in issue	1,149	1,101
	Adjustments for:		
	– Bonus element on conversion of convertible debt	25	25
	– Share options (millions)	23	27
33p70(b)	Weighted average number of ordinary shares for diluted earnings per share	1,197	1,153
	Diluted earnings per share (expressed in C per share)	**0.34**	**0.20**

Diluted earnings per share from discontinued operations amounts to C 0.013 (2008: nil).

33p70(c) All instruments that dilute basic earnings per share are included in the calculation. There is no potential dilution on basic earnings per share.

20 Income tax effects relating to components of other comprehensive income

	2009			2008		
	Before-tax amount	Tax (expense) benefit	Net-of-tax amount	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
Foreign currency translation differences	35	(14)	21	34	(14)	20
Fair value gains on available-for-sale financial assets	163	(65)	98	5	(2)	3
Cash flow hedges	(16)	6	(10)	(40)	16	(24)
Actuarial gains in defined benefit pension plans	9	(4)	5	34	(14)	20
Share of other comprehensive income of associates	(6)	2	(4)	13	(5)	8
Other comprehensive income for the year (net presentation)	**185**	**(75)**	**110**	**46**	**(19)**	**27**

21 Cash and balances with central banks

		2009	2008
	Cash in hand	1,778	791
	Other money-market placements	2,395	1,608
	Balances with central banks other than mandatory reserve deposits	892	903
7p45	Included in cash and cash equivalents (Note 22)	5,065	3,302
	Mandatory reserve deposits with central banks	15	13
		5,080	**3,315**

7p48 Mandatory reserve deposits are not available for use in the Group's day-to-day operations. Cash-in-hand and balances with central banks and mandatory reserve deposits are non-interest-bearing. Other money-market placements are floating-rate assets.

22 Cash and cash equivalents

7p45 Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

	2009	**2008**
Cash and balances with central banks (Note 21)	5,065	3,302
Loans and advances to banks (Note 23)	5,161	3,091
Government bonds (Note 25)	1,643	2,676
	11,869	**9,069**

23 Loans and advances to banks

		2009	**2008**
	Items in course of collection from other banks	163	109
	Placements with other banks	4,998	2,982
7p45	Included in cash and cash equivalents	5,161	3,091
	Loans and advances to other banks	4,575	3,490
	Less: allowance for impairment	(569)	(436)
		9,167	**6,145**
1p61(a)	Current	8,067	5,408
1p61(b	Non-current	1,100	737

IFRS7p16 **Reconciliation of allowance account for losses on loans and advances to other banks**

		2009		**2008**	
		Specific impairment allowance for impairment	**Collective impairment allowances for impairment**	**Specific impairment allowance for impairment**	**Collective impairment allowances for impairment**
IFRS7p20(e)	**Balance at 1 January**	**109**	**327**	**66**	**300**
	Reversal of impairment	(54)	–	(25)	–
	Increase in impairment allowances	66	100	55	29
	Foreign currency translation and other adjustments	21	–	13	–
	At 31 December	**142**	**427**	**109**	**327**

24 Loans and advances to customers

	2009	2008
Individual (retail customers):		
– Overdrafts	2,198	2,432
– Credit cards	2,817	2,876
– Term loans	2,827	2,633
– Mortgages	30,942	30,625
	38,784	**38,566**
Corporate entities:		
– Large corporate customers	17,769	12,201
– SMEs	4,236	2,348
– Other	1,431	1,144
	23,436	**15,693**
Gross loans and advances to customers	62,220	54,259
Less: allowance for impairment	(1,707)	(1,309)
Net loans and advances to customers	**60,513**	**52,950**
1p61(a) Current	39,333	42,360
1p61(b) Non–current	21,180	10,590

IFRS7p15 The Group accepted listed securities at fair value of C1,800 (2008: C1,650) as collateral for commercial loans, which it is permitted to sell or repledge, of which C242 (2008: nil) were repledged or lent to third parties for periods not exceeding three months from the transfer.

IFRS7p13(c) The Group transferred loan balances amounting to C1,802 to a finance company with recourse in exchange for cash during the year ended 31 December 2009 (2008: nil). The Group continues to recognise all of the loans as it retains substantially all the risks and rewards of ownership of these financial assets.

IFRS7p16 Reconciliation of allowance account for losses on loans and advances to customers by class is as follows:

IFRS7p20(e) **Loans to individuals**

	2009		2008	
	Specific allowance for impairment	**Collective allowance for impairment**	**Specific allowance for impairment**	**Collective allowance for impairment**
Balance at 1 January	**361**	**843**	**276**	**706**
Reversal of impairment	(110)	–	(46)	–
Increase in impairment allowances	175	256	76	55
Foreign currency translation and other adjustments	45	–	20	
At 31 December	**471**	**1,099**	**326**	**761**

Loans to corporate entities

	2009		2008	
	Specific allowance for impairment	**Collective allowance for impairment**	**Specific allowance for impairment**	**Collective allowance for impairment**
Balance at 1 January	**32**	**73**	**57**	**144**
Reversal of impairment	(10)	–	(10)	-
Increase in impairment allowances	15	22	16	11
Foreign currency translation and other adjustments	4	–	4	
At 31 December	**41**	**95**	**67**	**155**

Loans and advances to customers include finance lease receivables as follows:

		2009	2008
17p47(a)	Gross investment in finance leases, receivable:		
	– Not later than 1 year	167	121
	– Later than 1 year and not later than 5 years	389	283
	– Later than 5 years	103	72
		659	476
17p47(b)	Unearned finance income on finance leases	(134)	(101)
17p47(a)	**Present value of minimum lease payments, receivable**	**525**	**375**
17p47(a)	The present value of minimum lease payments may be analysed as follows:		
	– Not later than 1 year	121	88
	– Later than 1 year and not later than 5 years	308	224
	– Later than 5 years	96	63

25 Financial assets held for trading

		2009	2008
IFRS7p8(a)(ii)			
7p45	Government bonds included in cash equivalents	1,643	2,676
	Other government bonds	877	945
	Other debt securities	844	1,402
	Total debt securities	**3,364**	**5,023**
	Equity securities:		
	– Listed	632	1,080
	– Unlisted	23	101
	Total equity securities	**655**	**1,181**
	Total trading derivatives	**2,460**	**2,101**
	Total assets held for trading	**6,479**	**8,305**

Securities pledged under repurchase agreements with other banks are government bonds with a market value at 31 December 2009 of C939 (2008: C1,041). Other non-government bonds are also pledged under repurchase agreements with a market value of C31 (2008: C23). These are separately reclassified as pledged assets on the face of consolidated statement of financial position. All repurchase agreements mature within 12 months (Note 29).

The Group uses the following derivative strategies:

- Trading purposes (customer needs)
  The Group offers its customers derivatives in connection with their risk-management actions to transfer, modify or reduce their interest rate, foreign exchange and other market/credit risks or for their own trading purposes. As part of this process, the Group considers the customers' suitability for the risk involved, and the business purpose for the transaction. The Group also manages its derivative-risk positions through offsetting trade activities, controls focused on price verification, and daily reporting of positions to senior managers.

- Trading purposes (own account)
  The Group trades derivatives for its own account. These derivatives include credit derivatives entered into in order to take proprietary long positions in certain credit markets. Trading limits and price verification controls are key aspects of this activity.

- Trading purposes (economic hedges)
  The Group uses credit derivatives to help mitigate credit risk in its loan books and swap portfolios. Credit derivatives generally require the seller of credit protection to make payments to the buyer upon the occurrence of predefined events (settlement triggers). These settlement triggers, which are defined by the form of the derivative and the referenced credit, are generally limited to the market standard of failure to pay on indebtedness and bankruptcy of the reference credit and, in a more limited range of transactions, debt restructuring. Through these contracts, the Group either purchases or writes protection on either a single-name or portfolio basis. The Group uses single-name credit default swaps to help mitigate credit risk in its loan portfolio; whereas portfolio credit default swaps are traded to take proprietary long positions in certain credit markets. Contingent credit default swaps (CCDS) provide default protection for an uncertain amount of exposure based on the market value of a reference swap. The Group uses CCDS to help mitigate credit risk in its currency and interest rate swap portfolios.

IFRS7p31

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (that is, cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities and enters into contingent credit default swaps (CCDS) to transfer the credit risk to third parties.

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a pre-determined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer (OTC). The Group is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

The notional amounts of certain types of financial instrument provide a basis for comparison with instruments recognised in the consolidated statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below:

		2009			2008	
		Fair values			Fair values	
	Notional contract amount	**Assets**	**Liabilities**	**Notional contract amount**	**Assets**	**Liabilities**
IFRS7p31 **Foreign exchange derivatives**						
Currency forwards	74,210	1,162	(1,314)	75,277	989	(1,250)
Currency swaps	4,580	99	(268)	2,439	27	(198)
OTC currency options	8,597	37	(57)	9,994	80	(92)
		1,298	(1,639)		1,096	(1,540)
Currency futures	5,531	53	(67)	350	15	–
Exchange traded currency options	470	3	(26)	4,293	41	(47)
Total OTC derivatives		**1,354**	**(1,732)**		**1,152**	**(1,587)**
Interest rate derivatives						
Interest rate swaps	57,217	551	(881)	43,847	859	(1,438)
Cross–currency interest rate swaps	28,609	314	(810)	–	–	–
Forward rate agreements	54,875	51	(61)	26,784	43	(151)
OTC interest rate options	5,954	6	–	5,167	5	(7)
Other interest rate contracts	193	2	–	50	7	–
Credit derivatives						
Single–name credit default swaps	1,230	60	–	540	10	–
Portfolio credit default swaps	4,750	–	230	8,320	–	379
Contingent credit default swaps	432	23	4	324	10	1
Total OTC derivatives		1,007	(1,518)		934	(1,216)
Exchange traded interest rate futures	38,534	25	(20)	24,061	1	(11)
Exchange traded interest rate options	37,918	74	(31)	19,519	14	(15)
Total derivative assets/ (liabilities) held for trading		**2,460**	**(3,301)**		**2,101**	**(2,829)**
Current		1,968	(3,034)		1,891	(1,980)
Non-current		492	(267)		210	(849)

26 Financial assets designated at fair value

IFRS7p8(a)(i)

	2009	2008
Debt securities	200	–
Equity securities	1,760	690
Loans and advances to banks	128	135
Loans and advances to customers	432	277
	2,520	**1,102**
For loans and advances designated at fair value:		
IFRS7p9(a) – Maximum exposure to credit risk	560	412
IFRS7p9(c) – The cumulative change in fair value arising from changes in credit risk	11	5
– The change in fair value arising from changes in credit risk for the reporting period	6	5

The interest payments of the above debt securities are equity-indexed, which results in no closely related risks inherent in the host and embedded derivative. The Group therefore designates the hybrid contracts as financial assets at fair value through profit or loss.

The above equity securities are managed and their performance evaluated on a fair value basis in accordance with a documented risk management strategy, and information about the groups of financial instruments is reported to management on that basis.

The loans and advances to banks and customers have been economically hedged by using interest rate swaps as part of a macro interest rate risk management strategy. An accounting mismatch would arise if the loans and advances were accounted for at amortised cost, because the related derivatives are measured at fair value, with movements in the fair value taken through the consolidated income statement. By designating those loans and advances at fair value, the changes in the fair value of the loans will be recorded in the consolidated income statement.

IFRS7p11 The above change in the fair value of the loans and advances that is attributable to changes in the credit risk of the financial asset is determined as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk.

27 Hedging derivatives

IFRS7p34(c) The Group undertakes approximately 85% of its transactions in foreign exchange and interest rate contracts with other financial institutions. Management has established limits such that, at any time, less than 10% of the fair value of favourable contracts outstanding is with any individual counterparty.

The hedging practices and accounting treatment are disclosed in Note 2.18.

39p89 *(a) Fair value hedges*

IFRS7p22
IFRS7p24(a)(i)(ii) The Group hedges a proportion of its existing foreign exchange risk in available-for-sale equity securities by fair value hedges in the form of forward foreign exchange contracts. The net fair value of forward foreign exchange contracts at 31 December 2009 was C84 (2008: C16). The losses on the hedging instruments in 2009 were C138 (2008: C58). The gains on the hedged item attributable to the hedged risk were C145 (2008: C62).

The Group also hedges part of its existing interest rate risk or both, the interest rate and foreign exchange risk from fixed rate assets denominated in local and foreign currencies using interest rate swaps or cross-currency interest rate swaps. The net fair value of these swaps at 31 December 2009 was C1,441 (2008: C6). The net loss on the hedging instruments was C412 (2008: C172). The net gain on the hedged items attributable to the hedged risks was C436 (2008: C187).

39p95 *(b) Cash flow hedges*

IFRS7p22
IFRS7p23(a)
IFRS7p24(b)

The Group hedges a portion of foreign exchange risks that it expects to assume as a result of certain forecast transactions and cash flows from floating-rate customer deposits and held-to maturity debt securities using currency options and currency swaps.

At 31 December 2009, forward foreign currency contracts with an aggregate notional principal amount of C5,020 and a positive fair value of C112 (2008: nil) were designated as hedging instruments in a cash flow hedge of a highly probable acquisition expected to occur in March 2010. In 2009, there is no ineffectiveness recognised in the consolidated income statement that arises from these cash flow hedges (2008: nil)

The Group hedges cash flows (both principal and interest) from customer deposits and held-to-maturity debt securities against foreign exchange risk using currency swaps. Currency swaps with an aggregate notional principal amount of C4,018 (2008: currency swaps of C1,005) and a net fair value of C490 (2008: C97) were designated as hedges of future cash flows from customer deposits and held-to-maturity debt securities. In 2009, the ineffectiveness recognised in the consolidated income statement that arises from these cash flow hedges was C24 (2008: C17).

IFRS7p23(b) There were no transactions for which cash flow hedge accounting had to be ceased in 2009 or 2008 as a result of the highly probable cash flows no longer being expected to occur.

39p102 *(c) Net investment hedges*

IFRS7p22(a) The Group hedges part of the currency translation risk of net investments in foreign operations through currency borrowings.

IFRS7p22
IFRS7p24(c)

Borrowings amounting to CHF250 (2008: CHF250) as included in subordinated debt (Note 48) were designated as hedging instruments and gave rise to currency losses for the year of C4 (2008: C3), which have been recognised in other comprehensive income and deferred in the translation reserve component of equity. Ineffectiveness was recognised in the consolidated income statement in ‘Hedge ineffectiveness’ that arose from hedges of net investments in foreign operations of C1 (2008: C1). No amounts were withdrawn from equity during the year (2008: nil), as there were no disposals of foreign operations.

IFRS7p22(a)(b)

	2009			2008		
		Fair values			Fair values	
	Notional contract amount	Assets	Liabilities	Notional contract amount	Assets	Liabilities
Derivatives designated as hedging instruments in fair value hedges						
Forward foreign exchange contracts	4,300	110	(26)	2,300	110	(126)
Interest rate swaps	25,262	1,286	(2,311)	41,262	3,044	(2,374)
Cross currency interest rate swaps	11,315	554	(88)	7,315	114	(178)
		1,950	**(2,425)**		**3,268**	**(2,678)**
Derivatives designated as hedging instruments in cash flow hedges						
Forward foreign exchange contracts	5,020	112	–	187	38	–
Currency swaps	4,018	803	(313)	818	35	(170)
		915	**(313)**		**73**	**(170)**
Total derivative assets/ (liabilities) held for hedging		**2,865**	**(2,738)**		**3,341**	**(2,848)**
1p61(a) Current		2,292	(2,464)		3,007	(1,994)
1p61(b) Non–current		573	(274)		334	(854)

28 Investment securities

		2009	2008
1p77, IFRS 7p6	**Securities available for sale**		
	Debt securities – at fair value:		
	– Listed	1,185	1,262
	Equity securities – at fair value:		
	– Listed	711	78
	Equity securities – at cost:		
	– Unlisted	474	237
	Allowance for impairment	(49)	–
	Total securities available for sale	**2,321**	**1,577**
1p77, IFRS 7p6	**Securities loans and receivables**		
	Debt securities – at amortised cost:		
	– Listed	1,161	–
	– Unlisted	102	–
39p63	Allowance for impairment	(51)	–
	Total securities loans and receivables	**1,212**	**–**
	Securities held to maturity		
	Debt securities – at amortised cost:		
	– Listed	3,018	2,009
	– Unlisted	–	–
39p63	Allowance for impairment	(19)	–
	Total securities held-to-maturity	**2,999**	**2,009**
	Total investment securities	**6,532**	**3,586**
1p61(a)	Current	856	1,542
1p61(b)	Non-current	5,676	2,044

IFRS7p31 All debt securities have fixed coupons.

IFRS7p14 Listed debt securities available for sale at fair value of C34 (2008: C19) were pledged to third parties in sale and repurchase agreements for periods not exceeding six months. These have been reclassified as assets pledged as collateral on the face of the consolidated statement of financial position.

Reclassification of financial assets

IFRS7p12A(c) IFRS7p12 The crisis that shook financial markets worldwide since the second half of 2007, reaching an unprecedented scale in the fourth quarter of 2008, continued in 2009. The effects of the crisis were particularly visible in the volume and duration of interbank financing transactions, the volume and conditions of syndicated leveraged loans, and the trading of structured instruments arising from securitisation transactions. The crisis also made liquidity scarce in numerous markets and market segments, and resulted in the disappearance of almost all reliable market transactions or reference points for a large number of financial instruments.

The Group has therefore reclassified certain assets into the corresponding categories allowed by the amendments to IAS 39 and IFRS 7.

On 31 January 2009, the Group reclassified certain financial assets originally classified as held for trading that were no longer held for the purpose of selling or repurchasing in the near term out of fair value through profit or loss to loans and receivables. In making these reclassifications, the Group identified those financial assets no longer held for trading, comprising portfolios of portfolio structured notes issued to clients and mortgage and other asset-backed securities. These assets were reclassified because, as a result of the exceptionally severe illiquidity that existed at the time, management determined that they were no longer held for trading but would be held for the foreseeable future.

The following table shows carrying values at 31 December 2009 and fair values of the assets reclassified:

		31 January 2009	31 December 2009	
		Fair value	Fair value	Carrying amount
	Financial assets held for trading reclassified to			
IFRS7p12A(a),(b)	loans and receivables			
	– Commercial mortgage backed securities	237	225	225
	– Residental mortgage backed securities	285	290	285
	– other ABS	741	702	702
	Total financial assets reclassified	**1,263**	**1,217**	**1,212**

The movement in investment securities may be summarised as follows:

		Available for sale	Loans and receivables	Held to maturity	Total
	At 1 January 2008	1,503	0	2,046	3,549
21p28	Exchange differences on monetary assets	12	–	18	30
	Additions	105	–	71	176
	Disposals (sale and redemption)	(48)	–	(126)	(174)
	Total financial assets reclassified	1,263		1,217	1,212
IFRS7p20(a)(ii)	Gains from changes in fair value (Note 20)	5	–	–	5
IFRS7p20(e)	Impairment losses	0	–	–	0
	At 31 December 2008	**1,577**	**0**	**2,009**	**3,586**
	At 1 January 2009	1,577	0	2,009	3,586
21p28	Exchange differences on monetary assets	72	–	81	153
	Additions	698	1,263	1,093	3,054
	Disposals (sale and redemption)	(141)	–	(165)	(306)
IFRS7p20(a)	Gains from changes in fair value (Note 20)	164	–	–	164
IFRS7p20(e)	Impairment losses	(49)	(51)	(19)	(119)
	At 31 December 2009	**2,321**	**1,212**	**2,999**	**6,532**

IFRS7p12A(f) Effective interest rates on financial assets reclassified into loans and receivables as at their respective dates of reclassification fell into the following ranges

Commercial mortgage backed securities	18%
Residential mortgage backed securities	14%-15%
Other ABS	15%

Presented below are the estimated amounts of undiscounted cash flows the group expected to recover from these reclassified financial assets as at the date of reclassification.

	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Commercial mortgage backed securities	85	80	105	21	291
Residential mortgage backed securities	95	90	110	49	344
Other ABS	150	190	285	180	805

IFRS7p12A(d), (e) For the years ended 31 December 2009 and 31 December 2008, fair value losses of C50 and C98, prior to reclassification, were recognised in the consolidated income statement on the reclassified financial assets.

If the financial assets had not been reclassified, the change in their fair values, after actual reclassification, would have resulted in additional fair value losses of C54 in the consolidated income statement for the year ended 31 December 2009.

After reclassification, the contribution of the reclassified financial assets to the Group's consolidated income statement was an increase in 'Net interest income' of C189, less a loan impairment charge of C51, resulting in a net positive impact on profit before income tax of C138 for the year ended 31 December 2009.

The reclassification of the allowance account for losses on securities classified as loans and receivables, held to maturity and available for sale is as follows:

IFRS7p16

Loans and receivables – debt securities

	2009		2008	
	Specific allowance for impairment	Collective allowance for impairment	Specific allowance for impairment	Collective allowance for impairment
Balance at 1 January	0	0	0	0
Increase/(decrease) in impairment allowances	45	6	0	0
At 31 December	**45**	**6**	**0**	**0**

Held to maturity – debt securities

	2009		2008	
	Specific allowance for impairment	Collective allowance for impairment	Specific allowance for impairment	Collective allowance for impairment
Balance at 1 January	0	0	0	0
Increase / (decrease) in impairment allowances	18	1	0	0
At 31 December	**18**	**1**	**0**	**0**

Available for sale – debt securities

	2009		2008	
	Specific allowance for impairment	Collective allowance for impairment	Specific allowance for impairment	Collective allowance for impairment
Balance at 1 January	0	0	0	0
Increase/(decrease) in impairment allowances	19	2	0	0
At 31 December	**19**	**2**	**0**	**0**

Available for sale – equity securities

	2009		2008	
	Specific allowance for impairment	Collective allowance for impairment	Specific allowance for impairment	Collective allowance for impairment
Balance at 1 January	0	0	0	0
Increase/(decrease) in impairment allowances	20	8	0	0
At 31 December	**20**	**8**	**0**	**0**

29 Assets pledged as collateral

IFRS7p14(b) Assets are pledged as collateral under repurchase agreements with other banks and for security deposits relating to local futures, options and stock exchange memberships.

IFRS7p14(a) The nature and carrying amounts of the assets pledged as collaterals are as follows:

	Asset		Related liability	
	2009	**2008**	**2009**	**2008**
Financial assets held for trading (Note 25)	970	1,064	780	835
Investment securities (Note 28)	34	19	20	15
	1,004	**1,083**	**800**	**850**

IFRS7p14(a), (b) Securities pledged with other banks are government bonds with a market value at 31 December 2009 of C939 (2008: C1,041) and other debt securities with a market value of C65 (2008: C42). All collateral agreements mature within 12 months.

30 Investment in associates and joint ventures (equity method)

		Associates		Joint ventures		Total	
		2009	**2008**	**2009**	**2008**	**2009**	**2008**
	At 1 January	52	53	56	54	108	107
	Share of profit before tax	9	8	3	3	12	11
	Share of tax	(4)	(3)	(1)	(1)	(5)	(4)
	New investments	–	–	–	–	–	–
	Acquisitions	–	–	–	–	–	–
	Disposals	–	–	–	–	–	–
	Dividends paid	(2)	(4)	–	–	(2)	(4)
	Exchange differences	(1)	(2)	–	–	(1)	(2)
28p38	**At 31 December**	**54**	**52**	**58**	**56**	**112**	**108**

31p57 Summarised financial information of the Group's associates and joint ventures accounted for using the equity method are as follows:

		Assets	Liabilities	Revenues	Profit
	2009				
28p37(b)	Associates	1,926	1,872	225	9
31p56	Joint ventures	859	801	123	3
		2,785	**2,673**	**348**	**12**
	2008				
28p37(b)	Associates	1,798	1,746	210	8
31p56	Joint ventures	718	662	86	3
		2,516	**2,408**	**296**	**11**

(a) Associates

28p37(a)
28p37(f) There were no published price quotations for any associates of the Group. Furthermore, there are no significant restrictions on the ability of the associates to transfer funds to the Group in the form of cash dividends, or repayment of loans or advances.

The Group has 42 investments in associates accounted for using the equity method of accounting. For a complete list of all associates, see Note 54.

(b) Joint ventures

31p54 There are no contingent liabilities relating to the Group's interest in joint ventures and no contingent liabilities of the venture itself.

31p55(b) The Group's share of the joint venture's commitments is C35.

The Group has two investments in jointly controlled entities. For further information about all joint ventures, see Note 54.

31 Investment properties

		2009	2008
40p76	Investment properties at fair value as at 1 January	–	–
40p76(a)	Additions resulting from acquisitions	80	–
	Additions from subsequent expenditure		
40p76(b)	Additions resulting from acquisitions through business combinations	–	–
40p76(c)	Transfer to assets held for sale	–	–
	Disposals during the year, not previously classified as held for sale	–	–
40p76(f)	Transfer to owner–occupied properties	–	–
	Transfer from other assets	–	–
40p76(d)	Net gains from a fair value adjustment	18	–
	Transfer to other assets	–	–
40p76(g)	Other changes[1]	–	–
	Investment properties at fair value as at 31 December	**98**	**–**

40p75(f) Investment properties generated in 2009 a rental income of C7 (2008: nil). Direct operating expenses recognised in the consolidated income statement were C3 (2008: nil) including an amount of C1 (2008: nil) relating to investment property that was unlet.

[1] Mainly relating to investment properties of subsidiaries no longer qualifying for consolidation, because the Group does not have the majority of the risks and rewards of ownership.

32 Property, plant and equipment

The movements in of property, plant and equipment was as follows:

		Land & buildings	Leasehold improvements	Equipment	Total
1p78(a)					
16p73(d)	**At 1 January 2008**				
	Acquisition cost	916	112	1,276	2,304
	Accumulated depreciation	(123)	(60)	(412)	(595)
	Net book value	**793**	**52**	**864**	**1,709**
16p73(e)	**Year ended 31 December 2008**				
	Opening net book value	793	52	864	**1,709**
16p73(e)(i)	Additions	35	5	175	**215**
16p73(e)(ix)	Disposals	(5)	–	(35)	**(40)**
16p73(e)(vii)	Depreciation charge	(32)	(6)	(260)	**(298)**
16p73(e)(viii)	Exchange differences	(15)	(1)	(15)	**(31)**
16p73(e)(ii) IFRS5p38	Transferred to disposal group classified as held for sale	–	–	–	**–**
16p73(e)(iii)	Acquisitions through business combinations	–	–	–	**–**
	Closing net book value	**776**	**50**	**729**	**1,555**
16p73(d)	**At 31 December 2008**				
	Acquisition cost	931	116	1,401	2,448
	Accumulated depreciation	(155)	(66)	(672)	(893)
	Net book value	**776**	**50**	**729**	**1,555**
	Year ended 31 December 2009				
	Opening net book value	776	50	729	1,555
16p73(e)(i)	Additions	71	8	350	429
16p73(e)(ix)	Disposals	(36)	(48)	(29)	(113)
16p73(e)(vii)	Depreciation charge	(34)	(7)	(282)	(323)
16p73(e)(viii)	Exchange differences	(30)	(3)	(29)	(62)
16p73(e)(ii) IFRS5p38	Transferred to disposal group classified as held for sale	(7)	–	(8)	(15)
16p73(e)(iii)	Acquisitions through business combinations	–	–	–	–
	Closing net book value	**740**	**–**	**731**	**1,471**
16p73(d)	**At 31 December 2009**				
	Acquisition cost	929	73	1,685	2,687
	Accumulated depreciation	(189)	(73)	(954)	(1,216)
	Net book value	**740**	**–**	**731**	**1,471**

33 Intangible assets

		Goodwill	Computer software licenses	Other intangible assets	Total
38p118(c)	**At 1 January 2008**				
IFRS3pB67(d)(i) IFRS 3p75(a)	Acquisition cost	95	253	84	432
IFRS3pB67(d)(i) IFRS 3p75 (a)	Accumulated amortisation and impairment	–	(100)	(3)	(103)
	Net book amount	**95**	**153**	**81**	**329**
38p118(e)	Year ended 31 December 2008				
	Opening net book value	95	153	81	329
38p118(e)(i)	Additions	–	–	–	–
38p118(e)(ii), IFRS5p38	Transferred to disposal group classified as held for sale	–	–	–	–
IFRS3pB67(d)(vi) IFRS 3p75(f)					
38p118(e)(vii)	Exchange differences	–	–	–	–
38p118(e)(v)	Amortisation charge	–	(50)	(4)	(54)
38p118(e)(i)	Acquisitions through business combinations	–	–	–	–
38p118(e)	**Closing net book amount**	**95**	**103**	**77**	**275**
38p118(c)	**At 31 December 2008**				
IFRS3pB67(d)(i)	Acquisition cost	95	253	84	432
IFRS3pB67(d)(i)	Accumulated amortisation and impairment	–	(150)	(7)	(157)
	Net book amount	**95**	**103**	**77**	**275**
38p118(e)	**Year ended 31 December 2009**				
	Opening net book value	95	103	77	275
38p118(e)(i)	Additions	–			
38p118(e)(viii)	Disposals	–	(53)	(12)	(65)
38p118(e)(ii), IFRS5p38	Transferred to disposal group classified as held for sale	–	–	(5)	(5)
IFRS3pB67(d)(vi) IFRS 3p75(f)					
38p118(e)(vii)	Exchange differences	–	–	–	–
38p118(e)(vi)	Amortisation charge	–	(30)	(2)	(32)
38p118(e)(i)	Acquisitions through business combinations	40	–	–	40
38p118(e)	**Closing net book amount**	**135**	**20**	**58**	**213**
38p118(c)	**At 31 December 2009**				
IFRS3pB67(d)(i)	Acquisition cost	135	200	67	402
IFRS3pB67(d)(i)	Accumulated amortisation and impairment	–	(180)	(9)	(189)
	Net book amount	**135**	**20**	**58**	**213**

Goodwill is revised annually for impairment, or more frequently when there are indications that impairment may have occurred. There was no impairment identified in 2009 (2008: nil).

34 Current income tax assets

		2009	2008
12p80(a)	Current income tax assets	39	35
12p80(b)	Adjustment recognised in 2009 for current tax of prior periods	15	13
		54	**48**

	Current income tax assets:		
1p61(b)	– Current tax asset to be recovered after more than 12 months	30	25
1p61(a)	– Current tax asset to be recovered within 12 months	24	23

35 Deferred income tax assets and liabilities

12p74 Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

12p81(d) Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 40% (2008: 40%).

The movement on the deferred income tax account is as follows:

		2009	2008
	At 1 January	438	100
12p81(g)	Income statement charge	65	54
12p81(a)	Convertible bond – initial recognition	–	16
	Available-for-sale securities:		
12p81(a)	– Fair value remeasurement	66	(42)
12p81(g)	– Transfer to net profit	18	45
	Cash flow hedges:		
12p81(a)	– Fair value measurement	142	229
12p81(g)	– Transfer to net profit	98	50
	Exchange differences	9	(14)
	At 31 December	**836**	**438**

Deferred income tax assets are attributable to the following items:

	2009	2008
Deferred income tax assets		
Pensions and other post-retirement benefits	62	51
Charges for loan impairment	7	34
Other provisions	184	92
Cash-flow hedges	–	32
Hedged deposits from customers	–	4
Tax losses carried forward	20	42
	273	**255**

	2009	2008
Deferred income tax liabilities		
Accelerated tax depreciation	342	223
Convertible bond	15	16
Available-for-sale securities	84	86
Cash flow hedges	480	272
Other temporary differences	188	96
	1,109	**693**

		2009	2008
	Deferred tax assets		
1.61(b)	– Deferred tax asset to be recovered after more than 12 months	109	102
1.61(a)	– Deferred tax asset to be recovered within 12 months	164	153
	Deferred tax liabilities		
1.61(b)	– Deferred tax liability to be recovered after more than 12 months	499	312
1.61(a)	– Deferred tax liability to be recovered within 12 months	610	381

12p81(g)(ii) The deferred tax charge in the consolidated income statement comprises the following temporary differences:

	2009	2008
Accelerated tax depreciation	119	59
Pensions and other post retirement benefits	(11)	(12)
Allowances for impairments	27	(15)
Other provisions	(95)	10
Tax losses carried forward	22	10
Other temporary differences	3	2
Total	**65**	**54**

12p81(d) During the year, deferred tax balances have been re-measured as a result of the change in the [name of country] corporation tax rate from 30% to 28%, substantively enacted on 26 June 2009 and effective from 1 April 2010. Deferred tax that is expected to reverse in the year to 31 December 2010 has been measured using the effective rate that will apply in [name of country] for the period (28.5%).

12p81(d) The weighted average applicable tax rate was 33% (2008: 30%). The increase is caused by a change in the profitability of the group's subsidiaries in the respective countries offset by the impact of the reduction in the [name of country] tax rate.

12p81(e) Deferred income tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable. One group subsidiary has tax losses of C85 (2008: C187) to carry forward against future taxable income; these tax losses will expire in 2010. The benefit of the tax losses has not been recognised in these financial statements due to uncertainty of their recoverability.

12p81(f) Deferred income tax liabilities have not been established for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries, as such amounts are permanently reinvested; unremitted earnings totalled C834 at 31 December 2009 (2008: C712).

36 Other assets

		2009	2008
1p77	Pre–payments	1,048	1,029
	Accrued income	615	737
	Reinsurance assets	–	–
	Other	254	250
		1,917	**2,016**
1p61	Current	341	359
	Non–current	1,576	1,657

37 Assets classified as held for sale and discontinued operations

IFRS5p41(a)(b)(d) The assets and liabilities related to [company] that is a part of the asset management segment have been presented as held for sale following the approval of the Group's management and share holders on 1 September 2009 of a proposal for the sale of sell [company] in [country]. The transaction is expected to complete by May 2010.

		2009	2008
IFRS5p33(c)	Net cash flow from operating activities	(1)	–
	Net cash flow from investing activities	3	–
	Net cash flow from financing activities	–	–

IFRS5p38 *(a) Assets of disposal group classified as held for sale*

	2009	2008
Property, plant and equipment	15	–
Intangible assets	5	–
Total assets of disposal group	**20**	**–**

IFRS5p38 *(b) Liabilities of disposal group classified as held for sale*

	2009	2008
Deposits from banks	17	–
Total liabilities of disposal group	**17**	**–**
Net assets of disposal group	3	–

(c) Profit from discontinued operations

Analysis of the result of discontinued operations, and the result recognised on the remeasurement of assets or disposal group, is as follows:

		2009	2008
IFRS5p33(b)	Revenues	55	67
IFRS5p33(b)	Expenses	(20)	(45)
	Profit before tax of discontinued operations	35	22
12p81(h)(ii)	Tax	(14)	(8)
	Profit from discontinued operations after tax	**21**	**14**
IFRS5p33(b)	Pre–tax loss recognised on the remeasurement of assets of disposal group	(10)	(22)
12p81(h)(ii)	Tax	4	8
IFRS5p33(b)	After tax loss recognised on the remeasurement of assets of disposal group	(6)	(14)
IFRS5p33(a)	**Profit from discontinued operations**	**15**	**0**

38 Deposits from banks

		2009	2008
1p74	Items in course of collection	103	197
	Deposits from other banks	14,936	13,436
		15,039	**13,633**
1p74	Other money-market deposits	11,622	8,254
	Certificates of deposits	4,175	3,662
		15,797	**11,916**
	Total	**30,836**	**25,549**
1p61(a)	Current	23,089	19,247
1p61(b)	Non-current	7,747	6,302

Deposits from banks only include financial instruments classified as liabilities at amortised cost.

IFRS7p31 Included in deposits from banks are fixed-interest deposits amounting to C28,472 (2008: C22,584) and variable-interest deposits amounting to C2,816 (2008: C3,080).

39 Deposits from customers

Deposits due to customers are primarily composed of savings deposits, amounts payable on demand, and term deposits.

		2009	2008
1p74	Large corporate customers:		
	– Current/settlement accounts	5,975	5,471
	– Term deposits	3,938	2,625
	SMEs:		
	– Current/settlement accounts	4,569	3,656
	– Term deposits	3,938	3,308
	Retail customers:		
	– Current/demand accounts	4,520	4,583
	– Term deposits	23,835	23,055
		46,755	**42,698**
1p61(a)	Current	42,098	38,428
1p61(b)	Non-current	4,677	4,270

C476 of the deposits due to customers is covered by fair value hedges (2008: C4,542).

Deposits due to customers only include financial instruments classified as liabilities at amortised cost.

IFRS7p15 Included in customer accounts were deposits of C615 (2008: C591) held as collateral for irrevocable commitments under import letters of credit. The fair value of those deposits approximates the carrying amount.

IFRS7p31 Small deposits amounting to C5,329 (2008: C4,697) are at fixed interest rates and all other deposits, amounting to C46,426 (2008: C38,001) are at variable rates.

40 Financial liabilities held for trading

Financial liabilities held for trading consist of derivatives with a negative fair value carried in the trading portfolio and in the banking book. Financial liabilities held for trading comprise only non-hedging derivatives. For a further analysis see Note 27.

		2009	2008
	Negative fair values of derivatives held for trading	3,301	2,829
IFRS7p8(e)(ii)	**Total**	**3,301**	**2,829**

1p61(b) Financial liabilities held for trading amounting to C2,202 (2008: C1,810) are due after more than 12 months.

Note: Financial liabilities held for trading

Due to the financial crisis, short sales were not permitted by the local government.

41 Financial liabilities designated at fair value

		2009	2008
	Debt securities (all non-current)	1,367	1,311
	Deposits	–	–
	Other	–	–
IFRS7p8(e)(i)	**Financial liabilities designated at fair value**	**1,367**	**1,311**

IFRS7AppxB5(a) The Group issued a 15-year note in 2005 with an annual fixed coupon of 4% and a call option on the EuroStoxx50. The call option is not closely related to the host contract. The Group designated the entire hybrid contract as a financial liability at fair value through profit or loss.

IFRS7p10(b) The contractual undiscounted amount that will be required to be paid at maturity of the above structured note is C1,422.

IFRS7p10(a) The fair value of liabilities designated at fair value was impacted by the widening of the Group's credit spread. At 31 December 2009, the resulting cumulative own credit adjustment amounted to C74 (2008: C69). The gain recognised in the current year was C5 and is included 'Net gains/ (losses) on financial instruments designated at fair value' (2008: C1).

Note: Disclosure of the amount of change in the fair value of the financial liability

IFRS7p10(a) requires the entity, if it has designated a financial liability as at fair value through profit or loss, to disclose the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability. This requirement is asking for the credit risk of the instrument, not the credit risk of the entity. Therefore, when determining changes in the credit risk of the liability, consideration should be given to the terms of the instrument, such as its seniority and whether it is collaterised, in addition to the credit risk of the entity.

42 Debt securities in issue

		Average interest rate (%)			
IFRS7p31 IFRS7p39(a)		**2009**	**2008**	**2009**	**2008**
	€ medium-term notes due 2010	5.6	5.5	842	161
	US$ medium-term notes due 2010	5.9	5.8	69	66
	£ medium-term notes due 2010	6.3	5.5	183	183
	£95m floating-rate notes due 2009	–	5.6	–	129
	US$256m floating-rate notes due 2010	6.0	5.8	120	435
	€260m floating-rate notes due 2011	5.8	5.5	552	258
	Total			**1,766**	**1,232**
1p61(a)	Current			1,201	838
1p61(b)	Non-current			565	394

43 Retirement benefit obligations

	2009	**2008**
Consolidated statement of financial position obligations for:		
– Pension benefits	182	170
– Post-employment medical benefits	55	51
Total	**237**	**221**

Income statement charge for (Note 14):		
– Pension benefits	118	78
– Post-employment medical benefits	10	9
Total	**128**	**87**

Note: Actuarial gains and losses

If the reporting entity applies IAS 19p93A and recognises actuarial gains and losses in other comprehensive income, these actuarial gains and losses should be presented in the consolidated statement of comprehensive income (IAS 19p93B).

If this is the case the adjustments arising from the limit in IAS 19p58(b) should also be recognised in the consolidated statement of comprehensive income (IAS 19.93C).

(a) Pension benefits

The Group operates defined benefit pension plans in Europe and the US based on employee pensionable remuneration and length of service. The majority of plans are externally funded. Plan assets are held in trusts, foundations or similar entities, governed by local regulations and practice in each country, as is the nature of the relationship between the Group and the trustees (or equivalent) and their composition.

19p120A(d)
19p120A(f)

The amounts recognised in the consolidated statement of financial position are determined as follows:

	2009	**2008**
Present value of funded obligations	1,040	886
Fair value of plan assets	(1018)	(852)
	22	34
Present value of unfunded obligations	167	153
Unrecognised actuarial losses	(5)	(9)
Unrecognised past service cost	(2)	(8)
Total	**182**	**170**

Liability in the consolidated statement of financial position

19p120A(c) The movement in the defined benefit obligation over the year is as follows:

	2009	2008
At 1 January	886	772
Current service cost	105	74
Interest cost	45	36
Contributions by plan participants	15	9
Actuarial losses/(gains)	(8)	11
Exchange differences	(13)	(9)
Benefits paid	(6)	(7)
Liabilities acquired in a business combination (Note 55)	–	–
Curtailments	16	–
Settlements[1]	–	–
At 31 December	**1,040**	**886**

19p120A(e) The movement in the fair value of plan assets of the year is as follows:

	2009	2008
At 1 January	852	674
Expected return on plan assets	59	43
Actuarial gains	12	7
Exchange differences	7	14
Employer contributions	89	112
Employee contributions	5	9
Benefits paid	(6)	(7)
Business combinations (Note 55)	–	–
At 31 December	**1,018**	**852**

19p120A(g) The amounts recognised in the consolidated income statement are as follows:

	2009	2008
Current service cost	105	74
Interest cost	45	36
Expected return on plan assets	(59)	(43)
Net actuarial losses recognised during the year	7	5
Past service cost	4	6
Losses on curtailment	16	–
Total, included in staff costs (Note 14)	**118**	**78**

19p120A(m) The actual return on plan assets was C71 (2008: C50).

[1] IAS 19 requires the disclosure of settlements as part of the reconciliation of the opening and closing balances of the present value of the defined benefit obligation. There is no such movement on the defined benefit obligation relating to pension plans in these financial statements, but the line item has been shown for illustrative purposes.

19p120A(n) The principal actuarial assumptions used were as follows:

	2009		2008	
	Europe	**US**	**Europe**	**US**
Discount rate	7.0	7.0	6.8	7.0
Inflation rate	1.9	2.1	3.7	4.0
Expected return on plan assets	8.5	9.1	8.3	8.8
Future salary increases	4.9	6.0	4.5	5.9
Future pension increases	3.0	3.4	2.5	3.2

19p120A(n)(vi) Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience in each territory. Mortality assumptions for the most important countries are based on the following post-retirement mortality tables: (i) Europe: PNMA 00 and PNFA 00 with medium cohort adjustment subject to a minimum annual improvement of 1% and scaling factors of 110% for current male pensioners, 125% for current female pensioners and 105% for future male and female pensioners; and (ii) US: RP2000 with a projection period of 10-15 years.

These tables translate into an average life expectancy in years of a pensioner retiring at age 65.

	2009		2008	
	Europe	**US**	**Europe**	**US**
Retiring at date of the consolidated statement of financial position:				
– Male	18.5	18.3	18.5	18.3
– Female	22.0	21.9	22.0	21.9
Retiring 20 years after the date of the consolidated statement of financial position:				
– Male	19.5	19.1	19.5	19.1
– Female	22.5	22.3	22.5	22.3

DV The sensitivity of the overall pension liability to changes in the weighted principal assumptions is:

	Change in assumption	**Impact on overall liability**
Discount rate	Increase/decrease by 0.5%	Increase/decrease by 7.2%
Inflation rate	Increase/decrease by 0.5%	Increase/decrease by 5.1%
Salary growth rate	Increase/decrease by 0.5%	Increase/decrease by 3.3%
Rate of mortalitiy	Increase by 1 year	Increase by 5.2%

19p122(b) *(b) Post-employment medical benefits*

19p120A(n) The main actuarial assumption is a long-term increase in health costs of 8.0% a year (2008: 7.6%). Other assumptions were as for the pension plans set out above.

19p120A(d) The amounts recognised in the consolidated statement of financial position were determined as follows:

19p120A(f)

	2009	2008
Present value of funded obligations	47	35
Fair value of plan assets	(44)	(32)
	3	3
Present value of unfunded obligations	54	50
Unrecognised actuarial losses	(2)	(2)
Liability in the consolidated statement of financial position	**55**	**51**

19p120A(c) Movement in the defined benefit obligation is as follows:

	2009	2008
At 1 January	85	68
Current service cost	9	8
Interest cost	4	3
Contributions by plan participants [1]	–	–
Actuarial gains	(2)	(1)
Exchange differences	5	7
Benefits paid [1]	–	–
Liabilities acquired in a business combination (Note 55)	–	–
Curtailments [1]	–	–
Settlements [1]	–	–
At 31 December	**101**	**85**

19p120A(e) The movement in the fair value of plan assets of the year is as follows:

	2009	2008
At 1 January	**32**	**23**
Expected return on plan assets	3	2
Actuarial (losses)/gains	(1)	(1)
Exchange differences	(4)	(2)
Employer contributions	14	10
Employee contributions [2]	–	–
Benefits paid [2]	–	–
Business combinations (Note 55)	–	–
At 31 December	**44**	**32**

19p120A(g) The amounts recognised in the consolidated income statement were as follows:

	2009	2008
Current service cost	9	9
Interest cost	4	3
Expected return on plan assets	3	2
Net actuarial losses recognised in year	(6)	(5)
Total, included in employee benefits expense (Note 14)	**10**	**9**

[1] IAS 19 requires the disclosure of contributions by plan participants, benefits paid, curtailments and settlements as part of the reconciliation of the opening and closing balances of the present value of the defined benefit obligation. There is no such movement on the defined benefit obligation relating to post-employment medical benefits in these financial statements, but the line items have been shown for illustrative purposes.

[2] IAS 19 requires the disclosure of employee contributions and employee contributions as part of the reconciliation of the opening and closing balances of plan assets. There is no such movement on the plan assets relating to postemployment medical benefits in these financial statements, but the line items have been shown for illustrative purposes.

19p120A(o) The effects of a 1% movement in the assumed medical cost trend rate were as follows:

	Increase	Decrease
Effect on the aggregate of the current service cost and interest cost	2	(3)
Effect on the defined benefit obligation	18	(15)

19p120A(m) The actual return on plan assets was C2 (2008: C1).

(c) Post-employment benefits (pension and medical)

19p120A(j) Plan assets are comprised as follows:

	2009		2008	
Equity	488	49%	373	51%
Debt	308	31%	205	28%
Other	199	20%	153	21%
	995	**100%**	**731**	**100%**

DV Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The largest proportion of assets is invested in equities, although the Group also invests in property, bonds, hedge funds and cash. The Group believes that equities offer the best returns over the long term with an acceptable level of risk. The majority of equities are in a globally diversified portfolio of international blue chip entities, with a target of 60% of equities held in the euro-zone and Europe, 30% in the US and the remainder in emerging markets.

19p120A(k) Pension plan assets include the Group's ordinary shares with a fair value of C36 (2008: C26) and a building occupied by the Group with a fair value of C152 (2008: C121).

19p120A(l) The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the date of the consolidated statement of financial position. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

19p120(q) Expected contributions to post-employment benefit plans for the year ending 31 December 2010 are C141.1

19p120A(p)

	2009	2008	2007	2006	2005[1]
At 31 December					
Present value of defined benefit obligation	**1,241**	971	840	702	591
Fair value of plan assets	**995**	731	544	446	341
Deficit/(surplus)in the plan	**246**	240	296	256	235
Experience adjustments on plan liabilities	**(9)**	7	6	6	5
Experience adjustments on plan assets	**10**	5	3	4	3

[1] IAS 19 requires a five-year record, which may be disclosed prospectively form the first annual period presented in the financial statements in which the entity first applies IAS 19 (revised 2004) (IAS 19p160).

44 Provisions

		2009	2008
37p84(a)	**At 1 January**	**229**	**100**
	Charged to income statement (Note 17)		
37p84(b)	– Additional provisions	145	149
37p84(d)	– Unused amounts reversed	–	–
37p84(e)	– Increase arising from the effect of discounting and a change in the discount rate	30	–
37p84(c)	Utilised during year	(20)	(20)
	Exchange differences	3	–
37p84(a)	**At 31 December**	**387**	**229**
1p61(a)	Current	240	93
1p61(b)	Non current	147	136

37p85(a) Included within provisions are:

- A restructuring provision of C209 (2008: C93). The restructuring of parts of the retail banking segment in North America started in 2008 and will result in reductions in personnel. An agreement was reached with the local Union representatives by December 2009 that specified the number of staff involved and quantified the amounts payable to those made redundant. The full amount of the costs estimated to be incurred has been recognised as a restructuring provision in the current period and is expected to be fully utilised during 2010;
- Provisions of C143 (2008: C115) have been made in respect of costs arising from contingent liabilities and contractual commitments, including guarantees of C28 (2008: C23) and commitments of C115 (2008: C92); and
- An amount of C35 (2008: C21) representing a provision for certain legal claims brought against the Group by customers and former staff. C23 relates to class action brought by holders of stock and bonds. Legal actions are subject to many uncertainties, and their outcome is often difficult to predict, particularly in the earlier stages of a case.

34p26
37p85(a) The increase in provisions represents an update of the estimated restructuring amount of C109 that was shown in the Group's published interim financial report for the six months ended June 2009; the change in the estimate is due to further agreements reached with the local union. A further increase of C34 relates mainly to labour and overtime litigation claims brought by employees after leaving the bank.

45 Current income tax liabilities

		2009	2008
12p80(a)	Current income tax liabilities	82	98
12p80(b)	Adjustment recognised in 2009 for current tax of prior periods)	19	27
		101	**125**
	Current income tax liabilities:		
1p61(b)	– Current tax asset to be recovered after more than 12 months	79	90
1p61(a)	– Current tax asset to be recovered within 12 months	194	165

12p88 The Group has no tax-related contigent liabilities and contigent assets in accordance with IAS 37. Also, there are no significant effects of changes resulting from changes in tax rates or tax laws after the reporting period.

46 Other liabilities

		2009	2008
1p77	Dividends declared and payable	57	44
	Accruals	634	373
	Other	184	106
	Total	**875**	**523**

1p61 Other liabilities are expected to be settled within no more than 12 months after the date of the consolidated statement of financial position.

47 Convertible bonds

IFRS7p17
32p15

On 4 January 2008, the Group issued 200 million 6% convertible bonds at a nominal value of C1 per bond. The bonds mature 25 years from the issue date at the nominal value unless converted into the Group's ordinary shares at the holder's option at the rate of 25 shares per C200. From the perspective of the Group, this instrument comprises a financial liability and an equity instrument that are recognised separately. The liability is measured at amortised cost. The equity component is a written call option that allows the holder to exercise the conversion option at any time after 2015 but before maturity.

The initial carrying amount of the convertible bond was allocated at the issue date in 2008 to its equity and liability components as follows:

Initial recognition:	
– Face value of convertible bond issued	200
– Equity conversion component net of deferred tax liability	(24)
– Deferred tax liability	(16)
Liability component	**160**

The convertible bond is presented in the consolidated statement of financial position as follows:

	2009	2008
Liability component at 1 January	161	160
Interest expense	13	13
Interest paid	(12)	(12)
Liability component at 31 December	**162**	**161**

IFRS7p25 The carrying amount of the liability component of the convertible bond is not significantly different from the current fair value.

IFRS7p20(b) Interest on the bond is calculated on the effective yield basis by applying the effective interest rate (7.9%) for an equivalent non-convertible bond to the liability component of the convertible bond and for the year ended 31 December 2009 amounted to C12.7 (2008: C12.6). The actual interest paid in 2009 was C13 (2008: C13).

48 Subordinated debt

IFRS7p31, IFRS7p39(a)

	Interest rate (%)	2009	2008
€3.700 floating rate notes due 2015	LIBOR + 0.90	3,730	952
€40m fixed rate notes due 2009	6.125	–	35
£25m fixed rate notes due 2010	4.89	38	38
€100m fixed rate notes due 2009	5.12	–	105
€460m floating rate notes due 2009	LIBOR + 0.09	–	311
CHF299m fixed rate notes due 2010	7.91	44	37
£60m floating rate notes due 2009	LIBOR + 0.11	–	179
€320m floating rate notes due 2009	EURIBOR + 0.10	–	217
£30m floating rate notes due 2009	LIBOR + 0.15	–	45
US$100m fixed rate notes due 2009	7.84	–	99
€700m fixed rate notes due 2012	6.50	210	–
		4,022	**2,018**

		2009	2008
1p61(a)	Current	582	1,514
1p61(b)	Non–current	3,440	504

Floating-rate notes bear interest at rates fixed in advance for periods of six months. The bank's dated subordinated notes are repayable only on maturity, except for the euro notes due in 2012, which are repayable in 2009 at the option of the holder. None of the Group's subordinated notes is secured.

IFRS7p18 The Group has not had any defaults of principal, interest or other breaches with respect to their liabilities during the period (2008: nil).

49 Equity

	2009	2008
Share capital	1,200	1,150
Share premium	857	818
Treasury shares	(47)	(52)
Silent participation Government Protection Scheme	750	–
Revaluation reserve	223	127
Retained earnings	1,263	1,320
Cash flow hedges	(13)	(3)
Other reserves	307	213
	4,540	**3,573**

Share capital

		Number of shares (millions)	Ordinary shares	Share premium	Treasury shares	Total
1p79						
	At 1 January 2008	1,120	1,120	788	(46)	1,862
	Employee share option scheme:					
IFRS2p51(a)	Value of services provided	–	–	15	–	15
	Proceeds from shares issued	30	30	–	–	30
32p33	Purchases/sales of treasury shares	–	–	15	(6)	9
	At 31 December 2008/1 January 2009	1,150	1,150	818	(52)	1,916
	Employee share option scheme:					
IFRS2p51(a)	Value of services provided	–	–	30	–	30
	Proceeds from shares issued	50	50	–	–	50
32p33	Purchases/sales of treasury shares	–	–	9	5	14
	At 31 December 2009	**1,200**	**1,200**	**857**	**(47)**	**2,010**

1p79 The total authorised number of ordinary shares at year end was 1,400 million (2008: 1,400 million) with a par value of C1 per share (2008: C1 per share). All issued shares are fully paid.

Share premium

1p79(b) Premiums from the issue of shares are reported in the share premium.

Treasury shares

1p79 The Group buys and sells its own shares in the normal course of its equity trading and market activities. This is in accordance with the Group's constitution and complies with all aspects of the [name of local companies act] and the requirements of the [name of] Stock Exchange. These shares are treated as a deduction from the shareholders' equity. Gains and losses on sales or redemption of own shares are credited or charged to reserves. The total number of treasury shares at the end of 2009 was 47 million (2008: 52 million).

1p79(b) **Silent partnership Government Protection Scheme**

According to the underlying agreement, the term is unlimited and the Group has no obligation to redeem the silent partnership issued on 1 January 2009. For a period of three years commencing on 1 January 2009, government approval is required before dividends can be paid to shareholders. Where dividends are paid in respect of a financial year, the Group is obliged to pay a return on the silent partnership amount of 6% per annum. No return is paid if no dividend is paid in respect of a financial year. The reserve from the Government Protection Scheme silent participation amounts up to €750 (2008: €0) and the full amount is eligible for Tier 1 capital.

Revaluation reserve

1p79(b) The revaluation reserve shows the effects from the fair value measurement of financial instruments of the category available for sale after deduction of deferred taxes. Any gains or losses are not recognised in the consolidated income statement until the asset has been sold or impaired.

Retained earnings

1p79(b) Retained earnings consist of the statutory reserve, which has to be formed in accordance with national law and undistributed profits from previous years. The total amount of retained earnings consists of C500 of statutory reserves (2008: C486) and C777 of undistributed profits from previous years (2008: C820).

Cash flow hedges

1p79(b) The net result of measuring the effective part of hedges used in cash flow hedges after deduction of deferred taxes is presented in the cash flow hedge reserve.

Other reserves

1p79(b) Other reserves include foreign currency translation reserve C132 (2008: C88) and general banking reserves C175 (2008: C125).

50 Share options

IFRS2p44
IFRS2p45(a) The Group offers share options to directors and to employees with more than four years' service. The exercise price of the granted options is equal to the market price of the shares less 15% of the date of the grant. Options are conditional on the employee completing one year's service (the vesting period). The options are exercisable starting one year from the grant date only if the Group achieves targets of profitability; the options have a contractual option term of five years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

IFRS2p45(b) Movements in the number of share options outstanding are as follows:

	2009
At 1 January	465
Granted	120
Forfeited	–
Exercised	(50)
Lapsed	(25)
At 31 December	**510**
Excercisable at 31 December	

IFRS2p45(c) Share options were granted on 1 July 2009 at a price of C2.00 per share (1 July 2008: C1.95 per share) and expire on 1 July 2014 (prior year: 1 July 2013). Options exercised on 30 June 2009 (30 June 2008) resulted in 50 million shares (2008: 30 million shares) being issued at a price of C1.60 each (2008: C1.50 each), less transaction costs net of income taxes, of C0.2 (2008: C0.1).

IFRS2p45(d) Share options outstanding at the end of the year were as follows:

	Exercise price	**2009**	**2008**
Expiry date – 1 July			
2009	1.60	–	75
2010	1.75	80	80
2011	1.80	70	70
2012	1.90	110	110
2013	1.95	130	130
2014	2.00	120	–
		510	**465**

IFRS2p46
IFRS2p47(a)

The fair value of options granted during the period is determined by using the Black-Scholes valuation model. It was C80 (2008: C60).

The significant inputs into the model were share prices of C3.47 (2008: C2.80) at the grant date, the exercise price shown above, standard deviation of expected share price returns of 30% (2008: 27%), option life disclosed above, a dividend yield of 4.3% (2007: 3.6%) and annual risk-free interest rate of 5% (2008: 4%). The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years.

51 Dividends per share

1p107
1p137(a)
10p12

Final dividends are not accounted for until they have been approved at the Annual General Meeting. At the meeting on [date] 2010 no dividend in respect of 2009 is to be proposed (2008: dividend C0.13 per share, amounting to a total of C427) .

52 Contingent liabilities and commitments

37p86(a)
37p91,92

(a) Legal proceedings

There were a number of legal proceedings outstanding against the Group at 31 December 2009.

Various claims against the Group regarding the involvement in the bankcruptcy of the XYZ-Group are considered without merit, and the bank is defending them vigorously. It is not possible to estimate the Group's possible loss in relation to these matters, nor the effect that they might have upon operating results in any particular financial period.

Furthermore, the Group faces numerous County Court claims and complaints by customers with regards to unauthorised overdraft charges. The Group is defending the cases vigorously. It is not practicable to estimate the Group's possible loss in relation to these matters, nor the effect that they may have on operating results in any particular financial period.

The Group is engaged in various other litigation proceedings in Germany and a number of overseas jurisdictions, including the US, involving claims by and against it, which arise in the ordinary course of business. The Group does not expect the ultimate resolution of any of the proceedings to which the Group is party to have a significantly adverse effect on the financial position of the Group; the Group has not disclosed the contingent liabilities associated with these claims either because they cannot reasonably be estimated or because such disclosure could be prejudicial to the conduct of the claims.

Besides of the provision made (see Note 44) and the cases described above, no contingent liability associated with legal actions has disclosed as professional advice indicates that it is unlikely that any significant loss will arise.

16p74

(b) Capital commitments

At 31 December 2009, the Group had capital commitments of C85 (2008: C82) in respect of buildings and equipment purchases. The Group's management is confident that future net revenues and funding will be sufficient to cover this commitment.

*(c) Loan commitment, guarantee and other financial facilitie*s

At 31 December 2009, the Group had the contractual amounts of the Group's off-balance sheet financial instruments that commit it to extend credit to customers, guarantee and other facilities as follows:

	2009	2008
Loan commitments	3,577	2,367
Acceptances	1,777	898
Guarantees and standby letters of credit	660	789
Documentary and commercial letters of credit	415	391
Total	**6,429**	**4,445**

17p35 *(d) Operating lease commitments*

Where a Group company is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	2009	2008
No later than one year	205	195
Later than one year and no later than five years	920	880
Later than five years	1,150	1,320
Total	**2,275**	**2,395**

37p86(c) For the aforementioned contingent liabilities, no reimbursement is expected.

53 Related-party disclosures

24p12 The Group is controlled by Parent Inc (incorporated in [name of country]), which owns 60% of the ordinary shares. The remaining 40% of the shares are widely held. The ultimate parent of the Group is Ultimate Parent Inc (incorporated in [name of country]).

24p17 24p22 A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. There were no related-party transactions with the ultimate parent company or with the parent company, Parent Inc, other than the payment of dividends on ordinary shares.

The volumes of related-party transactions, outstanding balances at the year-end, and relating expense and income for the year are as follows:

(a) Loans and advances to related parties

		Directors and other key management personnel (and close family members)		Associated companies	
24p17(a)		2009	2008	2009	2008
24p17	Loans and advances to customers				
	Loans outstanding at 1 January	135	117	450	381
	Loans issued during the year	14	33	25	116
	Loan repayments during the year	(18)	(15)	(58)	(47)
	Loans outstanding at 31 December	131	135	417	450
	Interest income earned	11	10	35	33

24p17(c) No provisions have been recognised in respect of loans given to related parties (2008: nil).

24p17(b) The loans issued to directors and other key management personnel (and close family members) during the year of C14 (2008: C33) are repayable monthly over two years and have interest rates of 6.5% (2008: 6.3%). The loans advanced to the directors during the year are collateralised by shares in listed companies. The fair value of those shares was C20 (2008: C36).

The loans and advances to associated companies are unsecured, carry variable interest rates and repayable on demand.

(b) Deposits from related parties

24p17(a)

	Directors and other key management personnel (and close family members)		Associated companies	
	2009	**2008**	**2009**	**2008**
24p17 Due to customers				
Deposits at 1 January	25	18	110	98
Deposits received during the year	18	21	115	107
Deposits repaid during the year	(22)	(14)	(102)	(95)
Deposits at 31 December	21	25	123	110
Interest expense on deposits	2	2	8	7

24p17(b) The above deposits are unsecured, carry variable interest rates and are repayable on demand.

24p17(a) *(c) Other transactions with related parties*

24p17(a)

	Directors and other key management personnel (and close family members)		Associated companies	
	2009	**2008**	**2009**	**2008**
Fee and commission income	–	–	14	7
24p17(b)(ii) Guarantees issued by the Group	–	–	25	12

The above guarantees are issued by the Bank for associated company's short-term bank borrowings in the normal course of business.

(d) Key management compensation

	2009	**2008**
24p16(a) Salaries and other short-term employee benefits	252	246
24p16(b) Post-employment benefits	25	18
24p16(c) Other long-term benefits	–	–
24p16(d) Termination benefits	–	–
24p16(e) Share-based payments	15	20
	292	**284**

54 Scope of consolidation

27p22
27p23
27p41(c)

The subsidiary Company XII has a year end of 30 November 2009 that differs from that of the Group. This subsidiary is included in the consolidated financial statements on the basis of financial statements made up for the 12 months to 30 November, adjusted for changes in the period from 1 December to 31 December 2009 that materially affected its results.

The subsidiary Company XV has a year end that differs from that of the group and the financial statements are made up to 30 June annually to comply with local regulations. For consolidation purposes, the subsidiary prepared additional financial information as of 31 December 2009.

Besides the parent bank, the consolidated financial statements include 37 subsidiaries (2008: 29) in which ABC Bank Holdings directly or indirectly holds more than 50% of the voting rights or exercises control. Of these, 23 have their registered offices in the same country as the parent company (2008: 18) and 14 elsewhere (2008: 11).

27p41(b) However, five entities in which the Group owns 50% or more of the voting rights are not included as subsidiaries, as it is considered that the Group does not have the capacity to govern their financial and operating policies and accordingly is not able to exercise control over them in order to benefit from their activities. These are accounted for in accordance with IAS 28 using the equity method.

In addition, one entity in which the Group holds less than 50% of the voting rights is accounted for as a subsidiary based on the judgement that the Group has the power to appoint or remove the majority of the members of the board of directors and hence controls this entity.

27p41(d) There are no significant restrictions that restrict the ability of the subsidiaries to transfer funds to the Group in the form of cash dividends, or repayment of loans or advances.

In 2009, the Group has interests in six special purpose entities, of which in substance, it controls four. These are fully consolidated.

Due to the ongoing situation in the credit markets, declined asset values and the resulting liquidity crisis, the bank provided funding support to one SPE during Quarter 2 2009 by purchasing its commercial paper and assets such that the bank now holds the majority of exposure to the SPE. As a result the entity was consolidated. The effect of consolidation of this SPE is not material and is included in the overview of the new included entities (see Note 55).

Note: Disclosure of list of subsidiaries

According to national legislation companies may be obliged to disclose information about all consolidated subsidiaries and associated companies. For example the 7th EU Directive (1983LO349) requires companies in the EU to set out information of the names and registered offices of undertakings as follows

Subsidiaries (consolidated)

Company	Country of registration or incorporation	Industry	Voting interest in %	Ownership interest in %
Company III	Germany	Banking	100.00	100.00
Company IV	US	Banking	100.00	100.00
Company V	US	Banking	100.00	100.00
Company VI	Germany	Real estate	100.00	100.00
Company VII	Germany	Real estate	100.00	100.00
Company IX	Japan	Banking	100.00	100.00
Company X	Singapore	Banking	100.00	100.00
Company XI	Germany	Banking	100.00	100.00
Company XII	Italy	Banking	100.00	100.00
Company XIII	Germany	Banking	100.00	100.00
Company XIV	Poland	Banking	100.00	100.00
Company XV	Ireland	Investment management	100.00	100.00
Company XVI	Germany	Banking	100.00	100.00
Company XVII	Germany	Real estate	100.00	100.00
Company XVIII	Cayman Islands	Securitisation	20.00	60.00
Company XIX	Germany	Banking	100.00	100.00
Company XX	Cayman Islands	Securitisation	100.00	100.00
Company XXI	Germany	Real estate	100.00	100.00
Company XXII	Germany	Banking	40.00	40.00
Company XXIII	Cayman Islands	Securitisation	100.00	–
Company XXIV	Germany	Banking	100.00	100.00
Company XXV	Germany	Holding company	100.00	100.00
Company XXVI	US	Securities dealing	100.00	100.00
Company XXVII	Canada	Banking	100.00	100.00
Company XXVIII	Germany	Real estate	100.00	100.00
Company XXIX	Germany	Banking	100.00	100.00
Company XXX	Germany	Banking	100.00	100.00
Company XXXI	USA	Investment management	51.00	51.00
Company XXXII	Germany	Banking	100.00	100.00
Company XXXIII	Luxembourg	Banking	100.00	100.00
Company XXXIV	Germany	Banking	98.00	98.00
Company XXXV	Germany	Investment management	100.00	100.00
Company XXXVI	United Kingdom	Investment management	96.77	96.77
Company XXXVII	Spain	Real estate	100.00	100.00
Company XXXVIII	Spain	Real estate	100.00	100.00
Company XXXIX	Spain	Real estate	100.00	100.00
Company XXXX	Jersey	Securitisation	–	40

Unconsolidated entities in which the Group holds more than 50% of the voting rights

Company	Country of registration or incorporation	Industry	Voting interest in %	Ownership interest in %
Company XXXXI	China	Banking	60.00	60.00
Company XXXXII	Russia	Banking	51.00	51.00
Company XXXXIII	Germany	Banking	100.00	100.00
Company XXXXIV	Indonesia	Banking	100.00	100.00
Company XXXXV	South Africa	Banking	100.00	100.00

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Associates accounted for using the equity method

Company	Country of registration or incorporation	Industry	Voting interest in %	Ownership interest in %
Company XXXXVI	Germany	Banking	40.00	40.00
Company XXXXVII	Germany	Banking	40.00	40.00
Company XXXXVIII	Germany	Banking	40.00	40.00
Company XXXXIX	Ukraine	Banking	40.00	40.00
Company L	Germany	Banking	40.00	40.00
Company LI	France	Banking	40.00	40.00
Company LII	Switzerland	Investment management	40.00	40.00
Company LIII	Germany	Banking	35.00	35.00
Company LIV	Germany	Banking	35.00	35.00
Company LV	Belgium	Banking	35.00	35.00
Company LVI	Germany	Real estate	33.00	33.00
Company LVII	Netherlands	Banking	33.00	33.00
Company LVIII	Austria	Banking	33.00	33.00
Company LIX	Germany	Banking	33.00	33.00
Company LX	Germany	Insurance	33.00	33.00
Company LXI	Germany	Insurance	33.00	33.00
Company LXII	Germany	Real estate	33.00	33.00
Company LXIII	Germany	Real estate	25.00	25.00
Company LXIV	Germany	Real estate	25.00	25.00
Company LXV	Germany	Real estate	25.00	25.00
Company LXVI	Germany	Real estate	25.00	25.00
Company LXVII	Germany	Real estate	25.00	25.00
Company LXVIII	Germany	Real estate	25.00	25.00
Company LXIX	Germany	Real estate	25.00	25.00
Company LXX	Germany	Real estate	25.00	25.00
Company LXXI	Germany	Real estate	25.00	25.00
Company LXXII	Germany	Real estate	25.00	25.00
Company LXXIII	Germany	Real estate	25.00	25.00
Company LXXIV	Germany	Real estate	25.00	25.00
Company LXXV	Germany	Real estate	25.00	25.00
Company LXXVI	Germany	Real estate	25.00	25.00
Company LXXVII	Germany	Real estate	25.00	25.00
Company LXXVIII	Germany	Real estate	25.00	25.00
Company LXXIX	Germany	Real estate	25.00	25.00
Company LXXX	Germany	Real estate	25.00	25.00
Company LXXXI	Germany	Real estate	20.00	20.00

Associates accounted for using the equity method (continued)

Company	Country of registration or incorporation	Industry	Voting interest in %	Ownership interest in %
Company LXXXII	Germany	Real estate	20.00	20.00
Company LXXXIII	Germany	Real estate	20.00	20.00
Company LXXXIV	Germany	Real estate	20.00	20.00
Company LXXXV	Germany	Real estate	20.00	20.00
Company LXXXVI	Germany	Real estate	20.00	20.00
Company LXXXVII	Germany	Real estate	20.00	20.00

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Joint ventures

Company	Country of registration or incorporation	Industry	Voting interest in %	Ownership interest in %
Company LXXXVII	Germany	Real estate	40.00	40.00
Company LXXXVII	Germany	Real estate	33.33	33.33

Note: Publication of holdings

According to national legislation companies may be obliged to publish their financial statements in a form that is publicly available, for example in Germany, the Federal Gazette.

55 Acquisitions and disposals

IFRS3p66(a)

(a) Acquisition

IFRS3p67(a-c)
IFRS3p70(a-b)
IFRS3p67(i)

On 1 March 2009, the Group acquired 100% of the share capital of the Company XXXIII. It is a small finance company that is based in Luxembourg. The acquired company contributed profit of C1 to the Group for the period from 1 March to 31 December 2009. If the acquisition had occurred on 1 January 2009, group profit before allocations would have been C452 and net interest income would have been C1,794.

Details of net assets acquired and goodwill are as follows:

	2009
Purchase consideration:	
– Cash paid	286
– Direct costs relating to the acquisition	2
Total purchase consideration paid	**288**

IFRS3p67(f) The details of the fair value of the assets and liabilities acquired and goodwill arising are as follows:

	Fair value	Acquiree's carrying amount
Cash and cash equivalents	9	9
Loans and advances to customers	110	88
Other assets	216	210
Due to customers	(67)	(78)
Other liabilities	(19)	(19)
Fair value of net assets	**249**	**210**
Goodwill	39	
IFRS3p67(d) **Total purchase consideration paid**	**288**	
Purchase consideration settled in cash	288	
7p40(c) Cash and cash equivalents in subsidiary acquired	(9)	
Cash outflow on acquisition	**279**	

IFRS3p67(h) The goodwill is attributable to the high profitability of the acquired business and the significant synergies expected to arise. Fair value of assets and liabilities acquired are based on discounted cash flow models.

No acquisition provisions were created.

Note: IFRS (revised)

IFRS 3 (revised) is prospectively applicable for periods beginning on or after 1 July 2009 and may be early adopted from periods beginning on or after 1 June 2007. See Appendix II for disclosure of business combinations in accordance with IFRS 3 (eevised).

(b) Disposals

On 31 March 2009, the Group disposed of 100% of the share capital of its subsidiary in Griechenland.

The subsidiary operated in the retail banking segment and contributed profit of C2 to the Group for the period from 1 January 2009 to 31 March 2009 (C14 for the period from 1 January 2008 to 31 December 2008).

7p40(d) The details of assets and liabilities disposed and the disposal consideration are as follows:

Cash and cash equivalents	10
Due from other banks	38
Loans and advances to customers	88
Due to other banks	(31)
Due to customers	(65)
Other liabilities	(4)
Net assets	**36**
7p40(a-b) Proceeds from sale (discharged by cash)	52
Less: cash and cash equivalents in subsidiary sold	(10)
Net cash inflow on sale	**42**

IFRS 3p67 (a-c) The following table shows the new consolidated entities in 2009:

Company	Country of registration or incorporation	Industry	Acquisition date	Voting interest in %	Ownership interest in %
Company XXX	Germany	Banking	5 May	100.00	100.00
Company XXXI	USA	Investment management	28 March	51.00	51.00
Company XXXII	Germany	Banking	18 February	100.00	100.00
Company XXXIII	Luxemburg	Banking	1 March	100.00	100.00
Company XXXIV	Germany	Banking	22 March	98.00	98.00
Company XXXV	Germany	Investment management	2 January	100.00	100.00
Company XXXVI	United Kingdom	Investment management	10 April	96.77	96.77
Company XXXVII	Spain	Real estate	15 March	100.00	100.00
Company XXXVIII	Spain	Real estate	15 March	100.00	100.00
Company XXXIX	Spain	Real estate	15 March	100.00	100.00
Company XXXX	Jersey	Securitisation	1 February	–	40

In addition to the disposal of Company VIII, the Group completed the sale of Company I and Company II on 2 February 2009. The subsidiaries operated in the retail banking segment and contributed profit of C1 to the Group for the period from 1 January 2009 to 2 February 2009 (C2 for the period from 1 January 2008 to 31 December 2008).

7p40(d) The details of assets and liabilities disposed and the disposal consideration are as follows:

	Cash and cash equivalents	2
	Due from other banks	8
	Loans and advances to customers	14
	Due to other banks	(6)
	Due to customers	(10)
	Other liabilities	(2)
	Net assets	**6**
7p40(a-b)	Proceeds from sale (discharged by cash)	6
7p40(e)	Less: cash and cash equivalents in subsidiary sold	(2)
	Net cash inflow on sale	**4**

56 Additional disclosures of non-consolidated entities

The following tables summarise the Group's involvement with securitisation and other investing entities that the Group set up or sponsored, by asset type. The tables present the Group's income recognised in each reporting period (which consists of fees for setting up the structured entities and providing asset management services) and the fair value of the assets securitised at the date the securitisation transactions were completed.

	Total fee income	
Type of asset in unconsolidated entity	**2009**	**2008**
Residential mortgage	43	41
Commercial mortgage	6	6
Credit card receivables	4	4
Other loans	7	7
Total	**60**	**58**

	Assets securitised	
Type of asset in unconsolidated entity	**2009**	**2008**
Residential mortgage	615	593
Commercial mortgage	90	86
Credit card receivables	52	51
Other loans	104	101
Total	**861**	**831**

In some cases, the Group retained some involvement with non-consolidated structured entities, in the form of investments in the structured entities, credit guarantees or liquidity commitments. The following table summarises the Group's involvement at 31 December 2009 with structured entities, by asset type and shows the maximum exposure to loss in unconsolidated structured entities.

	Total SPE assets		Maximum exposure to loss			
Type of asset in unconsolidated entity	**Original carrying amounts of assets held by structured entities**	**Current carrying amounts of assets held by structured entities**	**Invest-ments**	**Credit guaran-tees**	**Liquidity commit-ments**	**Total**
Originated by the Group						
Residential mortgage	770	460	–	5	129	**134**
Commercial mortgage	427	255	35	–	81	**116**
Credit card receivables	194	116	24	–	–	**24**
Other loans	39	23	1	–	9	**10**
Subtotal	1,430	854	60	5	219	**284**
Not originated by the Group						
Commercial mortgage	59	36	4	–	–	**4**
Subtotal	59	36	4	–	–	**4**
Total	**1,489**	**890**	**64**	**5**	**219**	**288**

The Group recognises retained interests in ‘Financial assets held for trading’ at fair value. Gains or losses on securitisation are recorded in ‘Net gains/(losses) on financial instruments classified as held for trading’.

Usually, immediately after the completion of a securitisation, the Group exits its risk in retained interests. In synthetic securitisation structures, this is normally accomplished by entering into derivative financial instruments. The Group recognises purchased asset-backed securities (ABS), including mortgage-backed securities (MBS), originated by third parties as ‘Financial assets held for trading’, or in certain circumstances as ‘Investment securities (available for sale)’.

Based on the relative fair values of the portion derecognised and the portion retained, the retained interest is initially recorded as an allocation of the original carrying amount.

The table shows the carrying amount of retained interests in securitised assets, stated at the amount of the Group’s continuing involvement where appropriate, together with the associated liabilities:

24p17(a)

		2009		2008	
		Carrying amount of assets in C	**Associated liabilities in C**	**Carrying amount of assets in C**	**Associated liabilities in C**
24p17	Residential mortgage	–	5	–	5
	Commercial mortgage	39	3	38	3
	Credit card receivables	24	–	23	–
	Other loans	1	–	1	–
	Total	**64**	**8**	**62**	**8**

The following table shows the quality of the assets held in the structures as well as their weighted-average life.

	Investment grade				Non-investment grade		
	AAA to AAA-	**AA+ to AA-**	**A+ to A-**	**BBB to BBB-**	**BB+ to BB-**	**Funded Assets**	**Wt. avg. expected life (years**
Asset types:							
Residential mortgage	–	394	–	66	–	460	4.0
Commercial mortgage	80	145	44	22	–	291	2.7
Credit card receivables	63	51	1	1	–	116	1.5
Other loans	14	9	–	–	–	23	3.7
Total	**157**	**599**	**45**	**89**	**–**	**890**	**3.2**

57 Events after the date of the consolidated statement of financial position

10p21
IFRS3p59(b)

On 13 December 2010, the Group announced its intention to acquire ANM Bank. The transaction has still to be approved by the Group's shareholders. Regulatory approval is not expected until March 2010.

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Independent auditor's report
To the shareholders of ABC Bank Holdings
Report on the financial statements

We have audited the accompanying consolidated financial statements of ABC Bank Holdings (the Company) and its subsidiaries (together, the Group) which comprise the consolidated statement of financial positions as of 31 December 2009 and the consolidated income statement and statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view[1] of the financial position of the Group as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities, if any.]

Signature
Date
Address

> The format of the audit report will need to be tailored to reflect the legal framework of particular countries. In certain countries, the audit report covers both the current year and the comparative year.

[1] The term 'give a true and fair view' can be changed to 'present fairly, in all material respects'.

Appendix I – Consolidated statement of comprehensive income – 'Single statement' approach

			Year ended 31 December	
1p81(a) 1p10(b), 12, 1p38 1p113		Note	2009	2008
IFRS7p20(b)	Interest and similar income	6	7,882	6,346
18p35(b)(v)	Dividend income	7	87	33
IFRS7p20(b)	Interest and similar expenses	6	(6,183)	(4,936)
	Net interest income		**1,786**	**1,443**
IFRS7p20(e)	Loan impairment charges	8	(530)	(196)
	Net interest income after loan impairment charges		**1,256**	**1,247**
IFRS7p20(c)	Fee and commission income	9	1,095	1,044
IFRS7p20(c)	Fee and commission expense	9	(298)	(309)
	Net fee and commission income		**797**	**735**
IFRS7p20(a)(i)	Net gains/(losses) on financial instruments classified as held for trading	10	56	(318)
IFRS7p20(a)(i)	Net gains on financial instruments designated at fair value	11	110	100
IFRS7p24	Hedge ineffectiveness	12	56	37
IFRS7p20(a)(ii)-(v)	Net gains/(losses) on investment securities	13	(17)	112
1p85	Personnel expenses	14	(823)	(832)
1p85	General and administrative expenses	15	(248)	(309)
1p85	Depreciation and amortisation expenses	16	(291)	(244)
1p85	Other operating expenses	17	(283)	(226)
1p85	**Operating profit**		**613**	**302**
1p82(c)	Share of profit of associates and joint ventures accounted for using the equity method	30	7	7
1p85,	**Profit before income tax**		**620**	**309**
1p82(d), 12p77	Income tax expense	18	(184)	(84)
1p85	**Profit for the year from continuing operations**		**436**	**225**
IFRS5p33(a)	Profit for the year from discontinued operations	37	15	–
1p82(f)	**Profit for the year**		**451**	**225**

Appendix I – Consolidated statement of comprehensive income – 'Single statement' approach (continued)

(All amounts in C thousands unless otherwise stated)

		Note	Year ended 31 December 2009	2008
	Other comprehensive income:			
	Exchange differences on translation of foreign operations		35	34
	Net gains on available-for-sale financial assets		**163**	**5**
IFRS7p20(a)ii)	– Unrealised net gains arising during the period, before tax		187	6
1p92, IFRS7p20(a)(ii)	– Net reclassification adjustments for realised net losses, before tax		(24)	(1)
	Cash flow hedges		(16)	(40)
IFRS7p23(c) 1p92	– Net losses arising on hedges recognised directly in equity during the period, before tax		(40)	(40)
IFRS7p23(d) 19p93A, B	– Net reclassification adjustments for realised net gains, before tax		24	–
	Actuarial gains in defined benefit pension schemes		9	34
1p82(h), 28p39	Share of other comprehensive income of associates and joint ventures accounted for by the equity method	30	(6)	13
	Income tax relating to components of other comprehensive income	20	(75)	(19)
	Other comprehensive income for the year, net of tax		**110**	**27**
1p82(i)	**Total comprehensive income for the year**		**561**	**252**
	Profit attributable to:			
1p83(b)(ii)	Equity holders of the parent entity (total)		442	220
IFRS5p33(d)	– Profit for the year from continuing operations		427	220
IFRS5p33(d)	– Profit for the year from discontinued operations		15	–
1p83(b)(i)	Non-controlling interest (total)		9	5
IFRS5p33(d)	– Profit for the year from continuing operations		9	5
IFRS5p33(d)	– Profit for the year from discontinued operations		–	–
			451	225
	Total comprehensive income attributable to:			
1p83(b)(ii)	Equity holders of the parent entity (total)		550	247
	– Profit for the year from continuing operations		534	247
	– Profit for the year from discontinued operations		16	–
1p83(b)(i)	Non-controlling interest (total)		11	5
	– Profit for the year from continuing operations		11	5
	– Profit for the year from discontinued operations		–	–
			561	**252**

Appendix II – Business combinations disclosure under IFRS 3 (revised)

Appendix II presents the acquisition in Note 55 in accordance with IFRS 3 (revised) and follows the illustrative example on disclosure provided in IFRS 3 (revised). IFRS 3 (revised) is prospectively applicable for periods beginning on or after 1 July 2009, and may be early adopted from periods beginning on or after 1 June 2007. Local legal or regulatory requirements may restrict the ability of entities to early adopt.

Note – Basis of preparation

Standards early adopted by the Group

IAS8p28 IFRS 3 (revised), 'Business combinations' was early adopted by the Group in 2008. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all considerations to purchase a business are recorded at fair value at the acquisition date, with contingent considerations classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.

The standard was applied to the acquisition of the controlling interest in company_XXXIII on 1 March 2009.

Acquisition related costs of C2 have been recognised in the statement of comprehensive income, which previously would have been included in the consideration for the business combination.

Note – Accounting policies

1p119 *Consolidation*

27p12 *(a) Subsidiaries*

27p14 27p34 Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

IFRS3p5 IFRS3p37 IFRS3p39 IFRS3p53 IFRS3p18 The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

27p20,21, 24 Inter-company transactions, balances and intragroup gains on transactions between group companies are eliminated. Intragroup losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Note – Acquisitions and disposals

IFRS3pB64(a-d)
IFRS3pB64(q)

On 1 March 2009, the Group acquired 100% of the share capital of Company XXXIII. It is a small finance company based in Luxembourg, operating in the most western European countries. As a result of the acquisition, the Group is expected to increase its presence in these markets. It also expects to reduce costs through economies of scale. The acquired company contributed operating income of C1 to the Group for the period from 1 March to 31 December 2009. If the acquisition had occurred on 1 January 2009, group profit before allocations would have been C452, and net interest income would have been C1,794.

	Consideration	
IFRS3pB64(f)(i)	- Cash paid	286
	Total consideration transferred	**286**
IFRS3pB64(m)	Acquisition-related costs	2
IFRS3pB64(i)	**Recognised amount of identifiable assets acquired and liabilities assumed**	
	Cash and cash equivalents	9
	Loans and advances to customers	110
	Other assets	216
	Due to customers	(67)
	Other liabilities	(19)
	Total identifiable net assets	**249**
	Goodwill	37
	Total	**286**

IFRS3pB64(e),
IFRS3pB64(k)

The goodwill is attributable to the high profitability of the acquired business and the significant synergies expected to arise. None of the goodwill recognised is expected to be deductible for income tax purposes. Fair value of assets and liabilities acquired are based on discounted cash flow models.

No acquisition provisions were created.

Appendix III – Forthcoming requirements

The International Accounting Standards Board (IASB) has issued the following standards and amendments to existing standards effective for annual periods beginning on or after 1 January 2009 or later periods:

	Effective date
• IFRS 9, 'Financial instruments part 1: Classification and measurement'	1 January 2013
• IFRS 1 and IAS 27 Amendments, 'Cost of an Investment in a subsidiary, jointly controlled entity or associate'	1 July 2009
• IFRS 2 Amendments, 'Vesting conditions and cancellations'	1 January 2009
• IFRS 7 Amendments, 'Improving disclosures about financial instruments'	1 January 2009
• IFRS 8, 'Operating segments'	1 January 2009
• IAS 1 (revised), 'Presentation of financial statements'	1 January 2009
• IAS 23 (revised), 'Borrowing costs'	1 January 2009
• IAS 32 and IAS 1 Amendments, 'Puttable financial instruments and obligations arising on liquidation'	1 January 2009
• IFRS 3 (revised), 'Business combinations' and IAS 27 (revised) 'Consolidated and separate financial statements'	1 July 2009
• IAS 39 Amendments, 'Eligible hedged items'	1 July 2009

The International Financial Reporting Interpretations Committee (IFRIC) has issued the following interpretations effective for annual periods beginning on or after 1 January 2009:

	Effective date
• IFRIC 13, 'Customer loyalty programmes'	1 July 2008
• IFRIC 15, 'Agreements for the construction of real estate'	1 January 2009
• IFRIC 16, 'Hedges of a net investment in a foreign operation'	1 October 2008
• IFRIC 17, 'Distribution of non-cash assets to owners'	1 July 2009
• IFRIC 18, 'Transfers of assets from customers'	1 July 2009

Amendments that are part of the IASB's annual improvement project published in May 2008 (not addressed above) are:

	Effective date
• IFRS 5 (amendment), 'Non-current assets held-for-sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption')	1 July 2009
• IFRS 7 (amendment), 'Financial instruments: Disclosures'	1 January 2009
• IAS 1 (amendment), 'Presentation of financial statements'	1 January 2009
• IAS 8, 'Accounting policies, changes in accounting estimates and errors'	1 January 2009
• IAS 10, 'Events after the reporting period'	1 January 2009
• IAS 16 (amendment), 'Property, plant and equipment' (and consequential amendments to IAS 7, 'Statement of cash dlows')	1 January 2009
• IAS 18, 'Revenue'	1 January 2009
• IAS 19 (amendment), 'Employee benefits'	1 January 2009
• IAS 20 (amendment), 'Accounting for government grants and disclosure of government assistance'	1 January 2009

• IAS 23 (amendment), 'Borrowing costs'	1 January 2009
• IAS 27 (amendment), 'Consolidated and separate financial statements'	1 January 2009
• IAS 28 (amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial instruments: Presentation', and IFRS 7, 'Financial instruments: Disclosures'	1 January 2009
• IAS 29 (amendment), 'Financial reporting in hyperinflationary economies'	1 January 2009
• IAS 31 (amendment), 'Interests in joint ventures' (and consequential amendments to IAS 32, 'Financial instruments: Presentation', and IFRS 7, 'Financial instruments: Disclosures'	1 January 2009
• IAS 34, 'Interim financial reporting'	1 January 2009
• IAS 36 (amendment), 'Impairment of assets'	1 January 2009
• IAS 38 (amendment), 'Intangible assets'	1 January 2009
• IAS 39 (amendment), 'Financial instruments: recognition and measurement'	1 January 2009
• IAS 40 (amendment), 'Investment property' (and consequential amendments to IAS 16)	1 January 2009
• IAS 41 (amendment), 'Agriculture'	1 January 2009

Amendments that are part of the IASB's annual improvement project published in April 2009 (not addressed above) are:

	Effective date
• IFRS 2 (amendment), 'Share-based payments'	1 July 2009
• IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'	1 January 2010
• IFRS 8 (amendment), 'Operating segments'	1 January 2010
• IAS 1 (amendment), 'Presentation of financial statements'	1 January 2010
• IAS 7 (amendment), 'Statement of cash flows'	1 January 2010
• IAS 17 (amendment), 'Leases'	1 January 2010
• IAS 18 (amendment), 'Revenue';	
• IAS 36 (amendment), 'Impairment of assets'	1 January 2010
• IAS 38 (amendment), 'Intangible assets'	1 July 2009
• IAS 39 (amendment), 'Financial instruments: recognition and measurement'	1 January 2010; amendments to paragraph 80 effective 1 January 2009
• IFRIC 9 (amendment), 'Reassessment of embedded derivatives'	1 July 2009
• IFRIC 16 (amendment), 'Hedges of a net investment in a foreign operation'	1 July 2009

PricewaterhouseCoopers' IFRS and corporate governance publications and tools 2009

IFRS surveys and market issues

Presentation of income under IFRS
Trends in use and presentation of non-GAAP income measures in IFRS financial statements.

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Impact of IFRS reporting on fund managers' perceptions of value and their investment decisions.

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Survey of the quality of narrative reporting among FTSE 350 companies, identifying where action is needed in the next reporting cycle for companies to gain a competitive edge and help restore trust in this tough economic environment.

Recasting the reporting model
Survey of corporate entities and investors, and PwC insights on how to simplify and enhance communications.

Measuring assets and liabilities
Survey of investment professionals, looking at their use of the balance sheet in analysing performance and the measurement bases for assets and liabilities that best suit their needs.

Performance statement: coming together to shape the future
2007 survey of what investment professionals and corporate management require to assess performance.

Corporate reporting: is it what investment professionals expect?
Survey looking at the information that companies provide, and whether investors and analysts have the information they need to assess corporate performance.

IFRS 7: Potential impact of market risks
Examples of how market risks can be calculated.

The EU Transparency Directive
Guidance for listed companies required to implement the EU's new Transparency Directive rules relating to periodic reporting requirements.

Corporate governance publications

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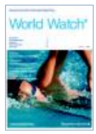

World Watch magazine
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IFRS for SMEs publications

IFRS for SMEs – pocket guide 2009
Provides a summary of the recognition and measurement requirements in the 'IFRS for small and medium-sized entities' published by the International Accounting Standards Board in July 2009.

IFRS for SMEs – Illustrative consolidated financial statements 2010
Realistic set of financial statements prepared under IFRS for small and medium entities, illustrating the required disclosure and presentation.

Similarities and differences – a comparison of 'full IFRS' and IFRS for SMEs
60-page publication comparing the requirements of the IFRS for small and medium-sized entities with 'full IFRS' issued up to July 2009. An executive summary outlines some key differences that have implications beyond the entity's reporting function.

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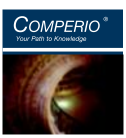

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