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International Financial Reporting Standards

Illustrative consolidated financial statements 2006 – Banks

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Please contact your local PricewaterhouseCoopers contact below to discuss how we can help you make the change to International Financial Reporting Standards or with technical queries:

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See inside back cover for further details of IFRS products and services.

International Financial Reporting Standards
Illustrative consolidated financial statements 2006 – 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.

This publication includes the disclosures required by IFRS as published in the IFRS stable platform and those standards and interpretations published since then that are applicable for financial years beginning on or after 1 January 2006. In addition, the Group early adopted IFRS 7, Financial instruments: Disclosures, and Amendment to IAS 1 – Capital disclosures.

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 relating to the application of IFRS 7, which can be found in the appendices. Helpful hints for certain disclosure requirements are provided Appendix I. A detailed analysis of IFRS 7 as compared with IAS 30 and IAS 32 is provided in Appendix II. Appendices III and IV contain further guidance of the disclosure requirements by class under IFRS 7.

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 2006:

	Effective date
• IAS 1 Amendment – Capital Disclosures	1 January 2007[1]
• IAS 19 Amendment – Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2006
• IAS 21 Amendment – Net Investment in a Foreign Operation	1 January 2006
• IAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions	1 January 2006
• IAS 39 Amendment – The Fair Value Option	1 January 2006
• IAS 39 and IFRS 4 Amendment – Financial Guarantee Contracts	1 January 2006
• IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources	1 January 2006
• IFRS 6, Exploration for and Evaluation of Mineral Resources	1 January 2006
• IFRS 7, Financial Instruments: Disclosures	1 January 2007[1]

The International Financial Reporting Interpretations Committee (IFRIC) has issued the following interpretations effective for annual periods beginning on or after 1 January 2006:

	Effective date
• IFRIC 4, Determining whether an Arrangement contains a Lease	1 January 2006
• IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 January 2006
• IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	1 December 2005

[1] ABC Banking Group elected to early adopt IFRS 7, Financial instruments: Disclosures, and IAS 1 Amendment – Capital disclosures.

The Group has not early adopted the following standard and interpretations that will be effective for the annual periods beginning on or after the following dates:

	Effective date
• IFRS 8, Operating segments	1 January 2008
• IFRIC 7, Applying the Restatement Approach under IAS 29	1 March 2006
• IFRIC 8, Scope of IFRS 2	1 May 2006
• IFRIC 9, Reassessment of embedded derivative	1 June 2006
• IFRIC 10, Interim Financial Reporting and Impairment	1 November 2006
• IFRIC 11, IFRS 2 – Group Treasury Share Transactions	1 March 2007
• IFRIC 12, Service Concession Arrangements	1 January 2009

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 judgment as to 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 2006. 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 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 footnotes. The extent of disclosure required depends on the extent of the entity's use of financial instruments and of its exposure to risk.

ABC Banking Group
Consolidated financial statements

31 December 2006

Index to the consolidated financial statements

Certain items may not apply to a particular reporting entity. For example, if the reporting entity does not have material operating leases, disclosure of the accounting policy for operating leases does not need to be included (IAS1p108, 110).

Certain items that apply to an entity may not have been included in these illustrative financial statements; readers should refer to other PricewaterhouseCoopers publications where necessary.

(All amounts in euro millions unless otherwise stated)

Consolidated income statement

		Note	Year ended 31 December	
1p81-83			**2006**	**2005**
IFRS7p20(b)	Interest and similar income	6	7,243	6,483
IFRS7p20(b)	Interest expense and similar charges	6	(4,656)	(4,079)
	Net interest income		2,587	2,404
IFRS7p20(c)	Fee and commission income	7	1,095	1,044
IFRS7p20(c)	Fee and commission expense	7	(48)	(52)
	Net fee and commission income		1,047	992
18p35(b)(v)	Dividend income	8	87	33
IFRS7p20(a)(i)	Net trading income	9	161	151
IFRS7p20(a)(i)	Net income from financial instruments designated at fair value	10	107	100
IFRS7p20(a)(ii)(iii)	Gains less losses from investment securities	23	46	112
IFRS7p20(e)	Impairment charge for credit losses	13	(139)	(136)
1p83	Administrative expenses	11	(2,038)	(2,040)
1p83	Other operating expenses	12	(610)	(420)
1p83	**Operating profit**		1,248	1,196
1p81(c)	Share of profit of associates	24	7	7
1p83, 12p77	**Profit before income tax**		1,255	1,203
1p81(e)	Income tax expense	14	(377)	(375)
1p81(f)	**Profit for the year**		878	828
1p82	**Attributable to:**			
1p82(b)	Equity holders of the parent		871	820
1p82(a)	Minority interest		7	8
			878	828
33p66	**Earnings per share for profit attributable to the equity holders of the parent entity during the year** (expressed in € per share):			
	– Basic	15	0.76	0.74
	– Diluted	15	0.73	0.71

The notes on pages 9 to 71 are an integral part of these consolidated financial statements

(All amounts in euro millions unless otherwise stated)

Consolidated balance sheet

		Note	At 31 December 2006	At 31 December 2005
1p68, 1p104			**2006**	**2005**
1p54				
	ASSETS			
1p68(i)	Cash and balances with central banks	16	6,080	4,315
IFRS7p8	Treasury bills and other eligible bills	17	1,485	771
IFRS7p8(c)	Loans and advances to banks	18	8,576	5,502
IFRS7p8(c)	Loans and advances to customers	22	59,203	53,208
IFRS7p8(a)(ii)	Trading assets	19	5,231	8,204
IFRS7p8(a)(ii)	Derivative financial instruments	20	5,325	5,442
IFRS7p8(a)(i)	Financial assets designated at fair value	21	2,520	1,102
	Investment securities:			
IFRS7p8(d)	– Available for sale	23	3,972	1,182
IFRS7p8(b)	– Held to maturity	23	3,999	1,009
39p37(a),IFRS7p14(a)	Pledged assets	40	1,004	1,083
1p68(e)	Investments in associates	24	112	108
1p68(c)	Intangible assets	25	237	312
1p68(a)	Property, plant and equipment	26	1,519	1,555
1p68(n)	Deferred income tax assets	37	273	255
1p69	Other assets	27	2,003	2,111
	Total assets		101,539	86,159
	LIABILITIES			
IFRS7p8(f)	Deposits from banks	28	15,039	13,633
IFRS7p8(f)	Due to customers	30	51,775	42,698
IFRS7p8(f)	Other deposits	29	16,249	12,031
IFRS7p8(e)(ii)	Trading liabilities	41	262	-
IFRS7p8(e)(ii)	Derivative financial instruments	20	3,777	6,277
IFRS7p8(f)	Debt securities in issue	31	1,766	1,232
IFRS7p8(f)	Other borrowed funds	32	2,808	2,512
IFRS7p8(e)(i)	Financial liabilities designated at fair value	35	1,367	1,311
1p69	Other liabilities	36	1,037	684
1p68(k)	Provisions	37	467	229
1p68(m)	Current income tax liabilities		101	173
1p68(n)	Deferred income tax liabilities	38	1,109	693
1p68(k)	Retirement benefit obligations	39	237	221
	Total liabilities		95,994	81,694
	EQUITY			
1p68(p)	**Capital and reserves attributable to equity holder of the parent**			
1p75(e)	Share capital	42	2,010	1,916
1p75(e)	Retained earnings	43	2,359	1,920
1p75(e)	Other reserves	43	1,132	592
			5,501	4,428
1p68(o)	**Minority interest**		44	37
	Total equity		5,545	4,465
	Total equity and liabilities		101,539	86,159

The notes on pages 9 to 71 are an integral part of these consolidated financial statements

(All amounts in euro millions unless otherwise stated)

Consolidated statement of changes in equity

		Note	Attributable to equity holders of the parent			Minority Interest	Total
1p96 1p104			Share capital	Reserves	Retained earnings		
	At 1 January 2005		1,862	150	1,512	29	3,555
IFRS7p20(a)(ii)	Net change in available for sale investments, net of tax	43	-	4	-	-	4
IFRS7p23(c)	Net change in cash flow hedges, net of tax	43	-	418	-	-	418
	Currency translation differences	43	-	(94)	-	-	(94)
1p96(b)	Net income recognised directly in equity		-	328	-	-	328
1p96(a)	Net profit		-	-	820	8	828
1p96(c)	Total recognised income for 2005		-	328	820	8	1,156
1p97(a)	Dividend relating to 2004	43	-	-	(322)	-	(322)
	Transfer to general banking reserves	43	-	49	(49)	-	-
	Transfer to statutory reserve	43	-	41	(41)	-	-
	Convertible bond – equity component	43	-	24	-	-	24
1p97(a)	Purchases/sales of treasury shares	42	9	-	-	-	9
	Employee share option scheme:						
	– Value of employee services	42	15	-	-	-	15
	– Proceeds from shares issued	42	30	-	-	-	30
	At 1 January 2006		1,916	592	1,920	37	4,465
IFRS7p20(a)(ii)	Net change in available-for-sale investments, net of tax	43	-	128	-	-	128
IFRS7p23(c)	Net change in cash flow hedges, net of tax	43	-	360	-	-	360
1p96(b), 21p52(b)	Currency translation differences	43	-	(20)	-	-	(20)
1p96(b)	Net income recognised directly in equity		-	468	-	-	-
1p96(a)	Net profit		-	-	871	7	878
1p96(c)	Total recognised income for 2006			468	871	7	1,346
1p97(a)	Dividend relating to 2005	43	-	-	(360)	-	(360)
	Transfer to general banking reserves	43	-	58	(58)	-	-
	Transfer to statutory reserve	43	-	14	(14)	-	-
1p97(a)	Purchases/sales of treasury shares	42	14	-	-	-	14
	Employee share option scheme:						
	– Value of employee services	42	30	-	-	-	30
	– Proceeds from shares issued	42	50	-	-	-	50
	At 31 December 2006		2,010	1,132	2,359	44	5,545

The notes on pages 9 to 71 are an integral part of these consolidated financial statements.

(All amounts in euro millions unless otherwise stated)

Consolidated cash flow statement

			Year ended 31 December	
7p10				
7p18(b)		**Note**	**2006**	**2005**
	Cash flows from operating activities			
7p31	Interest and similar income received		7,003	6,497
7p31	Interest paid		(4,889)	(4,156)
7p31	Dividends received		89	37
	Fee and commission receipts		1,008	1,099
	Net trading and other incomes		305	331
	Recoveries on loans previously written off		29	37
	Cash payments to employees and suppliers		(2,506)	(2,264)
7p35	Income taxes paid		(390)	(307)
	Cash flows from operating profits before changes in operating assets and liabilities		649	1,274
	Changes in operating assets and liabilities:			
	– Net increase in trading assets		(160)	(552)
	– Net increase in derivative financial instruments		(181)	(101)
	– Net decrease/(increase) in loans and advances to banks		81	(119)
	– Net increase in loans and advances to customers		(5,765)	(4,527)
	– Net (increase)/decrease in other assets		(341)	127
	– Net increase in deposits from other banks		1,339	1,273
	– Net increase in other deposits		4,235	1,819
	– Net increase in trading liabilities		258	-
	– Net increase in amounts due to customers		9,019	1,175
	– Net increase in other liabilities		268	133
	– Net cash from operating activities		9,402	502
7p21	**Cash flows from investing activities**			
7p39	Acquisition of subsidiaries, net of cash acquired	49	(293)	-
7p39	Disposal of subsidiaries, net of cash disposed	49	46	-
7p16(a)	Purchase of property and equipment	26	(431)	(215)
7p16(b)	Proceeds from sale of property and equipment		67	79
7p16(c)	Purchase of securities	23	(5,852)	(416)
7p16(d)	Proceeds from sale and redemption of securities		469	498
	Net cash used in investing activities		(5,994)	(54)
7p21	**Cash flows from financing activities**			
7p17(c)	Proceeds from borrowed funds and debt securities		1,455	1,269
7p17(d)	Repayments of borrowed funds and debt securities		(577)	(518)
7p17(a)	Issue of ordinary shares	42	50	30
7p17(b)	Purchase of treasury shares	42	(96)	(112)
7p17(a)	Sale of treasury shares	42	110	121
7p31	Dividends paid	43	(360)	(322)
	Net cash from financing activities		582	468
	Net increase in cash and cash equivalents		3,990	916
	Cash and cash equivalents at beginning of year		10,840	9,998
	Effect of exchange rate changes on cash and cash equivalents		(180)	(74)
	Cash and cash equivalents at end of year	45	14,650	10,840

The notes on pages 9 to 71 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. General information

1p126(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.

1p126(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 These consolidated financial statements have been approved for issue by the Board of Directors on *[date/month]* 2007.

2. Summary of significant accounting policies

1p103(a), 1p108(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

1p14
1p108(a) The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities held at fair value through profit or loss, and all derivative contracts.

1p116 The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

8p28 *(a) Amendments to published standards and interpretations effective 1 January 2006*

The application of the amendments and interpretations listed below did not result in substantial changes to the Group's accounting policies:

IAS 19 Amendment – Actuarial Gains and Losses, Group Plans and Disclosures;
IAS 21 Amendment – Net Investment in a Foreign Operation;
IAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
IAS 39 Amendment – The Fair Value Option;
IAS 39 and IFRS 4 Amendment – Financial Guarantee Contracts;
IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards, and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
IFRS 6, Exploration for and Evaluation of Mineral Resources;
IFRIC 4, Determining whether an Arrangement contains a Lease;
IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

- IAS 19 Amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment only impacts the format and extent of disclosures presented in the accounts.
- IAS 21 Amendment, IAS 39 Amendment – Cash flow hedge accounting of forecasted intragroup transactions, IFRS 1, IFRS 6, IFRIC 4 and IFRIC 5 are not relevant to the Group's operating activities and therefore have no material effect on the Group's policies.
- IAS 39 Amendment – The Fair Value Option. Prior to the amendment, the Group applied the unrestricted version of the fair value option in IAS 39. The Group meets the new criteria in the amendment and therefore continues to designate certain financial assets and financial liabilities at fair value through profit and loss.
- IAS 39 and IFRS 4 Amendment – Financial Guarantee Contracts. These types of contract are now accounted for under IAS 39 and no longer accounted for under IFRS 4, as previously required under IFRS. The measurement and disclosure requirements under IAS 39 have not resulted in a material change to the Group's policies.

Notes to the consolidated financial statements (continued)

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

In 2006, the Group early adopted IFRS 7, Financial instruments: Disclosures, and Amendment to IAS 1 – Capital disclosures. Both standards are applied retrospectively. IFRS 7 supersedes IAS 30 and the disclosure requirements of IAS 32.

8p30 *(c) Interpretations issued but not yet effective*

The Group has chosen not to early adopt the following standard and interpretations that were issued but not yet effective for accounting periods beginning on 1 January 2006:

- IFRS 8, Operating Segments (effective 1 January 2008);
- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective 1 March 2006);
- IFRIC 8, Scope of IFRS 2 (effective 1 May 2006);
- IFRIC 9, Reassessment of embedded derivative (effective 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective 1 November 2006);
- IFRIC 11, IFRS 2 – Group Treasury Share Transactions (effective 1 March 2007); and
- IFRIC 12, Service Concession Arrangements (effective 1 January 2009).

The application of these new interpretations will not have a material impact on the entity's financial statements in the period of initial application.

2.2 Consolidation

27p12 27p14 27p30 *(a) Subsidiaries*

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 on which control ceases.

IFRS3p14 IFRS3p24 IFRS3p28 IFRS3p36 IFRS3p37 IFRS3p56 The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. 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 minority 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 (Note 2.14). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

27p24 27p28 Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary[1].

1p110 28p13 28p11 *(c) Associates*

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. 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 (Note 2.14).

[1] These consolidated financial statements are prepared on the basis of the 'parent company model'. Refer to Appendix III to 'Illustrative corporate consolidated financial statements – 2006' for the appropriate accounting policy if the economic entity model is applied.

Notes to the consolidated financial statements (continued)

28p29
28p30
The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement; its share of post-acquisition movements in reserves 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
Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

1p110 2.3 Segment reporting

14p9
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns different from those of segments operating in other economic environments.

1p110 2.4 Foreign currency translation

1p110
21p17
(a) Functional and presentation currency
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').

21p9
21p18
The consolidated financial statements are presented in euros, which is the Company's functional and presentation currency.

1p110
21p28
21p32
39p95(a)
39p102(a)
(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

39AG83
Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

21p30
Translation differences on non-monetary items, 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 items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

1p110
21p39
(c) Group companies
The results and financial position of all the group 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 balance sheet presented are translated at the closing rate at the date of that balance sheet;

21p39(b)
21p39
- 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

1p76(b)
- all resulting exchange differences are recognised as a separate component of equity.

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 shareholders' equity. When a foreign operation is disposed of, or partially disposed of, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

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

Notes to the consolidated financial statements (continued)

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.

1p110 2.5 Financial assets

39p9
39p45
The Group classifies its financial assets in the following 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 investments at initial recognition.

1p110 *(a) Financial assets at fair value through profit or loss*

39p9 This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing 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 as hedging instruments.

IFRS7 AppxB5(a) Financial assets and financial liabilities are designated at fair value through profit or loss when:

- Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for such as loans and advances to customers or banks and debt securities in issue;
- Certain investments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss; and
- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit and loss.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in 'net income from financial instruments designated at fair value'.

1p110 *(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 entity 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 entity 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.

1p110 *(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. If the Group were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale.

1p110 *(d) Available-for-sale financial assets*

39p9
IFRS7 AppxB5(b)
Available-for-sale investments are those 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.

39p38
IFRS7 AppxB5(c)
Regular-way purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on trade-date – the date on which the Group commits to purchase or sell the asset.

39p43
39p17
39p39
IFRS7p16
Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit and loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

39p46
39p55(a)
Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried

Notes to the consolidated financial statements (continued)

39p55(b) at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in profit or loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

39AG72
39AG73
39AG74
IFRS7p27

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

2.6 Offsetting financial instruments

32p42 Financial assets and liabilities are offset and the net amount reported in the balance sheet 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.

2.7 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, including recent market transactions, and valuation techniques, 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 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 measured at fair value with changes in fair value recognised in the income statement unless the Group chooses to designate the hybrid contracts at fair value through profit and loss.

39p86 The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated 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 hedge);
(b) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge); or
(c) hedges of a net investment in a foreign operation (net investment hedge).

Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

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 income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Effective changes in fair value of interest rate swaps and related hedged items are reflected in 'net interest income – net gains/losses on hedging instruments'. Effective changes in fair value of currency futures are reflected in 'net trading income – foreign exchange – transaction gains less losses'. Any ineffectiveness is recorded in 'net trading income'.

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. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

Notes to the consolidated financial statements (continued)

39p97, 98
39p95
39p100
39p101

(b) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement – 'net trading income – transaction gains less losses'.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of currency swaps and options are recorded in 'net trading income – foreign exchange – transaction gains less losses'.

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 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 income statement.

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 in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

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 income statement under net trading income. However, the gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in 'net income from financial instruments designated at fair value' (Note 2.5).

2.8 Recognition of deferred day one profit and loss

39AG76

The best evidence of fair value at initial recognition is the transaction price (ie, 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 (ie, 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 a financial instrument is initially recognised at the transaction price, which is the best indicator of fair value, 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 profit and loss.

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 income statement without reversal of deferred day one profits and losses.

2.9 Interest income and expense

18p30(a)
IFRS7 AppB5(e)

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' and 'interest expense' in the income statement using the effective interest method.

[See 'Helpful hint 1' – Appendix I.]

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.

Notes to the consolidated financial statements (continued)

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 income statement when the entity's right to receive payment is established.

2.12 Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements
39AG51 as pledged assets when the transferee has the right by contract or custom to sell or repledge the
39p37 collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to 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.

2.13 Impairment of financial assets

39p58 *(a) Assets carried at amortised cost*
39p59 The Group assesses at each balance sheet 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:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

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.

Notes to the consolidated financial statements (continued)

IFRS7p16
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 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 (ie, 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 provision 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.

IFRS7AppxB5(d)

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 income statement in impairment charge for credit losses.

(b) Assets classified as available for sale

39p65
39p67
39p68
39p70

The Group assesses at each balance sheet date 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 considered in determining whether the assets are impaired. 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 income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the 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 income statement.

(c) Renegotiated loans

IFRS7 AppxB5(g)
IFRS7 IG27

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.

Notes to the consolidated financial statements (continued)

1p110 **2.14 Intangible assets**

1p110 *Goodwill*

IFRS3p51
38p118(a)
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 the acquired subsidiary/associate 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. Goodwill is tested annually for impairment and carried at cost
IFRS3p54
38p118(a)
less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

36p80 Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units is represented by each primary reporting segment (Note 2.3).

2.15 Property, plant and equipment

1p110
16p15
16p30
Land and buildings comprise mainly branches and offices. All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

16p12 Subsequent costs 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. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

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

- 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
36p59
The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to amortisation 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.

16p68, 71
16p41
Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating expenses in the income statement.

1p110 **2.16 Impairment of non-financial assets**

36p9
36p10
Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation 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 flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.17 Leases

(a) A group company is the lessee

1p110
17p33
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.

(b) A group company is the lessor

1p110 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.

Notes to the consolidated financial statements (continued)

1p110 7p45

2.18 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and short-term government securities.

1p110

2.19 Provisions

37p14, 24 37p72, 37p63 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 been reliably estimated.

37p24 Where there are 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.

2.20 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.

39p43 39p47 39AG4(a) IFRS7p3(d) Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management.

Any increase in the liability relating to guarantees is taken to the income statement under other operating expenses.

[See 'Helpful hint 2' – Appendix I.]

2.21 Employee benefits

1p110 1p110 19p27 19p25

(a) Pension obligations

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.

19p120A(b) 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.

19p79 19p80 The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date 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.

19p93 19p120A(a) 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 administrative expenses, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the

Notes to the consolidated financial statements (continued)

vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

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.

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.

1p110 *(b) Other post-retirement obligations*

19p120A(a) 19p120A(b) 19p127 Some group companies provide post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. 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 expected average remaining working lives of the related employees. These obligations are valued annually by independent qualified actuaries.

1p110 *(c) Share-based compensation*

IFRS2p15(b) IFRS2p19 The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

1p110 2.22 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 balance sheet date 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 tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. The rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax. 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 where it is probable that future taxable profit will be available against which the 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 income tax losses available for carry-forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

12p61 Deferred tax related to fair value re-measurement of available-for-sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and subsequently recognised in the income statement together with the deferred gain or loss.

Notes to the consolidated financial statements (continued)

1p110 **2.23 Borrowings**

39p43
39p47

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

32p18(a)

Preference shares that carry a mandatory coupon or are redeemable on a specific date or at the option of the shareholder are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

32p31
12p23
32AG31(a)

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

2.24 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 balance sheet date 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.

2.25 Fiduciary activities

The Group acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

1p110 **2.26 Comparatives**

1p38

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

3. Financial risk management

[See 'Helpful hint 3' – Appendix I.]

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-todate information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

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

Notes to the consolidated financial statements (continued)

instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

[See 'Helpful hint 4' – Appendix I.]

3.1 Credit risk

IFRS7p31-33 The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is the most important risk for the Group's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Group's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in credit risk management team of Group Treasury and reported to the Board of Directors and head of each business unit regularly.

3.1.1 Credit risk measurement

(a) Loans and advances
In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the Group reflects three components (i) the 'probability of default' 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'; and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

These credit risk measurements, which reflect expected loss (the 'expected loss model') and are required by the Basel Committee on Banking Regulations and the Supervisory Practices (the Basel Committee), 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 balance sheet date (the 'incurred loss model') rather than expected losses (Note 3.1.3).

(i) 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 judgment and are validated, where appropriate, by comparison with externally available data. Clients of the Group are segmented into four rating classes. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary. The Group regularly validates the performance of the rating and their predictive power with regard to default events.

Group's internal ratings scale and mapping of external ratings

Group's rating	Description of the grade	External rating: Standard & Poor's equivalent
1	Investment grade	AAA, AA+, AA- A+, A-
2	Standard monitoring	BBB+, BBB, BBB-, B+, BB, BB-, B+, B, B-
3	Special monitoring	CCC to C
4	Sub-standard	D

IFRS7 IG23, 25(a), (c) The ratings of the major rating agency shown in the table above are mapped to our rating classes based on the long-term average default rates for each external grade. The Group uses the external ratings where available to benchmark our internal credit risk assessment. Observed defaults per rating category vary year on year, especially over an economic cycle.

(ii) Exposure at default 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 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 and typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit mitigation.

b) Debt securities and other bills
For debt securities and other bills, external rating such as Standard & Poor's rating or their equivalents are used by Group Treasury for managing of the credit risk exposures. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

Notes to the consolidated financial statements (continued)

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 by 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.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

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 noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by 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.

(b) Derivatives

IFRS7AppxB10(b) The Group maintains strict control limits on net open derivative positions (ie, the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (ie, assets where their fair value is positive), which in relation to derivatives is only a small 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 usually 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 balance sheet assets and liabilities, as transactions are usually settled on a gross basis. 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) Credit-related commitments*

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

(All amounts in euro millions unless otherwise stated)

Notes to the consolidated financial statements (continued)

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. 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.

3.1.3 Impairment and provisioning policies

The internal and external rating systems described in Note 3.1.1 focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment (see Note 2.13). Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

The impairment provision shown in the balance sheet at year-end is derived from each of the four internal rating grades. However, the majority of the impairment provision comes from the bottom two gradings. The table below shows the percentage of the Group's on- and off-balance sheet items relating to loans and advances and the associated impairment provision for each of the Group's internal rating categories:

Group's rating

	2006		2005	
	Loans and advances (%)	Impairment provision (%)	Loans and advances (%)	Impairment provision (%)
1. Investment grade	32	0.1	26	0.1
2. Standard monitoring	56	0.4	59	0.6
3. Special monitoring	11	6.3	14	6.9
4. Sub-standard	1	37.8	1	36.1
	100	1.38	100	1.76

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Group:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (eg. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

The Group's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

(All amounts in euro millions unless otherwise stated)

Notes to the consolidated financial statements (continued)

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

IFRS7p34(a), 36(a)
IFRS7Appx B9, 10
IFRS7IG21

	Maximum exposure	
	2006	2005
Credit risk exposures relating to on-balance sheet assets are as follows:		
Treasury bills and other eligible bills	1,485	771
Loans and advances to banks	8,576	5,502
Loans and advances to customers:		
Loans to individuals:		
– Overdrafts	2,153	2,375
– Credit cards	2,612	2,650
– Term loans	2,486	2,256
– Mortgages	30,848	30,528
Loans to corporate entities:		
– Large corporate customers	15,496	11,975
– Small and medium size enterprises (SMEs)	4,198	2,303
– Other	1,410	1,121
Trading assets		
– Debt securities	4,014	7,023
Derivative financial instruments	5,325	5,442
Financial assets designated at fair value:		
– Debt securities	200	–
– Loans and advances to banks	128	135
– Loans and advances to customers	432	277
Investment securities		
– Debt securities	6,473	1,942
Pledged assets	1,004	1,083
Other assets	2,003	2,111
Credit risk exposures relating to off-balance sheet items are as follows:		
Financial guarantees	660	789
Loan commitments and other credit related liabilities	5,769	3,656
At 31 December	95,272	81,939

IFRS7p36
IFRS7AppxB9

The above table represents a worse case scenario of credit risk exposure to the Group at 31 December 2006 and 2005, 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 balance sheet.

As shown above, 71% of the total maximum exposure is derived from loans and advances to banks and customers (2005: 72%); 13% represents investments in debt securities (2005: 12%).

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:

- 88% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2005: 85%);
- Mortgage loans, which represents the biggest group in the portfolio, are backed by collateral;
- 80% of the loans and advances portfolio are considered to be neither past due nor impaired (2005: 75%);
- Of the 9 million loans and advances assessed on an individual basis, less than 1% is impaired;
- An improvement in the credit quality of loans and advances has resulted in a lower impairment charge in the income statement showing a 12% decrease;
- 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 at A- credit rating.

[See 'Helpful hint 5' – Appendix I.]

(All amounts in euro millions unless otherwise stated)

Notes to the consolidated financial statements (continued)

3.1.5 Loans and advances

Loans and advances are summarised as follows:

	31 December 2006		31 December 2005	
	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	48,101	8,576	40,427	5,502
Past due but not impaired	8,107	-	8,792	-
Impaired	3,938	7	5,040	-
Gross	60,146	8,583	54,259	5,502
Less: allowance for impairment	(943)	(7)	(1,051)	-
Net	59,203	8,576	53,208	5,502

The total impairment provision for loans and advances is €950 (2005: €1,051) of which €269 (2005: €216) represents the individually impaired loans and the remaining amount of €681 represents the portfolio provision. Further information of the impairment allowance for loans and advances to banks and to customers is provided in Notes 18 and 22.

During the year ended 31 December 2006, the Group's total loans and advances increased by 15% as a result of the expansion of the lending business, especially in Australia and other Asia Pacific countries. 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 or 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.

31 December 2006

	Loans and advances to customers								
	Individual (retail customers)				Corporate entities			Total	
	Overdrafts	Credit cards	Term loans	Mortgages	Large corporate customers	SMEs	Other	loans and advances to customers	Loans and advances to banks
Grades:									
1. Investment grade	1,398	557	727	5,318	4,973	1,130	892	14,995	6,974
2. Standard monitoring	112	38	803	21,273	9,213	887	315	32,641	1,119
3. Special monitoring	78	67	87	57	93	32	12	426	483
4. Sub-standard	–	–	-	39	–	–	–	39	–
Total	1,888	662	1,617	26,687	14,279	2,049	1,219	48,101	8,576

Mortgage loans in the sub-standard class were considered not to be impaired after taking into consideration the recoverability from collateral.

31 December 2005

	Loans and advances to customers								
	Individual (retail customers)				Corporate entities			Total	
	Overdrafts	Credit cards	Term loans	Mortgages	Large corporate customers	SMEs	Other	loans and advances to customers	Loans and advances to banks
Grades:									
1. Investment grade	1,593	252	611	3,333	5,364	34	168	11,355	3,995
2. Standard monitoring	123	39	21	22,789	3,846	91	575	27,484	875
3. Special monitoring	84	17	85	26	1,268	32	38	1,550	632
4. Sub-standard	–	–	–	38	–	–	–	38	–
Total	1,800	308	717	26,186	10,478	157	781	40,427	5,502

(All amounts in euro millions unless otherwise stated)

Notes to the consolidated financial statements (continued)

IFRS7p37(a)

(b) Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not 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 2006

		Individual (retail customers)				
		Overdrafts	**Credit cards**	**Term loans**	**Mortgages**	**Total**
	Past due up to 30 days	–	543	378	1,834	3,078
	Past due 30 - 60 days	–	203	445	677	1,325
	Past due 60-90 days	–	768	–	423	1,191
	Total	–	1,514	823	2,934	5,594
IFRS7p37(c)	Fair value of collateral	–	–	667	2,832	3,499

		Corporate entities			
		Large corporate customers	**SMEs**	**Other**	**Total**
	Past due up to 30 days	550	1,853	110	2,513
	Past due 30-60 days	–	–	–	–
	Past due 60-90 days	–	–	–	–
	Total	550	1,853	110	2,513
IFRS7p37(c)	Fair value of collateral	562	1,926	106	2,594

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 updated by reference to market price or indexes of similar assets.

31 December 2005

		Individual (retail customers)				
		Overdrafts	**Credit cards**	**Term loans**	**Mortgages**	**Total**
	Past due up to 30 days	228	693	733	1,924	3,578
	Past due 30-60 days	–	403	520	844	1,767
	Past due 60-90 days	–	877	–	328	1,205
	Total	228	1,973	1,253	3,096	6,550
IFRS7p37(c)	Fair value of collateral	–	–	1,156	3,534	4,690

		Corporate entities			
		Large corporate customers	**SMEs**	**Other**	**Total**
	Past due up to 30 days	550	1,853	110	2,513
	Past due 30-60 days	–	–	–	–
	Past due 60-90 days	–	–	–	–
	Total	550	1,853	110	2,513
IFRS7p37(c)	Fair value of collateral	562	1,926	106	2,594

[See 'Helpful hint 6' – Appendix I.]

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 €533 (2005: €645).

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:

(All amounts in euro millions unless otherwise stated)

Notes to the consolidated financial statements (continued)

	31 December 2006	Individual			Corporate entities			Total
		Overdrafts	Credit cards	Term loans	Mortgages	Large corporate customers	SMEs	
IFRS7p37(b)	Individually impaired loans	85	41	187	74	112	34	533
IFRS7p37(c)	Fair value of collateral	23	32	55	62	87	12	271
	31 December 2005							
IFRS7p37(b)	Individually impaired loans	104	95	163	143	113	27	645
IFRS7p37(c)	Fair value of collateral	67	86	117	135	18	6	429

(ii) Loans and advances to banks

IFRS7p37(b)(c) The total gross amount of individually impaired loans and advances to banks as at 31 December 2006 was €7 (2005: nil). No collateral is held by the Group, and a full impairment provision 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. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment 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. Renegotiated loans that would otherwise be past due or impaired totalled €228 at 31 December 2006 (2005: €289).

	2006	2005
Loans and advances to customers – individuals:		
– Term loans	123	196
– Mortgages	105	93
Total	228	289

3.1.6 Debt securities, treasury bills and other eligible bills

IFRS7p36(c) The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at 31 December 2006, based on Standard & Poor's ratings or their equivalent:

	Treasury bills and other bills	Trading securities	Investment securities	Designated at fair value	Total
AAA	1,085	2,124	3,987	200	7,396
AA- to AA+	200	780	1,231	–	2,211
A- to A+	200	660	753	–	1,613
Lower than A-	–	450	500	–	950
Unrated	–	–	2	–	2
Total	1,485	4,014	6,473	200	12,172

3.1.7 Repossessed collateral

IFRS7p36(b), 38, IG22 During 2006, 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 balance sheet within other assets.

3.1.8 Concentration of risks of financial assets with credit risk exposure

IFRS7p31-33 *(a) Geographical sectors*

The following table breaks down the Group's main credit exposure at their carrying amounts, as categorised by geographical region as of 31 December 2006. For this table, the Group has allocated exposures to regions based on the country of domicile of our counterparties.

(All amounts in euro millions unless otherwise stated)

Notes to the consolidated financial statements (continued)

	Europe	Canada and US	Australia	South -East Asia	Other countries	Total
Treasury bills and other eligible bills	453	398	339	295	–	1,485
Loans and advances to banks	6,421	578	764	100	713	8,576
Loans and advances to customers:						
Loans to individuals:						
– Overdrafts	630	743	459	295	26	2,153
– Credit cards	1,280	752	387	111	82	2,612
– Term loans	1,394	129	785	165	13	2,486
– Mortgages	28,558	1,102	1,023	12	153	30,848
Loans to corporate entities:						
– Large corporate customers	12,182	3,098	120	80	16	15,496
– SMEs	2,660	1,065	123	86	264	4,198
– Other	268	121	235	764	22	1,410
Trading assets – debt securities	2,012	1,681	120	-	201	4,014
Derivative financial instruments	2,635	1,876	378	83	353	5,325
Financial assets designated at fair value:						
– Debt securities	111	89	–	–	–	200
– Loans and advances to banks	100	28	–	–	–	128
– Loans and advances to customers	201	125	87	9	10	432
Investment securities – debt securities	3,224	1,945	789	471	44	6,473
Pledged assets	816	123	65	–	–	1,004
Other assets	789	651	563	–	–	2,003
As at 31 December 2006	63,734	14,504	6,237	2,471	1,897	88,843
As at 31 December 2005	57,751	11,078	4,876	3,212	577	77,494

(b) Industry sectors

The following table breaks down the Group's main credit exposure at their carrying amounts, as categorised by the industry sectors of our counterparties.

	Financial institutions	Manu-facturing	Real estate	Wholesale and retail trade	Public sector	Other industries	Individuals	Total
Treasury bills and other eligible bills	1,110	–	–	–	375	–	–	1,485
Loans and advances to banks	8,576	–	–	–	–	–	–	8,576
Loans and advances to customers:								
Loans to individuals:								
– Overdrafts	–	–	–	–	–	–	2,153	2,153
– Credit cards	–	–	–	–	–	–	2,612	2,612
– Term loans	–	–	–	–	–	–	2,486	2,486
– Mortgages	–	–	–	–	–	–	30,848	30,848
Loans to corporate entities:								
– Large corporate customers	–	9,546	5,021	761	–	168	–	15,496
– SMEs	–	2,075	986	578	–	559	–	4,198
– Other	–	300	378	–	612	120	–	1,410
Trading assets – debt securities	2,747	235	1,009	23	–	–	–	4,014
Derivative financial instruments	3,125	1,876	123	57	–	144	–	5,325
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
Investment securities – debt securities	1,098	1,234	2,463	124	1,512	42	–	6,473
Pledged assets	–	65	–	–	939	–	–	1,004
Other assets	1,012	345	329	129	88	100	–	2,003
As at 31 December 2006	17,996	15,710	10,661	1,718	3,526	1,133	38,099	88,843
As at 31 December 2005	13,362	9,218	9,845	3,475	2,891	894	37,809	77,494

Notes to the consolidated financial statements (continued)

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 (Note 20.2). 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' methodology (VAR) to its trading and non-trading portfolios, 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, trading and non-trading separately, which are monitored on a daily basis by Group Treasury.

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 and non-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 €187 in 2006 (2005: €173).

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.

(All amounts in euro thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

3.2.2 VAR summary for 2006 and 2005

(a) Group VAR by risk type

	12 months to 31 December 2006			12 months to 31 December 2005		
	Average	**High**	**Low**	**Average**	**High**	**Low**
Foreign exchange risk	17	18	15	15	18	12
Interest rate risk	165	179	135	154	173	134
Equities risk	5	5	2	4	6	2
Total VAR	187	202	152	173	197	148

(b) Trading portfolio VAR

	12 months to 31 December 2006			12 months to 31 December 2005		
	Average	**High**	**Low**	**Average**	**High**	**Low**
Foreign exchange risk	17	18	15	15	18	12
Interest rate risk	159	148	141	143	139	148
Equities risk	5	5	2	4	6	2
Total VAR	181	171	158	162	163	162

(c) Non-trading portfolio VAR by risk type

	12 months to 31 December 2006			12 months to 31 December 2005		
	Average	**High**	**Low**	**Average**	**High**	**Low**
Foreign exchange risk	–	–	–	–	–	–
Interest rate risk	9	28	5	11	32	7
Equities risk	–	–	–	–	–	–
Total VAR	9	28	5	11	32	7

The increase of VAR in 2006, especially the interest rate risk, mainly relates to the increased volatility of market interest rates in global principal financial markets.

The above three VAR results are calculated independently from the underlying positions and historical market moves. The aggregate of the trading and non-trading VAR results does not constitute the Group's VAR due to correlations and consequent diversification effects between risk types and portfolio types.

(All amounts in euro millions unless otherwise stated)

Notes to the consolidated financial statements (continued)

3.2.3 Foreign exchange risk

IFRS7 AppxB23

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. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

Concentrations of currency risk – on- and off-balance sheet financial instruments

	€	US$	Swiss franc	£	Other	Total
As at 31 December 2006						
Assets						
Cash and balances with central banks	1,824	912	1,216	1,236	892	6,080
Treasury bills and other eligible bills	100	235	150	1,000	–	1,485
Loans and advances to banks	2,572	1,876	1,715	1,849	564	8,576
Loans and advances to customers	20,264	15,987	6,984	7,873	8,095	59,203
Trading assets	1,435	1,324	1,365	1,097	10	5,231
Derivative financial instruments	1,643	1,459	398	1,627	198	5,325
Financial assets designated at fair value	1,067	768	638	47	–	2,520
Investment securities:						
– Available for sale	1,555	501	432	1,379	105	3,972
– Held to maturity	998	880	–	2,001	120	3,999
Pledged assets	920	50	–	34	–	1,004
Other assets	1,156	264	509	71	3	2,003
Total financial assets	33,534	24,256	13,407	18,214	9,987	99,398
Liabilities						
Deposits from banks	5,785	3,532	2,784	1,169	1,769	15,039
Due to customers	16,155	12,354	3,278	14,839	5,149	51,775
Other deposits	6,076	2,478	3,218	3,804	673	16,249
Trading liabilities	212	50	–	–	–	262
Derivative financial instruments	1,156	589	432	1,276	324	3,777
Debt securities in issue	1,194	189	183	200	-	1,766
Other borrowed funds	2,212	93	177	251	75	2,808
Financial liabilities designated at fair value	700	–	–	667	–	1,367
Other liabilities	49	61	34	791	102	1,037
Total financial liabilities	33,539	19,346	10,106	22,997	8,092	94,080
Net on-balance sheet financial position	(5)	4,910	3,301	(4,783)	1,895	5,318
Credit commitments	1,208	1,562	1,278	1,324	1,057	6,429
At 31 December 2005						
Total financial assets	29,542	18,675	10,956	12,905	11,851	83,929
Total financial liabilities	35,831	15,945	9,657	10,270	8,675	80,378
Net on-balance sheet financial position	(6,289)	2,730	1,299	2,635	3,176	3,551
Credit commitments	362	1,654	1,976	234	219	4,445

(All amounts in euro thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

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 that may be undertaken, which is monitored daily by Group Treasury.

IFRS7p34(a)(b)

The table below summarises the Group's exposure to interest rate risks. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Up to1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2006							
Assets							
Cash and central banks balances	6,080	–	–	–	–	–	6,080
Treasury and other eligible bills	712	773	–	–	–	–	1,485
Loans and advances to banks	3,157	3,647	1,507	265	–	–	8,576
Loans and advances to customers	15,676	16,583	22,008	4,432	492	12	59,203
Trading assets	1,643	1,868	1,503	–	–	217	5,231
Derivative financial instruments	–	604	833	1,745	48	2,045	5,325
Financial assets designated at fair value	–	760	–	–	–	1,760	2,520
Investment securities:							
– Available for sale	–	–	–	892	1,616	1,464	3,972
– Held to maturity	–	1,000	899	888	1,212	–	3,999
Pledged assets	862	–	–	142	–	–	1,004
Other assets	328	342	15	32	882	404	2,003
Total financial assets	28,458	25,577	26,815	8,396	4,250	5,902	99,398
Liabilities							
Deposits from banks	6,348	4,764	3,410	381	136	–	15,039
Due to customers	27,456	11,987	9,673	1,345	1,284	30	51,775
Other deposits	3,721	4,652	3,320	3,892	664	–	16,249
Trading liabilities	262	–	–	–	–	–	262
Derivative financial instruments	949	548	185	36	28	2,031	3,777
Debt securities in issue	55	69	1,076	566	–	–	1,766
Other borrowed funds	35	1,139	710	–	924	–	2,808
Financial liabilities designated at fair value	–	–	–	1,367	–	–	1,367
Other liabilities	–	12	292	–	–	733	1,037
Total financial liabilities	38,826	23,171	18,666	7,587	3,036	2,794	94,080
Total interest repricing gap	(10,368)	2,406	8,149	(809)	1,214		
As at 31 December 2005							
Total financial assets	32,107	20,600	12,740	3,688	4,184	10,610	83,929
Total financial liabilities	28,891	21,252	13,046	4,080	3,563	9,546	80,378
Total interest repricing gap	3,216	(652)	(306)	(392)	(621)		

(All amounts in euro millions unless otherwise stated)

Notes to the consolidated financial statements (continued)

3.3 Liquidity risk

IFRS7p31
IFRS7p33
IFRS7p39(b)

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

IFRS7p39(b)

3.3.1 Liquidity risk management process

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 balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

IFRS7 IG31

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(b)
IFRS7 IG31

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 cash flows

IFRS7 AppxB11
IFRS7 AppxB14

The table below presents the cash flows payable by the Group under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows.

As at 31 December 2006	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Deposits from banks	4,162	4,602	3,956	2,017	920	15,657
Due to customers	26,165	8,457	13,459	2,934	2,105	53,120
Other deposits	3,721	4,678	3,340	4,068	1,425	17,232
Trading liabilities	262	–	–	–	–	262
Debt securities in issue	55	70	1,123	697	-	1,945
Other borrowed funds	–	–	1,261	–	997	3,258
Financial liabilities designated at fair value	–	1,000	–	1,481	–	1,481
Other liabilities	–	784	262	–	–	1,046
Total liabilities (contractual maturity dates)	34,365	19,591	23,401	11,197	5,447	94,001
DV, IFRS7 IG30 **Total assets** (expected maturity dates)	28,050	29,874	9,456	17,908	12,480	97,768

(All amounts in euro thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

As at 31 December 2005	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Deposits from banks	4,065	3,472	3,244	1,843	1,622	14,246
Due to customers	22,135	6,278	12,896	2,274	1,007	44,590
Other deposits	2,361	3,437	2,954	3,188	933	12,873
Trading liabilities	–	–	–	–	–	–
Debt securities in issue	88	65	1,223	727	–	2,103
Other borrowed funds	50	450	1,848	81	770	3,199
Financial liabilities designated at fair value	–	–	–	1,422	–	1,422
Other liabilities	–	631	63	–	–	694
Total liabilities (contractual maturity dates)	28,700	14,333	22,228	9,535	4,332	79,127
DV, IFRS7 IG30 **Total assets** (expected maturity dates)	30,748	23,892	15,552	4,399	7,364	81,955

[See 'Helpful hint 7'– Appendix I.]

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, central bank balances, items in the course of collection and treasury and other eligible bills; loans and advances to banks; and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. In addition, debt securities and treasury and other bills have been pledged to secure liabilities. The Group would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources such as asset-backed markets.

3.3.4 Derivative cash flows

(a) Derivatives settled on a net basis

IFRS7p39(a), AppxB14(c), B15

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, 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 balance sheet to the contractual maturity date. 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 2006						
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 2005						
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

[See 'Helpful hint 8' – Appendix I.]

(All amounts in euro millions unless otherwise stated)

Notes to the consolidated financial statements (continued)

(a) Derivatives settled on a gross basis

IFRS7p39(a), AppxB14(d)

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

- Foreign exchange derivatives: currency forward, currency swaps; and
- Interest rate derivatives: cross currency interest rate swaps.

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 balance sheet to the contractual maturity date. 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 2006						
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
Derivatives held for hedging:						
– Foreign exchange derivatives:						
– Outflow	241	321	1,165	1,406	885	4,018
– Inflow	276	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	8,600	21,803	36,860	53,507	1,962	122,732
Total inflow	8,604	21,835	36,997	53,635	2,125	123,196
At 31 December 2005						
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	–	–	–	–	–	–
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	15,444	24,338	38,889	693	85,849
Total inflow	6,435	15,330	24,131	38,578	650	85,124

[See 'Helpful hint 9' – Appendix I.]

(All amounts in euro thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

3.3.5 Off-balance sheet items

(a) Loan commitments
The dates of the contractual amounts of the Group's off-balance sheet financial instruments that commit it to extend cre0dit to customers and other facilities (Note 47), are summarised in the table below.

(b) Financial guarantees and other financial facilities
Financial guarantees (Note 47), are also included 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 47, are summarised in the table below.

(d) Capital commitments
Capital commitments for the acquisition of buildings and equipment (Note 47) are summarised in the table below.

		No later than 1 year	1-5 years	Over 5 years	Total
	At 31 December 2006				
IFRS7 AppxB14(e)	Loan commitments	1,965	836	776	3,577
IFRS7p39	Guarantees, 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 2005				
IFRS7 AppxB14(e)	Loan commitments	2,209	30	128	2,367
IFRS7p39	Guarantees, 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 measured at fair value using a valuation technique
IFRS7p27(c) The total amount of the change in fair value estimated using a valuation technique that was recognised in profit or loss during the period is €28 (2005: €19).

(b) Financial instruments not measured at fair value
IFRS7p25
IFRS7 AppxB2(a) The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at their fair value.

(All amounts in euro millions unless otherwise stated)

Notes to the consolidated financial statements (continued)

	Carrying value		Fair value	
	2006	2005	2006	2005
Financial assets				
Loans and advances to banks	8,576	5,502	8,742	5,510
Loans and advances to customers	59,203	53,208	59,461	53,756
– Retail customers (individual)	37,841	37,515	38,006	37,901
– Large corporate customers	15,695	12,201	15,763	12,327
– SMEs	4,236	2,348	4,254	2,372
– Other	1,431	1,144	1,438	1,156
Investment securities (held-to-maturity)	3,999	1,009	4,061	1,020
Financial liabilities				
Deposits from banks	15,039	13,633	14,962	13,541
Other deposits	16,249	12,031	16,221	11,997
Due to customers	51,775	42,698	52,032	42,695
– Retail customers	32,355	27,638	32,516	27,636
– Large corporate customers	10,913	8,096	10,967	8,095
– SMEs	8,507	6,964	8,549	6,964
Debt securities in issue	1,766	1,232	1,785	1,301
Other borrowed funds	2,808	2,512	2,895	2,678

IFRS7p27(a) *(i) Due from other banks*
Due from other banks includes inter-bank placements and items in the course of collection.

The fair value of floating rate placements and overnight deposits is their carrying amount. 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(a) *(ii) Loans and advances to customers*
Loans and advances are net of provisions 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(a) *(iii) Investment securities*
Investment securities include only interest-bearing assets held to maturity; assets classified as available for sale are measured at fair value. Fair value for 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.

IFRS7p29(a) *(iv) Due to other banks and customers, other deposits and other borrowings*
The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

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

IFRS7p27(a)(b) *(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.

3.5 Capital management

1p124A The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, 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.

(All amounts in euro thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

1p124B(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.

1p124B(a)(ii) The Authority requires each bank or banking group to: (a) hold the minimum level of the regulatory capital of €4, and (b) maintain a ratio of total regulatory capital to the risk-weighted asset (the 'Basel ratio') at or above the internationally agreed minimum of 8%. In addition, those individual banking subsidiaries or similar financial institutions not incorporated in the European Union are directly regulated and supervised by their local banking supervisor, which may differ from country to country.

The Group's regulatory capital as managed by its central Group Treasury is divided into two tiers:

- Tier 1 capital: share capital (net of any book values of the treasury shares), minority 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.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

1p124B(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 Group and the
1p124B(d) Group complied with all of the externally imposed capital requirements to which they are subject.

	2006	2005
Tier 1 capital		
Share capital (net of the treasury shares)	2,010	1,916
General bank reserves	175	125
Statutory reserve	112	102
Retained earnings	2,359	1,920
Minority interests	44	37
Less: goodwill	(237)	(312)
Total qualifying Tier 1 capital	4,463	3,788
Tier 2 capital		
Redeemable preference shares	552	552
Convertible bonds (including liability and equity portions)	186	185
Revaluation reserve – available-for-sale investments	256	128
Collective impairment allowance	570	706
Total qualifying Tier 2 capital	1,564	1,571
Less investments in associates	(112)	(108)
Total regulatory capital	5,915	5,251
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	10.08%	10.72%

Notes to the consolidated financial statements (continued)

1p124B(c) The increase of the regulatory capital in the year of 2006 is mainly due to the contribution of the current-year profit. The increase of the risk-weighted assets reflects the expansion of the business in SMEs in 2006.

4. Critical accounting estimates and judgments

1p113 1p116 1p120 The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(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 income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in 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. To the extent that the net present value of estimated cash flows differs by +/-5%, the provision would be estimated €8 higher or €5 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 judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of a 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 suffer an additional €105 loss in its 2006 financial statements, being the transfer of the total fair value reserve to the income statement.

(c) Fair value of derivatives
The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created 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 and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors
IFRS7p27(c) could affect 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 €1,553 as compared to their reported fair value of €1,548 at the balance sheet date.

(d) Securitisations and special purpose entities
The Group sponsors the formation of special purpose entities (SPEs) primarily for the purpose of allowing clients to hold investments, for asset securitisation transactions and for buying or selling credit protection. The Group does not consolidate SPEs that it does not control. As it can sometimes be difficult to determine whether the Group controls an SPE, it makes judgments about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question. In many instances, elements are present that considered in isolation indicate control or lack of control over an SPE, but when considered together make it difficult to reach a clear conclusion. In such cases, the SPE is consolidated.

Were the Group not to consolidate the assets, liabilities and the results of these consolidated SPEs, the net effect on the balance sheet would be a decrease in net assets of €277 (2005: €223) and results of €41 (2005: €40).

Notes to the consolidated financial statements (continued)

(e) Held-to-maturity investments
The Group follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire category as available for sale. The investments would therefore be measured at fair value not amortised cost. If the entire held-to-maturity investments are tainted, the fair value would increase by €62, 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 during the ordinary course of business. 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 in the period in which such determination is made.

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

- increase the income tax liability by €10 and the deferred tax liability by €20, if unfavourable; or
- decrease the income tax liability by €9 and the deferred tax liability by €18, if favourable.

5. Segment analysis

(a) By business segment
14p50 The Group is divided into three main business segments on a worldwide basis:

14p81
- 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.

Other group operations comprise fund management, institutional finance and providing computer services, none of which constitutes a separately reportable segment.

14p75 Transactions between the business segments are on normal commercial terms and conditions.

14p51 Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in operating 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.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet, but exclude items such as taxation and borrowings.

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.

(All amounts in euro millions unless otherwise stated)

Notes to the consolidated financial statements (continued)

	At 31 December 2006	Retail banking	Corporate banking	Investment banking	Other	Eliminations	Group
14p74	External revenues	3,038	2,340	2,874	173	–	8,425
14p51	Revenues from other segments	1,017	221	–	–	(1,238)	–
	Total	4,055	2,561	2,874	173	(1,238)	8,425
14p52, 67	Segment result	664	346	307	66	–	1,383
	Unallocated costs	–	–	–	–	–	(135)
14p67	Operating profit	–	–	–	–	–	1,248
14p64	Share of results of associates	6	–	–	1	–	7
	Profit before tax	–	–	–	–	–	1,255
	Income tax expense	–	–	–	–	–	(377)
14p67	**Profit for the year**	–	–	–	–	–	878
14p55	Segment assets	57,614	22,903	20,098	422	–	101,037
14p66	Associates	35	–	–	77	–	112
	Unallocated assets	–	–	–	–	–	390
14p67	**Total assets**						101,539
14p56	Segment liabilities	61,185	20,753	8,351	314	–	90,603
	Unallocated liabilities	–	–	–	–	–	5,391
14p67	**Total liabilities**						95,994
	Other segment items						
14p57	Capital expenditure	257	116	32	64	–	469
14p58	Depreciation	173	127	17	6	–	323
14p58	Impairment charge	44	67	33	–	–	144
14p61	Other non-cash expenses	50	10	4	–	–	64
DV, 14p59	Restructuring costs	283	–	–	–	–	283

[See 'Helpful hint 10' – Appendix I.]

(All amounts in euro thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

	At 31 December 2005	Retail banking	Corporate banking	Investment banking	Other	Elimin-ations	Group
14p74	External revenues	4,277	1,965	1,193	125	–	7,560
14p51	Revenues from other segments	517	63	–	12	(592)	–
	Total	4,794	2,028	1,193	137	(592)	7,560
14p52, 67	Segment result	755	318	183	51	–	1,307
	Unallocated costs	–	–	–	–	–	(111)
14p67	Operating profit	–	–	–	–	–	1,196
14p64	Share of results of associates	6	–	–	1	–	7
	Profit before tax	–	–	–	–	–	1,203
	Income tax expense	–	–	–	–	–	(375)
14p67	**Profit for the year**	–	–	–	–	–	828
14p55	Segment assets	56,585	20,654	4,798	3,699	–	85,376
14p66	Associates	32	–	–	76	–	108
	Unallocated assets	–	–	–	–	–	675
14p67	**Total assets**						86,159
14p56	Segment liabilities	47,163	23,591	2,955	3,651	–	77,360
	Unallocated liabilities	–	–	–	–	–	4,334
14p67	**Total liabilities**						81,694
	Other segment items						
14p57	Capital expenditure	205	121	31	25	–	382
14p58	Depreciation	170	126	15	4	–	315
14p58	Impairment charge	42	84	10	–	–	136
14p61	Other non-cash (income)/expenses	40	8	3	2	–	53

Capital expenditure comprises additions to property and equipment (Note 26) and goodwill (Note 25) including additions resulting from acquisitions through business combinations.

(b) By geographical segment

14p81 Although the Group's three business segments are managed on a worldwide basis, they operate in eight main geographical areas.

[Name of country] is the home country of the parent bank, which is also the main operating company. The areas of operation include all the primary business segments.

In the UK (which is over the 10% reporting threshold in revised IAS 14), the areas of operation include all the primary business segments.

In other European countries (it is assumed that the countries in this category are individually less than the 10% threshold for a separately reportable segment), the Group operates retail and corporate banking services.

In Canada, the US and Latin America, the main activity is corporate banking services.

In Australasia and South-East Asia, the main activities are corporate banking and corporate finance services.

In South-East Asia, the principal countries in which the Group operates are Japan, China and Thailand. As one of the largest *[home country]* banks, the Group accounts for a significant share of credit exposure to many sectors of the economy. However, credit risk is spread over a diversity of personal and commercial customers.

With the exception of *[home country]* and *[other individual countries in Europe over 10% reporting threshold]*, no other individual country contributed more than 10% of consolidated income or assets.

Revenue from external customers is based on the country in which the customer is located. Assets are shown by the geographical location of the assets.

(All amounts in euro millions unless otherwise stated)

Notes to the consolidated financial statements (continued)

14p81 Capital expenditure is shown by the geographical area in which the buildings and equipment are located.

	Revenues	Total assets	Capital expenditure
At 31 December 2006			
[Home country]	1,561	23,938	187
[Other individual countries in Europe over 10% reporting threshold]	3,335	29,543	168
Other European countries	1,974	20,298	73
Canada and US	1,075	15,390	41
Australia	566	6,421	–
South-East Asia	270	3,372	–
Other countries	88	2,075	–
Share of associates	–	112	–
Unallocated assets	–	390	–
Total	8,869	101,539	469
As at 31 December 2005			
[Home country]	1,465	19,702	143
[Other individual countries in Europe over 10% threshold]	2,951	25,868	157
Other European countries	1,662	16,437	40
Canada and US	1,109	11,390	17
Australia	458	6,769	15
South-East Asia	367	4,892	8
Other countries	9	678	2
Share of associates	–	108	–
Unallocated assets	–	315	–
	8,021	86,159	382

6. Net interest income

		2006	2005
IFRS7p20(b)	**Interest income**		
IFRS7 IG6	Loans and advances:		
	– To banks	751	663
	– To customers	5,184	4,579
		5,935	5,242
	Cash and short term funds	617	550
	Investment securities	251	222
	Securities borrowed and reverse repos	104	147
	Net gains/losses on hedge instruments	318	305
	Other	18	17
		7,243	6,483
IFRS7p20(b)	**Interest expense**		
IFRS7 IG6	Deposits from banks	844	729
	Due to customers	2,907	2,509
		3,751	3,238
	Debt securities in issue	105	89
	Securities lent and repos	98	84
	Other borrowed funds	191	199
	Other	511	469
		4,656	4,079

IFRS7p20(d) Interest income accrued on impaired financial assets is €13 (2005: €11).

[See 'Helpful hint 11' – Appendix I.]

(All amounts in euro thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

7. Net fee and commission income

		2006	2005
IFRS7p20(c)	**Fee and commission income**		
1p103(c)	Credit related fees and commissions	675	631
	Corporate finance fees	201	176
	Portfolio and other management fees	74	98
	Asset management and related fees	130	120
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	6	4
		48	52

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. These services give rise to the risk that the Group will be accused of maladministration or under-performance.

8. Dividend income

		2006	2005
18p35(b)(v)	Trading securities	64	22
39p55(b)	Available-for-sale securities	23	11
		87	33

9. Net trading income

		2006	2005
IFRS7p20(a)	Foreign exchange:		
21p52(a)	– Translation gains less losses of trading assets	63	60
	– Transaction gains less losses	50	46
	Interest rate instruments	35	29
	Equities	13	16
		161	151

Foreign exchange net trading income includes gains and losses from spot and forward contracts, options, futures, and translated foreign currency assets and liabilities. Interest rate instruments includes 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. Equities trading income includes the results of making markets globally in equity securities and equity derivatives such as swaps, options, futures and forward contracts.

10. Net income from financial instruments designated at fair value

		2006	2005
IFRS7p20(a)(i)	Net income/(expense) arising on:		
	– Equity securities	92	75
	– Loans and advances to banks	12	22
	– Loans and advances to customers	6	9
	– Debt securities in issue	(3)	(6)
		107	100

(All amounts in euro millions unless otherwise stated)

Notes to the consolidated financial statements (continued)

11. Administrative expenses

		2006	2005
	Staff costs		
1p93	Wages and salaries	995	943
	Social security costs	212	230
	Pension costs:		
19p46	– Defined contribution plans	132	114
19p120A(g)	– Defined benefit plans (Note 39)	118	78
19p131	Other post retirement benefits (Note 39)	10	9
		1,467	1,374
	Other administrative expenses	248	368
1p93	Depreciation (Note 26)	323	298
		2,038	2,040

12. Other operating expenses

		2006	2005
	(Profit)/loss on sale of property and equipment	15	(5)
38p126	Software costs	14	11
17p35(c)	Operating lease rentals	198	194
37p84(b)	Restructuring costs (Note 37)	283	149
	Guarantees and other credit related commitments	22	31
	Foreign currency translation net losses of non-trading monetary assets	6	19
	Other	72	21
		610	420

13. Impairment charge for credit losses

		2006	2005
IFRS7p20(e)	Loans and advances to banks (Note 18)	7	–
	Loans and advances to customers (Note 22)	113	136
	Investment securities – held to maturity (Note 23)	19	–
		139	136

14. Income tax expense

		2006	2005
12p80(a)	Current tax	312	321
12p79	Deferred tax (Note 38)	65	54
		377	375

12p81(c) Further information about deferred income tax is presented in Note 38. 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:

	2006	2005
Profit before tax	1,255	1,203
Tax calculated at a tax rate of 40% (2005: 40%)	502	481
Effect of different tax rates in other countries	(118)	(88)
Income not subject to tax	(23)	(21)
Expenses not deductible for tax purposes	57	52
Utilisation of previously unrecognised tax losses	(41)	(49)
Income tax expense	377	375

Notes to the consolidated financial statements (continued)

15. 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.

		2006	2005
33p70(a)	Profit attributable to equity holders of the Company	871	820
33p70(b)	Weighted average number of ordinary shares in issue	1,149	1,108
	Basic earnings per share (expressed in € per share)	0.76	0.74

(b) Diluted

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 profit 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.

		2006	2005
	Profit attributable to equity holders in the Company	871	820
	Interest expense on convertible debt (net of tax)	8	8
33p70(a)	Net profit used to determine diluted earnings per share	879	828
	Weighted average number of ordinary shares in issue	1,149	1,108
	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 (millions)	1,197	1,160
	Diluted earnings per share (expressed in € per share)	0.73	0.71

16. Cash and balances with central banks

		2006	2005
	Cash in hand	1,778	791
	Other money-market placements	3,395	2,608
	Balances with central banks other than mandatory reserve deposits	892	903
7p45	Included in cash and cash equivalents (Note 45)	6,065	4,302
	Mandatory reserve deposits with central banks	15	13
		6,080	4,315

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.

(All amounts in euro millions unless otherwise stated)

Notes to the consolidated financial statements (continued)

17. Treasury bills and other eligible bills

		2006	2005
	Treasury bills	579	228
	Other eligible bills	906	543
7p45	Treasury bills and other eligible bills (Note 45)	1,485	771

Treasury bills and other eligible bills are debt securities issued by the [name of country] treasury department for a term of three months. All bills are subject to variable interest rate risk.

18. Loans and advances to banks

		2006	2005
	Items in course of collection from other banks	163	109
	Placements with other banks	4,988	2,982
7p45	Included in cash equivalents (Note 45)	5,151	3,091
	Loans and advances to other banks	3,432	2,411
	Less: allowance for impairment	(7)	–
		8,576	5,502
1p52	Current	7,578	4,664
	Non-current	998	838

[See 'Helpful hint 12' – Appendix I.]

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

		2006	2005
	Balance at 1 January	–	–
IFRS7p20(e)	Provision for loan impairment	7	–
	Amounts written off during the year as uncollectible	–	–
	Amounts recovered during the year	–	–
	Unwind of discount of allowance	–	–
	At 31 December	7	–

19. Trading assets

		2006	2005
7p45	Government bonds included in cash equivalents (Note 45)	1,949	2,676
	Other government bonds	1,180	945
	Other debt securities	885	3,402
	Total debt securities	4,014	7,023
	Equity securities:		
	– Listed	1,083	1,080
	– Unlisted	134	101
	Total equity securities	1,217	1,181
	Total trading assets	5,231	8,204

IFRS7p14 Securities pledged under repurchase agreements with other banks are government bonds with a market value at 31 December 2006 of €939 (2005: €1,041). Other non-government bonds are also pledged under repurchase agreements with a market value of €31 (2005: €23) (Note 40). These are separately reclassified as pledged assets on the face of the balance sheet. All repurchase agreements mature within 12 months.

(All amounts in euro thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

20. Derivative financial instruments and hedging activities

20.1 Derivatives

The Group uses the following derivative instruments for both hedging and non-hedging purposes.

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' contact 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 (ie, 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.

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 predetermined 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 on the balance sheet 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.

	At 31 December 2006	**Contract/ notional amount**	**Fair values**	
			Assets	**Liabilities**
IFRS7p31	*(a) Derivatives held for trading*			
	Foreign exchange derivatives			
	Currency forwards	74,210	1,162	(1,314)
	Currency swaps	4,580	99	(268)
	OTC currency options	8,597	37	(57)
	Total OTC derivatives		1,298	(1,639)
	Currency futures	5,531	53	(67)
	Exchange traded currency options	470	3	(26)
			1,354	(1,732)

(All amounts in euro millions unless otherwise stated)

Notes to the consolidated financial statements (continued)

		Contract/ notional amount	Fair values Assets	Fair values Liabilities
	Interest rate derivatives			
	Interest rate swaps	57,217	634	(611)
	Cross-currency interest rate swaps	28,609	314	(590)
	Forward rate agreements	54,875	51	(55)
	OTC interest rate options	5,954	6	–
	Other interest rate contracts	193	2	–
	Total OTC derivatives		1,007	(1,256)
	Exchange traded interest rate futures	38,534	25	(20)
	Exchange traded interest rate options	37,918	74	(31)
			1,106	(1,307)
	Total derivative assets/(liabilities) held for trading		2,460	(3,039)
IFRS7p22(a)(b)	*(b) Derivatives held for hedging*			
	Derivatives designated as fair value hedges (Note 20.2(a))			
	Currency futures	4,300	110	(26)
	Interest rate swaps	25,262	1,286	(311)
	Cross currency interest rate swaps	11,315	554	(88)
			1,950	(425)
	Derivatives designated as cash flow hedges (Note 20.2(b))			
	Currency swaps	4,018	803	(313)
	Exchange traded currency options	5,020	112	–
			915	(313)
	Total derivative assets/(liabilities) held for hedging		2,865	(738)
	Total recognised derivative assets/(liabilities)		5,325	(3,777)
1p52	Current		4,285	(3,412)
	Non-current		1,040	(365)
IFRS7 IG41	**At 31 December 2005**			
	(a) Derivatives held for trading			
	Foreign exchange derivatives			
	Currency forwards	75,277	989	(1,250)
	Currency swaps	2,439	27	(198)
	OTC currency options	9,994	80	(92)
	Total OTC derivatives		1,096	(1,540)
	Currency futures	350	15	–
	Exchange traded currency options	4,293	41	(47)
			1,152	(1,587)
	Interest rate derivatives			
	Interest rate swaps	43,847	879	(1,158)
	Forward rate agreements	26,784	43	(51)
	OTC interest rate options	5,167	5	(7)
	Other interest rate contracts	50	7	–
	Total OTC derivatives		934	(1,216)
	Exchange traded interest rate futures	24,061	1	(11)
	Exchange traded interest rate options	19,519	14	(15)
			949	(1,242)
	Total derivative assets/(liabilities) held for trading		2,101	(2,829)

(All amounts in euro millions unless otherwise stated)

Notes to the consolidated financial statements (continued)

		Contract/ notional amount	Fair values	
			Assets	Liabilities
	(b) Derivatives held for hedging			
	Derivatives designated as fair value hedges (Note 20.2(a))			
	Currency futures	2,300	110	(126)
	Interest rate swaps	41,262	3,044	(2,974)
	Cross currency interest rate swaps	7,315	114	(178)
			3,268	(3,278)
	Derivatives designated as cash flow hedges (Note 20.2(b))			
	Currency swaps	818	35	(170)
	Exchange traded currency options	187	38	–
	Total derivative assets/(liabilities) held for hedging		3,341	(3,448)
	Total recognised derivative assets/(liabilities)		5,442	(6,277)
1p52	Current		4,925	(4,380)
	Non-current		517	(1,897)

20.2 Hedging activities

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 2.7.

39p89
IFRS7p22
IFRS7p24(a)(i)(ii)

(a) Fair value hedges

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 currency futures. The net fair value of currency futures at 31 December 2006 was €84 (2005: €16). The gains on the hedging instruments in 2006 were €82 (2005: €15). The losses on the hedged item attributable to the hedged risk were €83 (2005: €16).

The Group also hedges part of its existing interest rate risk resulting from any potential decrease in the fair value of fixed rate assets or increase in fair value of term deposits from customers denominated both in local and foreign currencies using interest rate and cross-currency interest rate swaps. The net fair value of these swaps at 31 December 2006 was €1,441 (2005: €6). The gains on the hedging instruments were €318 (2005: €305). The losses on the hedged item attributable to the hedged risk were €349 (2005: €281).

39p95
IFRS7p22
IFRS7p23(a)
IFRS7p24(b)

(b) Cash flow hedges

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

At 31 December 2006, currency options with an aggregate notional principal amount of €5,020 and a positive fair value of €112 (2005: nil) were designated as cash flow hedges of an acquisition expected to occur within one year. In 2006, there is no ineffectiveness recognised in income statements that arises from cash flow hedges (2005: nil).

Currency swaps with an aggregate notional principal amount of €4,018 (2005: currency swaps and currency options of €1,005) and a net fair value of €490 (2005: €97) were designated as hedges of future cash flows from floating-rate customer deposits and held-to-maturity debt securities. These amounts will be reported in income in 2007. In 2006, the ineffectiveness recognised in income statements that arises from cash flow hedges was €10 (2005: €9).

IFRS7p23(b)

There were no transactions for which cash flow hedge accounting had to be ceased in 2006 or 2005 as a result of the highly probable cash flows no longer being expected to occur.

39p102(a)(b)

(c) Net investment hedges

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 (2005: CHF250) as included in other borrowed funds (Note 32) were designated as hedges instrument and gave rise to currency losses for the year of €2 (2005: €3), which have been deferred in the translation reserve component of equity. No ineffectiveness was recognised in income statements that arose from hedges of net investments in foreign operations. No amounts were withdrawn from equity during the year (2005: nil), as there were no disposals of foreign operations.

(All amounts in euro millions unless otherwise stated)

Notes to the consolidated financial statements (continued)

21. Financial assets designated at fair value

		2006	2005
IFRS7p8(a)(i)	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
IFRS7p9(a)(c)	For loans and advances designated at fair value:		
	– Maximum exposure to credit risk	760	412
	– The cumulative change in fair value arising from changes in credit risk	11	5

39p9 The interest payments of the above debt securities are equity-indexed, which results in dissimilar 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.

39p9 The above equity securities are managed and their performance evaluated on a fair value basis in accordance with a documented risk management strategy, and where information about the groups of financial instruments is reported to management on that basis.

39p9 The loans and advances to banks and customers have been matched with interest rate swaps as part of a documented 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 income statement. By designating those loans and advances at fair value, the movement in the fair value of the long-term debt will be recorded in the 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.

22. Loans and advances to customers

		2006	2005
	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	15,695	12,201
	– SMEs	4,236	2,348
	– Other	1,431	1,144
		21,362	15,693
	Gross loans and advances	60,146	54,259
	Less: allowance for impairment	(943)	(1,051)
	Net	59,203	53,208
1p52	Current	39,845	46,195
	Non-current	19,358	7,013

(All amounts in euro millions unless otherwise stated)

Notes to the consolidated financial statements (continued)

IFRS7p15 The Group accepted listed securities at fair value of €1,800 (2005: €1,650) as collateral for commercial loans, which it is permitted to sell or repledge, of which €242 (2005: nil) were repledged or lent to third parties for periods not exceeding three months from the transfer. Included within loans and advances to banks is a related accrued interest receivable of €587 (2005:€547).

IFRS7p13(c) The Group transferred loan balances amounting to €1,802 to a finance company with recourse in exchange for cash during the year ended 31 December 2006 (2005: nil). The transaction did not qualify for derecognition and has been accounted for as a collateralised borrowing (Note 37).

Allowance for impairment

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

		Retail customers				
		Overdrafts	**Credit cards**	**Term loans**	**Mortgages**	**Total**
	Balance at 1 January 2006	57	226	377	97	757
IFRS7p20(e)	Provision for loan impairment	7	22	36	7	72
	Loans written off during the year as uncollectible	(20)	(57)	(95)	(19)	(191)
	Amounts recovered during the year	–	11	18	8	37
	Unwind of discount of allowance	1	2	3	1	7
	Exchange differences	–	1	2	–	3
	At 31 December 2006	45	205	341	94	685

		Corporate entities			
		Large corporate customers	**SMEs**	**Other**	**Total**
	Balance at 1 January 2006	226	45	23	294
IFRS7p20(e)	Provision for loan impairment	30	8	3	41
	Loans written off during the year as uncollectible	(78)	(21)	(7)	(106)
	Amounts recovered during the year	15	4	1	20
	Unwind of discount of allowance	4	2	1	7
	Exchange differences	2	–	–	2
	At 31 December 2006	199	38	21	258

		Retail customers				
		Overdrafts	**Credit cards**	**Term loans**	**Mortgages**	**Total**
	Balance at 1 January 2005	56	213	356	86	711
IFRS7p20(e)	Provision for loan impairment	5	29	48	15	97
	Loans written off during the year as uncollectible	(7)	(23)	(39)	(7)	(76)
	Amounts recovered during the year	2	5	9	2	18
	Unwind of discount of allowance	1	1	2	1	5
	Exchange differences	–	1	1	–	2
	At 31 December 2005	57	226	377	97	757

		Corporate entities			
		Large corporate customers	**SMEs**	**Other**	**Total**
	Balance at 1 January 2005	215	41	20	276
IFRS7p20(e)	Provision for loan impairment	30	6	3	39
	Loans written off during the year as uncollectible	(25)	(4)	(2)	(31)
	Amounts recovered during the year	4	1	1	6
	Unwind of discount of allowance	1	1	1	3
	Exchange differences	1	–	–	1
	At 31 December 2005	226	45	23	294

(All amounts in euro millions unless otherwise stated)

Notes to the consolidated financial statements (continued)

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

		2006	2005
17p47(a)	Gross investment in finance leases, receivable:		
	– No later than 1 year	167	121
	– Later than 1 year and no later than 5 years	389	283
	– Later than 5 years	103	72
		659	476
17p47(b)	Unearned future finance income on finance leases	(134)	(101)
	Net investment in finance leases	525	375
17p47(a)	The net investment in finance leases may be analysed as follows:		
	– No later than 1 year	121	88
	– Later than 1 year and no later than 5 years	308	224
	– Later than 5 years	96	63
		525	375

23. Investment securities

		2006	2005
1p74	**Securities available for sale**		
	Debt securities – at fair value:		
	– Listed	2,474	933
	Equity securities – at fair value:		
	– Listed	834	65
	– Unlisted	664	184
	Total securities available for sale	3,972	1,182
	Securities held to maturity		
	Debt securities – at amortised cost:		
	– Listed	3,997	1,009
	– Unlisted	21	–
39p63	Allowance for impairment	(19)	–
	Total securities held-to-maturity	3,999	1,009
	Total investment securities	7,971	2,191
1p52	Current	1,692	950
	Non-current	6,279	1,241

IFRS7p31 All debt securities have fixed coupons.

IFRS7p14 Listed debt securities available for sale at fair value of €34 (2005: €19) were pledged to third parties in sale and repurchase agreements for periods not exceeding six months. These have been reclassified as pledge assets on the face of the balance sheet.

(All amounts in euro thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

IFRS7p12 The Group has not reclassified any financial assets measured at amortised cost rather than fair value during the year (2005: nil).

The movement in investment securities may be summarised as follows:

		Available for sale	Held to maturity	Total
	At 1 January 2006	1,182	1,009	2,191
21p28	Exchange differences on monetary assets	72	81	153
	Additions	2,744	3,093	5,837
	Disposals (sale and redemption)	(187)	(165)	(352)
IFRS7p20(a)	Gains from changes in fair value (Note 43)	166	–	166
IFRS7p20(e)	Impairment losses	(5)	(19)	(24)
	At 31 December 2006	3,972	3,999	7,971
	At 1 January 2005	1,108	1,046	2,154
21p28	Exchange differences on monetary assets	12	18	30
	Additions	345	71	416
	Disposals (sale and redemption)	(178)	(126)	(304)
IFRS7p20(a)	Losses from changes in fair value (Note 43)	(105)	–	(105)
IFRS7p20(e)	Impairment losses	–	–	–
	At 31 December 2005	1,182	1,009	2,191

IFRS7p20(a)(ii) Gains and losses from investment securities comprise:

		2006	2005
	Derecognition of available-for-sale financial assets	51	112
IFRS7p20(e)	Impairment of available-for-sale equity securities	(5)	–
		46	112

IFRS7p16 The reconciliation of the allowance account for losses on held-to-maturity securities is as follows:

		2006	2005
	Balance at 1 January	–	–
IFRS7p20(e)	Allowance for impairment	19	–
	Amounts written off during the year as uncollectible	–	–
	Amounts recovered during the year	–	–
	Unwind of discount of allowance	–	–
	At 31 December	19	–

[See 'Helpful hint 13' – Appendix I.]

(All amounts in euro millions unless otherwise stated)

Notes to the consolidated financial statements (continued)

24. Investment in associates

		2006	2005
	Beginning of year	108	107
	Share of results	12	11
	Share of tax	(5)	(4)
	Dividends paid	(2)	(4)
	Exchange differences	(1)	(2)
28p38		112	108

28p37(b) The Group's interest in its principal associates, which are unlisted, are as follows:

2006	Country of incorporation	Assets	Liabilities	Revenues	Profit/ (loss)	% interest held
[Associate X]	*[country]*	1,326	1,272	165	7	30
[Associate Y]	*[country]*	1,459	1,401	183	5	33
		2,785	2,673	348	12	

2005	Country of incorporation	Assets	Liabilities	Revenues	Profit/ (loss)	% interest held
[Associate X]	*[country]*	1,198	1,146	150	6	30
[Associate Y]	*[country]*	1,318	1,262	146	5	33
		2,516	2,408	296	11	

25. Intangible assets

		2006	2005
38p118	**Goodwill**		
IFRS3p75(a)	Opening net book amount	204	327
IFRS3p75(f)	Exchange differences	(5)	(15)
IFRS3P75(b)	Acquisition of a subsidiary (Note 49)	38	–
	Closing net book amount	237	312

Goodwill is revised annually for impairment, or more frequently when there are indications that impairment may have occurred. There was no impairment identified in 2006 (2005: nil).

(All amounts in euro thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

26. Property, plant and equipment

		Land & buildings	Leasehold improvements	Equipment	Total
1p75(a)					
16p73(d)	**At 1 January 2005**				
	Cost	916	112	1,276	2,304
	Accumulated depreciation	(123)	(60)	(412)	(595)
	Net book amount	793	52	864	1,709
16p73(e)	**Year ended December 2005**				
	Opening net book amount	793	52	864	1,709
	Additions	35	5	175	215
	Disposals	(5)	–	(35)	(40)
	Depreciation charge	(32)	(6)	(260)	(298)
	Exchange rate adjustments	(15)	(1)	(15)	(31)
	Closing net book amount	776	50	729	1,555
16p73(d)	**At 31 December 2005**				
	Cost	931	116	1,401	2,448
	Accumulated depreciation	(155)	(66)	(672)	(893)
	Net book amount	776	50	729	1,555
16p73(e)	**Year ended December 2006**				
	Opening net book amount	776	50	729	1,555
	Additions	71	8	350	429
	Disposals	(43)	–	(37)	(80)
	Depreciation charge	(34)	(7)	(282)	(323)
	Exchange rate adjustments	(30)	(3)	(29)	(62)
	Closing net book amount	740	48	731	1,519
16p73(d)	**At 31 December 2006**				
	Cost	922	122	1,655	2,699
	Accumulated depreciation	(182)	(74)	(924)	(1,180)
	Net book amount	740	48	731	1,519

27. Other assets

		2006	2005
1p74	Pre-payments	1,048	1,029
	Accrued income	615	737
	Other	340	345
		2,003	2,111
1p52	Current	353	248
	Non-current	1,650	1,863

28. Deposits from banks

		2006	2005
1p74	Items in course of collection	103	197
	Deposits from other banks	14,936	13,436
		15,039	13,633
1p52	Current	12,396	10,523
	Non-current	2,643	3,110

IFRS7p31 All deposits from banks have variable interest rates.

(All amounts in euro millions unless otherwise stated)

Notes to the consolidated financial statements (continued)

29. Other deposits

		2006	2005
1p74	Other money-market deposits	12,074	8,369
	Certificates of deposits	4,175	3,662
		16,249	12,031
1p52	Current	11,306	8,322
	Non-current	4,943	3,709

IFRS7p31 All deposits have fixed interest rates.

30. Due to customers

		2006	2005
1p74	Large corporate customers:		
	– Current/settlement accounts	6,975	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	6,520	4,583
	– Term deposits	25,835	23,055
		51,775	42,698
1p52	Current	47,341	39,811
	Non-current	4,434	2,887

IFRS7p15 Included in customer accounts were deposits of €615 (2005: €591) held as collateral for irrevocable commitments under import letters of credit. The fair value of those deposits approximates the carrying amount.

IFRS7p31 Small deposits carry fixed interest rates. All other customer deposits carry variable rates.

31. Debt securities in issue

IFRS7p31, 39(a)		Average interest rate (%)			
		2006	2005	2006	2005
	€ medium-term notes due 2007	5.6	5.5	842	161
	US$ medium-term notes due 2007	5.9	5.8	69	66
	£ medium-term notes due 2007	6.3	5.5	183	183
	£95m floating-rate notes due 2006	–	5.6	–	129
	US$256m floating-rate notes due 2007	6.0	5.8	120	435
	€ 260m floating-rate notes due 2008	5.8	5.5	552	258
				1,766	1,232
1p52	Current			1,214	539
	Non-current			552	822

(All amounts in euro thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

32. Other borrowed funds

IFRS7p31, 39(a)

	Interest rate (%)	2006	2005
Short-term borrowing	LIBOR	1,802	733
Subordinated notes			
€40m fixed rate notes due 2006	6.125	–	35
£25m fixed rate notes due 2007	4.89	38	38
€100m fixed rate notes due 2006	5.12	–	105
€460m floating rate notes due 2006	LIBOR + 0.09	–	311
CHF299m fixed rate notes due 2007	7.91	44	37
£60m floating rate notes due 2006	LIBOR + 0.11	–	179
€320m floating rate notes due 2006	EURIBOR + 0.10	–	217
£30m floating rate notes due 2006	LIBOR + 0.15	–	45
US$100m fixed rate notes due 2006	7.84	–	99
€700m fixed rate notes due 2010	6.50	210	–
		2,094	1,799
Redeemable preference shares (Note 34)	6.50	552	552
Convertible bond (Note 33):			
€200m	6.00	162	161
		2,808	2,512
Current (1p52)		1,884	1,724
Non-current		924	788

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 2010, which are repayable in 2008 at the option of the holder. None of the Group's subordinated notes are secured.

The Group has not had any defaults of principal, interest or redemption amounts during the period on its borrowed funds (2005: nil).

IFRS7p18 The Group has not had any defaults of principal, interest or other breaches with respect to their liabilities during the period (2005: nil).

33. Convertible bonds

IFRS7p31
IFRS7p39(a) On 4 January 2005, the Company issued 200 million 6% convertible bonds at a nominal value of €1 per bond. The bonds mature 25 years from the issue date at the nominal value unless converted into the Company's ordinary shares at the holder's option at the rate of 25 shares per €200.

The convertible bond is presented in the consolidated balance sheet as follows:

	2006	2005
Initial recognition:		
– Face value of convertible bond issued	–	200
– Equity conversion component net of deferred tax liability	–	(24)
– Deferred tax liability	–	(16)
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 reflects its 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 2006 amounted to €12.7 (2005: €12.6). The actual interest paid in 2006 was €12 (2005: €12).

IFRS7p17 The convertible bond is callable at the option of the Group at par any time after 2012 provided the holders have not already exercised their conversion option.

(All amounts in euro millions unless otherwise stated)

Notes to the consolidated financial statements (continued)

34. Redeemable preference shares

32p15
32p18(a)

On 4 January 2005, the Company issued 552 million cumulative redeemable preference shares with a par value of €1 per share, which are redeemable at the option of the holder at par on 1 January 2015 or by the Company at any time before that date.

Dividends are set at 6.5% of the issue price and rank above ordinary dividends and are paid on 31 December each year. If the Company is unable to pay a dividend in a given year because of insufficient profits, the dividend accumulates. The redeemable preferred shares rank ahead of the ordinary shares in the event of liquidation.

35. Financial liabilities designated at fair value

		2006	2005
1p52	Debt securities in issue (all non-current)	1,367	1,311

IFRS7 AppxB5(a) Certain fixed rate long-term debt securities in issue have been matched with interest rate swaps as part of a documented interest rate risk management strategy. An accounting mismatch would arise if the debt securities in issue were accounted for at amortised cost, because the related derivatives are measured at fair value with movements in the fair value taken through the income statement. By designating the long-term debt at fair value, the movement in the fair value of the long-term debt will be recorded in the income statement.

IFRS7p10(b) The contractual undiscounted amount that will be required to be paid at maturity of the above debt securities is €1,422.

IFRS7p10(a)
AppxB4, IG7-11 There were no significant gains or losses attributable to changes in the credit risk for those financial liabilities designated at fair value in 2006 (2005: nil).

[See 'Helpful hint 14' – Appendix I.]

36. Other liabilities

		2006	2005
1p74	Dividends declared and payable	57	44
	Accruals	796	534
	Other	184	106
		1,037	684

37. Other provisions

1p75		2006	2005
37p84(a)	**At 1 January**	229	100
	Exchange differences	3	–
37p84(b)	Additional provisions charged to income statement (Note 12)	283	149
37p84(c)	Utilised during year	(48)	(20)
37p84(a)	**At 31 December**	467	229

37p85(a) Included within provisions are:

- A restructuring provision of €324 (2005: €114). The restructuring of part of the retail banking segment in North America started in 2004 and will result in reductions in personnel. An agreement was reached with the local union representatives by December 2005 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 2007; and
- Provisions of €143 (2005: €115) have been made in respect of costs arising from continent liabilities and contractual commitments, including guarantees of €58 (2005: €33) and commitments of €85 (2005: €82).

(All amounts in euro thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

34p26
37p85(a)
The increase in provisions including unwinding of discounts of €72 and €211 represents an update of the estimated restructuring amount of €149 that was shown in the Group's published interim financial report for the six months ended June 2006; the change in the estimate is due to further agreements reached with the local union.

38. Deferred income taxes

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 40% (2005: 40%).

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

		2006	2005
	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

Further information on deferred tax charged directly to equity is presented in Note 43.

Deferred income tax assets and liabilities are attributable to the following items:

	2006	2005
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
Deferred income tax assets		
Pensions and other post retirement benefits	62	51
Provision 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

(All amounts in euro millions unless otherwise stated)

Notes to the consolidated financial statements (continued)

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

	2006	2005
Accelerated tax depreciation	119	59
Pensions and other post-retirement benefits	(11)	(12)
Allowances for loan losses	27	(15)
Other provisions	(95)	10
Tax losses carried forward	22	10
Other temporary differences	3	2
	65	54

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 €85 (2005: €187) to carry forward against future taxable income; these tax losses will expire in 2009. The benefit of the tax losses has not been recognised in these financial statements due to uncertainty of their recoverability.

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.

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 €834 at 31 December 2006 (2005: €712).

39. Retirement benefit obligations

	2006	2005
Balance sheet obligations for:		
– Pension benefits	182	170
– Post-employment medical benefits	55	51
	237	221
Income statement charge for (Note 11):		
– Pension benefits	118	78
– Post-employment medical benefits	10	9
	128	87

(a) Pension benefits

19p120A(d) The amounts recognised in the balance sheet are determined as follows:

19p120A(f)

	2006	2005
Present value of funded obligations	973	733
Fair value of plan assets	(951)	(699)
	22	34
Present value of unfunded obligations	167	153
Unrecognised actuarial losses	(5)	(9)
Unrecognised past service cost	(2)	(8)
Liability in the balance sheet	182	170

(All amounts in euro thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

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

	2006	2005
Beginning of year	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)
Curtailments	16	–
Settlements[1]	–	–
End of year	1,040	886

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

	2006	2005
Beginning of year	699	521
Expected return on plan assets	59	43
Actuarial (losses)/gains	12	7
Exchange differences	21	14
Employer contributions	151	112
Employee contributions	15	9
Benefits paid	(6)	(7)
End of year	951	699

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

	2006	2005
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 11)	118	78

19p120A(m) The actual return on plan assets was €71 (2005: €50).

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

	2006	2005
Discount rate	7.0%	6.8%
Expected return on plan assets	8.5%	8.3%
Future salary increases	5.0%	4.5%
Future pension increases	3.0%	2.5%

19p120A(n)(vi) *Mortality rate*

Assumptions regarding future mortality experience are set based on advice, published statistics and experience in each territory.

The average life expectancy in years of a pensioner retiring at age 65 on the balance sheet date is as follows:

	2006	2005
Male	18.5	18.5
Female	22.0	22.0

[1] In practice, these lines can be omitted if the balances are zero. They have been included to highlight the required information.

(All amounts in euro millions unless otherwise stated)

Notes to the consolidated financial statements (continued)

The average life expectancy in years of a pensioner retiring at age 65, 20 years after the balance sheet date is as follows:

	2006	2005
Male	19.5	19.5
Female	22.5	22.5

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

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.

19p120A(n) The main actuarial assumption is a long-term increase in health costs of 8.0% a year (2005: 7.6%). Other assumptions were as for the pension plans set out above.

19p120A(d) The amounts recognised in the balance sheet were determined as follows:

19p120A(f)

	2006	2005
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 balance sheet	55	51

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

	2006	2005
Beginning of the year	85	68
Current service cost	9	8
Interest cost	4	3
Contributions by plan participants[1]	–	–
Actuarial losses/(gains)	(2)	(1)
Exchange differences	5	7
Benefits paid[1]	–	–
Curtailments[1]	–	–
Settlements[1]	–	–
End of year	101	85

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

	2006	2005
Beginning of the year	32	23
Expected return on plan assets	3	2
Actuarial (losses)/gains	(1)	(1)
Exchange differences	(4)	(2)
Employer contributions	14	10
Employee contributions[1]	–	–
Benefits paid[1]	–	–
End of year	44	32

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

	2006	2005
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 11)	10	9

[1] In practice, these lines can be omitted if the balances are zero. They have been included to highlight the required information.

(All amounts in euro millions unless otherwise stated)

Notes to the consolidated financial statements (continued)

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 €2 (2005: €1).

(c) Post-employment benefits (pension and medical)

19p120A(j) Plan assets are comprised as follows:

	2006		2005	
Equity	488	49%	373	51%
Debt	308	31%	205	28%
Other	199	20%	153	21%
	995	100%	731	100%

19p120A(k) Pension plan assets include the Company's ordinary shares with a fair value of €36 (2005: €26) and a building occupied by the Group with a fair value of €152 (2005: €121).

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 balance sheet date. 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 2007 are €141.

19p120A(p)

	2006	2005	2004
As at 31 December			
Present value of defined benefit obligation	1,241	971	840
Fair value of plan assets	995	731	544
Deficit/(surplus)	246	240	296
Experience adjustments on plan liabilities	(9)	7	6
Experience adjustments on plan assets	10	5	3

40. Assets pledged

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

	Asset		Related liability	
	2006	2005	2006	2005
Trading assets (Note 19)	970	1,064	780	835
Investment securities (Note 23)	34	19	20	15
	1,004	1,083	800	850

Notes to the consolidated financial statements (continued)

41. Trading liabilities

	2006	2005
Trading liabilities	262	–

39AG15 Trading liabilities represent the quoted debt securities that the Group intents to buy back in the short term.

42. Share capital

1p76

		Number of shares (millions)	Ordinary shares	Share premium	Treasury shares	Total
	At 1 January 2005	1,120	1,120	788	(46)	1,862
	Employee share option scheme:					
IFRS2p51(a)	– Value of services provided	–	–	15	–	15
1p97(a)(c)	– Proceeds from shares issued	30	30			30
	Purchases/sales of treasury shares	–	–	15	(6)	9
	At 31 December 2005/1 January 2006	1,150	1,150	818	(52)	1,916
	Employee share option scheme:					
IFRS2p51(a)	– Value of services provided	–	–	30	–	30
1p97(a)(c)	– Proceeds from shares issued	50	50	–	–	50
32p33	Purchases/sales of treasury shares	–	–	9	5	14
	At 31 December 2006	1,200	1,200	857	(47)	2,010

1p76 The total authorised number of ordinary shares at year end was 1,400 million (2005: 1,400 million) with a par value of €1 per share (2005: €1 per share). All issued shares are fully paid.

1p76 The Company buys and sells its own shares in the normal course of its equity trading and market activities. This is in accordance with the Company'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 2006 was 24 million (2005: 28 million).

Share options

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:

	2006	2005
At 1 January	465	380
Granted	120	130
Exercised	(50)	(30)
Lapsed	(25)	(15)
At 31 December	510	465

IFRS2p45(c) Share options were granted on 1 July 2006 at a price of €2.00 per share (1 July 2005: €1.95 per share) and expire on 1 July 2011 (prior year: 1 July 2010). Options exercised on 30 June 2006 (30 June 2005) resulted in 50 million shares (2005: 30 million shares) being issued at a price of €1.60 each (2005: €1.50 each), less transaction costs net of income taxes, of €0.2 (2005: €0.1).

(All amounts in euro thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

IFRS2p45(d) Share options outstanding at the end of the year were as follows:

Expiry date – 1 July	Exercise price	2006	2005
2006	1.60	–	75
2007	1.75	80	80
2008	1.80	70	70
2009	1.90	110	110
2010	1.95	130	130
2011	2.00	120	–
		510	465

IFRS2p47(a) The fair value of options granted during the period determined using the Black-Scholes valuation model was €80 (2005: €60). The significant inputs into the model were share prices of €3.47 (actual amount) (2005: €2.80) at the grant date, exercise price shown above, standard deviation of expected share price returns of 30% (2005: 27%), option life disclosed above, and annual risk free interest rate of 5% (2005: 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.

43. Reserves and retained earnings

		2006	2005
	Reserves		
	General banking reserve (a)	175	125
	Statutory reserve (b)	112	102
	Convertible bond – equity component (c)	24	24
	Translation reserves (d)	(155)	(147)
	Revaluation reserve – available-for-sale investments (e)	256	128
	Hedging reserve – cash flow hedges (f)	720	360
	Total reserves at 31 December	1,132	592
	Movements in reserves were as follows:		
	(a) General banking reserve		
	At 1 January	125	82
21p52(b)	Exchange differences	(8)	(6)
	Transfer from retained profits	58	49
	At 31 December	175	125

1p76 Local legislation requires the Group to make an appropriation to a general banking reserve for unforeseeable risks and future losses. General banking reserves can only be distributed following approval by the shareholders in general meeting.

		2006	2005
	(b) Statutory reserve		
	At 1 January	102	64
21p52(b)	Exchange differences	(4)	(3)
	Transfer from retained profits	14	41
	At 31 December	112	102

1p76 Local legislation requires 5% of the bank's net profit to be transferred from retained earnings to a non-distributable statutory reserve until such time as this reserve represents 20% of the bank's share capital.

		2006	2005
	(c) Convertible bond – equity component		
	At 1 January	24	–
	Issue of bond on 4 January 2005 (Note 33)	–	40
12p81(a)	Deferred income taxes on conversion component (Note 38)	–	(16)
	At 31 December	24	24

(All amounts in euro millions unless otherwise stated)

Notes to the consolidated financial statements (continued)

21p52(b)	*(d) Translation reserve*		
	At 1 January	(147)	(62)
	Currency translation differences arising during the year	(8)	(85)
	At 31 December	(155)	(147)
	(e) Revaluation reserve – available-for-sale investments		
	At 1 January	128	124
IFRS7p20(a)(ii)	Net gains/(losses) from changes in fair value (Note 23)	166	(105)
12p61	Less: deferred income taxes (Note 38)	(66)	42
IFRS7p20(a)(ii)	Net losses transferred to net profit on disposal and impairment (Note 23)	46	112
12p81(a)	Less: deferred income taxes (Note 38)	(18)	(45)
	At 31 December	256	128

(f) Hedging reserve – reconciliation of movements in the cash flow hedges

		Currency swaps	Currency options	Total
	Balance at 1 January 2005	(81)	23	(58)
	Movements in 2005:			
IFRS7p23(c)	Gains from changes in fair value recognised directly in equity	497	75	572
12p61	Less: deferred income taxes (Note 38)	(199)	(30)	(229)
		298	45	343
IFRS7p23(d)	Losses removed from equity and included in:			
	– Net trading income	128	(3)	125
12p81(a)	– Deferred income taxes (Note 38)	(51)	1	(50)
		77	(2)	75
	Balance at 31 December 2005	294	66	360
	Comprising:			
	– Gross amount of gains and losses	490	110	600
	– Less: deferred income taxes (Note 38)	(196)	(44)	(240)
		294	66	360
	Movements in 2006:			
IFRS7p23(c)	Gains from changes in fair value recognised directly in equity	315	52	367
12p61	Less: deferred income taxes (Note 38)	(121)	(21)	(142)
		194	31	225
IFRS7p23(d)	Losses removed from equity and included in:			
	– Net trading income	208	25	233
12p81(a)	– Deferred income taxes (Note 38)	(88)	(10)	(98)
		120	15	135
	Balance at 31 December 2006	608	112	720
	Comprising:			
	– Gross amount of gains and losses	1,013	187	1,200
	– Less: deferred income taxes (Note 38)	(405)	(75)	(480)
		608	112	720

Retained earnings

1p96 Movements in retained earnings:

	2006	2005
At 1 January	1,920	1,512
Net profit for year	871	820
Dividend for prior year	(360)	(322)
Transfer to general banking reserve	(58)	(49)
Transfer to statutory reserve	(14)	(41)
At 31 December 2006	2,359	1,920

(All amounts in euro thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

44. Dividends per share

1p95
1p125(a)
10p12

Final dividends are not accounted for until they have been ratified at the Annual General Meeting. At the meeting on *[date]* 2007, a dividend in respect of 2006 of €0.33 per share (actual amount) (2005: actual dividend €0.313 per share) amounting to a total of €396 (2005: actual €360) is to be proposed. The financial statements for the year ended 31 December 2006 do not reflect this resolution, which will be accounted for in shareholders' equity as an appropriation of retained profits in the year ending 31 December 2007.

45. Cash and cash equivalents

7p45

For the purposes of the cash flow statement, cash and cash equivalents comprises the following balances with less than three months maturity from the date of acquisition.

	2006	**2005**
Cash and balances with central banks (Note 16)	6,065	4,302
Treasury bills and other eligible bills (Note 17)	1,485	771
Due from other banks (Note 18)	5,151	3,091
Government bonds (Note 19)	1,949	2,676
	14,650	10,840

46. Deferred day one profit and loss

Movements of deferred day one profit and loss arising from the acquisition of certain derivatives were as follows:

		2006	**2005**
IFRS7p28	At 1 January	15	–
	Addition arising from new transactions	6	28
	Released to profit and loss during the year	(8)	(13)
	At 31 December	13	15

47. Contingent liabilities and commitments

37p86(a)

(a) Legal proceedings
There were a number of legal proceedings outstanding against the Group at 31 December 2006. No provision has been made, as professional advice indicates that it is unlikely that any significant loss will arise.

16p74

(b) Capital commitments
At 31 December 2006, the Group had capital commitments of €85 (2005: €82) 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 facilities
At 31 December 2006, 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:

	2006	**2005**
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
	6,429	4,445

(All amounts in euro millions unless otherwise stated)

Notes to the consolidated financial statements (continued)

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:

	2006	2005
No later than 1 year	205	195
Later than 1 year and no later than 5 years	920	880
Later than 5 years	1,150	1,320
	2,275	2,395

48. Related-party transactions

1p126(c), 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

24p17(a)

	Directors and other key management personnel (and close family members)		Associated companies	
	2006	2005	2006	2005
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 (2005: nil).

24p17(b) The loans issued to directors and other key management personnel (and close family members) during the year of €14 (2005: €33) are repayable monthly over two years and have interest rates of 6.5% (2005: 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 €20 (2005: €36).

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	
	2006	2005	2006	2005
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

(All amounts in euro thousands unless otherwise stated)

Notes to the consolidated financial statements (continued)

24p17(b) The above deposits are unsecured, carry variable interest rates and are repayable on demand.

24p17(a) *(c) Other transactions with related parties*

		Directors and other key management personnel (and close family members)		Associated companies	
		2006	**2005**	**2006**	**2005**
	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

		2006	**2005**
24p16(a)	Salaries and other short-term benefits	252	246
24p16(b)	Post-employment benefits	25	18
24p16(c)	Share-based payments	15	20
		292	284

49. Acquisitions and disposals

IFRS3p66(a) *(a) Acquisition*
IFRS3p67(a-c) IFRS3p70(a-b) IFRS3p67(i) On 30 September 2006, the Group acquired 100% of the share capital of a small finance company in *[country]*. The acquired company contributed operating income of €2 to the Group for the period from 30 September to 31 December 2006. If the acquisition had occurred on 1 January 2006, group profit before allocations would have been €889.

IFRS3p67(f) The details of the fair value of the assets and liabilities acquired and goodwill arising are as follows:

	Cash and cash equivalents (acquiree's previous carrying value: €10)	10
	Loans and advances to customers (acquiree's previous carrying value: €101)	125
	Other assets (acquiree's previous carrying value: €247)	253
	Due to customers (acquiree's previous carrying value: €105)	(95)
	Other liabilities (acquiree's previous carrying value: €30)	(28)
	Goodwill (Note 25)	38
IFRS3p67(d)	Total purchase consideration paid (discharged by cash)	303

Cost of acquisition	303
Less: Cash and cash equivalents in subsidiary acquired	(10)
Cash outflow on acquisition	293

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. There were no acquisitions in 2005.

(b) Disposals
On 31 March 2006, the Group disposed of 100% of the share capital of its subsidiary in *[country]*.

The subsidiary operated in the retail banking segment and contributed operating income of €3 to the Group for the period from 1 January 2006 to 31 March 2006 (€14 for the period from 1 January 2005 to 31 December 2005).

(All amounts in euro millions unless otherwise stated)

Notes to the consolidated financial statements (continued)

7p40(d) The details of assets and liabilities disposed and the disposal consideration are as follows:

	Cash and cash equivalents	12
	Due from other banks	46
	Loans and advances to customers	102
	Due to other banks	(37)
	Due to customers	(75)
	Other liabilities	(6)
	Net assets	42
7p40(a-b)	Proceeds from sale (discharged by cash)	58
7p40(e)	Less: cash and cash equivalents in subsidiary sold	(12)
	Net cash inflow on sale	46

50. Events after the balance sheet date

10p21
IFRS3p67

On 13 March 2007, 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 the end of 2007. Due to the stage of negotiations, the estimate of financial effect cannot yet be made reliably.

PRICEWATERHOUSECOOPERS

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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 Banking (the Company) and its subsidiaries (together, the Group) which comprise the consolidated balance sheet as of 31 December 2006 and the consolidated income statement, 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 2006, 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'.

Helpful hints for the application of IFRS 7 and Amendment to IAS 1

1 Interest income, interest expense and dividend income on financial instruments at fair value through profit or loss (either designated at fair value through the profit and loss or non-derivatives held for trading) can be disclosed as part of net trading gains/losses or separated as part of interest income, interest expense 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 expense and a different treatment for dividend income provided that the method is applied consistently.

2 Where the issuer of a financial guarantee is entitled to receive recurring future premiums over the life of the contract, IFRS does not require recognition of a gross receivable for future premiums not yet due. It requires the financial guarantee contract to be initially recorded at fair value, which is likely to equal the premium received (IAS 39 AG4(a)). IAS 39 does not explicitly prohibit the recognition of a gross receivable for future premiums not yet due. Entities are permitted to recognise a gross receivable.

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

3 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). It will generally be easier for a user to identify the audited information if it is all presented in the notes to the financial statements.

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

5 IFRS 7 requires certain disclosures to be given by class of financial instruments, including allowance account of credit losses, impairment, derecognition, fair value and credit risk. IFRS 7 does not provide a prescriptive list of classes of financial instruments. IFRS 7 states 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 balance sheet (IFRS7p6). A 'class' of financial instruments is not the same as a 'category' of financial instruments. Categories are defined in IAS 39 as financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets, financial liabilities at fair value through profit or loss and financial liabilities measured at amortised cost.

The Group would expect classes to be determined at a lower level than the measurement categories in IAS 39 and reconciled back to the balance sheet as required by IFRS7p6. However, the level of detail for a class should be determined on an entity-specific basis.

For further guidance on the disclosures by classes and categories, see Appendices III and IV.

6 '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 overdue.

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.

7 The amounts disclosed in the maturity analysis are the contractual undiscounted cash flows (IFRS7 B14). The table in Note 3.3.3 does not therefore reconcile to the discounted cash flows in the balance sheet. IFRS 7 does not require such a 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.

8 Net settled derivatives that have a negative fair value at the reporting date (ie, that are liabilities) are included in the liquidity analysis at contractual undiscounted amounts. Net settled derivatives that have a positive fair value (ie, that are assets) may also be included, although this is not a requirement of IFRS 7. For example, an interest rate swap that re-prices every six months has a pay-fixed leg at 6% and a receive-floating leg. If the floating rate is 5% at the balance sheet date and the yield curve is flat, the swap has a negative fair value and is therefore included in the analysis in Note 3.3.4. Each cash flow is estimated using the appropriate point on a yield curve that corresponds to the relevant repricing date. These cash flows are undiscounted.

9 Gross settled derivatives should be included in the maturity analysis at contractual undiscounted amounts (IFRS 7 Appx B14(d), B15). 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 to be included in the maturity analysis, a separate disclosure of the inflows in conjunction with the outflows would make the information more meaningful. The Group has applied the forward rate when determining the amounts to be disclosed for floating rate financial instruments and instruments denominated in a foreign currency.

10 Interest income and interest expense are presented on a gross basis in the segment analysis in accordance with IAS14p16.

The definition of income in the IFRS framework, paragraph 74, encompasses revenue and gains. The requirement in IAS14p51 requires the disclosure of segment revenue of each reportable segment; gains are not therefore included in the analysis in Note 5(a). Segment revenue consists of interest and similar income, fee and commission income and dividend income.

11 Funding costs associated with trading activities should be presented as part of interest expense and not included in the trading line (Note 9). IAS1p81(b) requires the face of the income statement to include finance cost as a separate line item. A bank presents an income statement that groups income and expenses by nature. Funding costs, by nature, represent interest expense not trading activities. If however, the underlying financial instrument is designated at fair value, the funding activities become part of the fair value movements; therefore in this case, funding costs can be presented in the trading line.

12 According to IAS30p20, the most useful approach to the classification of the assets and liabilities of a bank is to group them by their nature and list them in the approximate order of their liquidity. It also states that current and non-current items are not presented separately in a bank's balance sheets because most assets and liabilities of a bank can be realised or settled in the near future. However, this exemption no longer exists under the new disclosure requirements in IFRS 7. Therefore, in accordance with IAS1p52, when adopting the liquidity method of presentation on the face of its balance sheet, an entity should also present current and non-current assets and current and non-current liabilities in the notes to the financial statements.

13 Reclassification requirements between financial assets are as follows:

Fair value through profit or loss
Not permitted. An entity should not reclassify a financial instrument into or out of the fair value through profit or loss category while it is held or issued (IAS39p50).

Transfer from held-to-maturity to available for sale
Permitted. If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, it should be reclassified as available for sale and remeasured at fair value (IAS39p51).

Transfer from available for sale to held to maturity
Permitted. If, as a result of a change in intention or ability, or rare circumstance that a reliable measure of fair value is no longer available or because the 'two preceding financial years' have passed (ie tainting rules), it becomes appropriate to carry a financial instrument at amortised cost.

Transfer from loans and receivable to available for sale
Not permitted. The category of loans and receivables refers to the circumstances in which the financial asset first satisfied the recognition criteria in IAS 39 (IFRS1 IG56(b)).

Transfer from available for sale to loans and receivables
Not permitted. The definition of loans and receivables implies that an instrument classified as available for sale at initial recognition could not be classified as loans and receivables in the future (IAS39p9).

14 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.

Analysis of IFRS 7 as compared with IAS 30 and IAS 32

IFRS 7			IAS 30 and IAS 32 (amended by fair value option)	
Item	**Para**	**Disclosure**	**Para**	**Commentary**
Scope				
1.	3	This IFRS shall be applied by all entities to all types of financial instruments, except: (a) those interests in subsidiaries, associates and joint ventures that are accounted for in accordance with IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates or IAS 31 Interests in Joint Ventures. However, in some cases, IAS 27, IAS 28 or IAS 31 permits an entity to account for an interest in a subsidiary, associate or joint venture using IAS 39; in those cases, entities shall apply the disclosure requirements in IAS 27, IAS 28 or IAS 31 in addition to those in this IFRS. **Entities shall also apply this IFRS to all derivatives linked to interests in subsidiaries, associates or joint ventures unless the derivative meets the definition of an equity instrument in IAS 32.** (b) employers' rights and obligations arising from employee benefit plans, to which IAS 19, Employee Benefits applies. (c) contracts for contingent consideration in a business combination (see IFRS 3 Business Combinations). This exemption applies only to the acquirer. (d) insurance contracts as defined in IFRS 4 Insurance Contracts. However, this IFRS applies to derivatives that are embedded in insurance contracts if IAS 39 requires the entity to account for them separately. (e) financial instruments, contracts and obligations under share-based payment transactions to which IFRS 2 Share-based Payment applies, except that this IFRS applies to contracts within the scope of paragraphs 5-7 of IAS 39.	32p4	IFRS 7 does not apply to derivatives based on interests in subsidiaries, associates and joint ventures if the derivatives meet the definition of an equity instrument in IAS 32.
2.	4	This IFRS applies to recognised and unrecognised financial instruments. Recognised financial instruments include financial assets and financial liabilities that are within the scope of IAS 39. Unrecognised financial instruments include some financial instruments that, although outside the scope of IAS 39, are within the scope of this IFRS (such as some loan commitments).	32p5	The same.
3.	5	This IFRS applies to contracts to buy or sell a non-financial item that are within the scope of IAS 39 (see paragraphs 5-7 of IAS 39).	32p4(f)	The same.
Classes of financial instrument and level of disclosures				
4.	6	When this IFRS requires disclosures by class of financial instrument, an entity shall group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. An entity shall provide sufficient information to permit reconciliation to the line items presented in the balance sheet.	32p55	The same.
5.	B2	In determining classes of financial instrument, an entity shall, at a minimum: (a) distinguish instruments measured at amortised cost from those measured at fair value. (b) treat as a separate class or classes those financial instruments outside the scope of this IFRS.	32p55	The same.

Analysis of IFRS 7 as compared with IAS 30 and IAS 32 (continued)

IFRS 7			IAS 30 and IAS 32 (amended by fair value option)	
Item	**Para**	**Disclosure**	**Para**	**Commentary**
Scope				
6.	7	An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance.	32p51	The same.
Balance sheet				
Categories of financial assets and financial liabilities				
7.	8	The carrying amounts of each of the following categories, as defined in IAS 39, shall be disclosed either on the face of the balance sheet or in the notes: (a) financial assets at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those classified as held for trading in accordance with IAS 39; (b) held-to-maturity investments; (c) loans and receivables; (d) available-for-sale financial assets; (e) financial liabilities at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those classified as held for trading in accordance with IAS 39; and (f) financial liabilities measured at amortised cost.	30p19 32p94(e)	1) Minimum disclosures on the face of the balance sheet or in the notes: • Assets • Cash and balances with the central bank; • Treasury bills and other bills eligible for rediscounting with the central bank; • Government and other securities held for dealing purposes; • Placements with, and loans and advances to, other banks; • Other money market placements; • Loans and advances to customers; • Investment securities; • Liabilities; • Deposits from other banks; • Other money market deposits; • Amounts owed to other depositors; • Certificates of deposits; • Promissory notes and other liabilities evidenced by paper; and • Other borrowed funds. 2) Disclosure of carrying amounts of: • Financial assets/liabilities held for trading; • Designated at FVTPL.
Financial assets or financial liabilities at fair value through profit or loss				
8.	9	If the entity has **designated a loan or receivable** (or group of loans or receivables) **as at fair value through profit or loss**, it shall disclose: (a) the maximum exposure to credit risk (see paragraph 36(a) of the loan or receivable (or group of loans or receivables) at the reporting date.	32p94(e)	The same.

Analysis of IFRS 7 as compared with IAS 30 and IAS 32 (continued)

IFRS 7			IAS 30 and IAS 32 (amended by fair value option)	
Item	**Para**	**Disclosure**	**Para**	**Commentary**
9.		(b) the amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk.	32p94(e)	The same.
10.		(c) the amount of change, during the period and cumulatively, in the fair value of the loan or receivable (or group of loans or receivables) that is attributable to changes in the credit risk of the financial asset determined either:		
11.		(i) as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk; or		
12.		(ii) using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the asset.		
13.		Changes in market conditions that give rise to market risk include changes in an observed (benchmark) interest rate, commodity price, foreign exchange rate or index of prices or rates.		
14.		(d) the amount of the change in the fair value of any related credit derivatives or similar instruments that has occurred during the period and cumulatively since the loan or receivable was designated.		
15.	10	If the entity has designated a financial liability as at fair value through profit or loss in accordance with paragraph 9 of IAS 39, it shall disclose: (a) the amount of change, during the period and cumulatively, in the fair value of the financial liability that is **attributable to changes in the credit risk** of that liability determined either:	32p94(f)	The same.
16.		(i) as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk (see Appendix B, paragraph B4); or		The same.
17.		(ii) using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the liability.		
18.		Changes in market conditions that give rise to market risk include changes in a benchmark interest rate, the price of another entity's financial instrument, a commodity price, a foreign exchange rate or an index of prices or rates. For contracts that include a unit-linking feature, changes in market conditions include changes in the performance of the related internal or external investment fund.		
19.		(b) the difference between the financial liability's carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.	32p94(f)	The same.

Analysis of IFRS 7 as compared with IAS 30 and IAS 32 (continued)

IFRS 7			IAS 30 and IAS 32 (amended by fair value option)	
Item	**Para**	**Disclosure**	**Para**	**Commentary**
20.	11	The entity shall disclose: a) the methods used to comply with the requirements in paragraphs 9(c) and 10(a).	32p94(i)	The same.
21.		b) if the entity believes that the disclosure it has given to comply with the requirements in paragraph 9(c) or 10(a) does not faithfully represent the change in the fair value of the financial asset or financial liability attributable to changes in its credit risk, the reasons for reaching this conclusion and the factors it believes are relevant.		
Reclassification				
22.	12	If the entity has reclassified a financial asset as one measured: a) at cost or amortised cost, rather than at fair value; or	32p94(g)	The same.
23.		b) at fair value, rather than at cost or amortised cost, it shall disclose the amount reclassified into and out of each category and the reason for that reclassification (see paragraphs 51-54 of IAS 39).		New. IFRS 7 requires the disclosure of the amount of reclassification in both directions between fair value and cost or amortised cost.
Derecognition				
24.	13	An entity may have transferred financial assets in such a way that part or all of the financial assets do not qualify for derecognition (see paragraphs 15-37 of IAS 39). The entity shall disclose for each class of such financial assets:	32p94(a)	The same.
25.		a) the nature of the assets;		The same.
26.		b) the nature of the risks and rewards of ownership to which the entity remains exposed;		
27.		c) when the entity continues to recognise all of the assets, the carrying amounts of the assets and of the associated liabilities; and		
28.		d) when the entity continues to recognise the assets to the extent of its continuing involvement, the total carrying amount of the original assets, the amount of the assets that the entity continues to recognise, and the carrying amount of the associated liabilities.		
Collateral				
29.	14	An entity shall disclose: a) the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, **including amounts that have been reclassified in accordance with paragraph 37(a) of IAS 39**; and	32p94(b) 30p53	The text in bold is new.
30.		b) the terms and conditions relating to its pledge.	32p94(b)	The same.
31.	15	When an entity holds collateral (of financial or non-financial assets) and is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, it shall disclose: a) the fair value of the collateral held;	32p94(c)	The same.

Analysis of IFRS 7 as compared with IAS 30 and IAS 32 (continued)

IFRS 7			IAS 30 and IAS 32 (amended by fair value option)	
Item	**Para**	**Disclosure**	**Para**	**Commentary**
32.		(b) the fair value of any such collateral sold or repledged, and whether the entity has an obligation to return it; and	32p94(c)	The same.
33.		(c) the terms and conditions associated with its use of the collateral.		
34.	16	When financial assets are impaired by credit losses and the entity records the impairment in a separate account (eg an allowance account used to record individual impairments or a similar account used to record a collective impairment of assets) rather than directly reducing the carrying amount of the asset, it shall disclose a reconciliation of changes in that account during the period for **each class of financial assets.**	30p43	The text in bold is new; it was required only for loans and advances (IAS 30p43). Now it is required separately for each class of financial asset. IFRS 7 does not prescribe components of the reconciliation. IFRS 7 does not require separate disclosure of appropriations of retained earnings set aside for general banking risks.
			30p50	Note: if the carrying amount of the asset is directly decreased by the impairment, no reconciliation is required.
Compound financial instruments with multiple embedded derivatives				
35.	17	If an entity has issued an instrument that contains both a liability and an equity component (see paragraph 28 of IAS 32) and the instrument has multiple embedded derivatives whose values are interdependent (such as a callable convertible debt instrument), it shall disclose the existence of those features.	32p94(d)	No requirement to disclose EIR on the liability component.
Defaults and breaches				
36.	18	For loans payable recognised at the reporting date, an entity shall disclose: (a) details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable;	32p94(j)	The same.
37.		(b) the carrying amount of the loans payable in default at the reporting date; and		The same.
38.		(c) whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.		
39.	19	If, during the period, there were breaches of loan agreement terms other than those described in paragraph 18, an entity shall disclose the same information as required by paragraph 18 if those breaches permitted the lender to demand accelerated repayment (unless the breaches were remedied, or the terms of the loan were renegotiated, on or before the reporting date).		

Analysis of IFRS 7 as compared with IAS 30 and IAS 32 (continued)

IFRS 7			IAS 30 and IAS 32 (amended by fair value option)	
Item	**Para**	**Disclosure**	**Para**	**Commentary**
Income statement and equity				
Items of income, expense, gains and losses				
40.	20	An entity shall disclose the following items of income, expense, gains or losses either on the face of the financial statements or in the notes: a) net gains or net losses on: (i) financial assets or financial liabilities at fair value through profit or loss, showing separately those on financial assets or financial liabilities designated as such upon initial recognition, and those on financial assets or financial liabilities that are classified as held for trading in accordance with IAS 39;	32p94(h) 32p94(f) 30p9, 10	General requirement to disclose 'material items of income, expense and gains and losses resulting from financial assets and financial liabilities'. Requirement to disclose (FVO) separately net gains or net losses on financial assets or financial liabilities designated by the entity as at fair value through profit or loss. Specific P/L lines/notes required: • Interest and similar income; • Interest expense and similar charges; • Dividend income; • Fee and commission income; • Fee and commission expense; • Gains less losses arising from dealing securities; • Gains less losses arising from investment securities; • Gains less losses arising from dealing in foreign currencies; • Other operating income; • Impairment losses on loans and advances; and • Other operating expenses.
41.		(ii) available-for-sale financial assets, showing separately the amount of gain or loss recognised directly in equity during the period and the amount removed from equity and recognised in profit or loss for the period;	32p94(h)(ii)	The same.
42.		(iii) held-to-maturity investments;		The same.
43.		(iv) loans and receivables; and		
44.		(v) financial liabilities measured at amortised cost;		
45.		b) total interest income and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are not at fair value through profit or loss;	32p94(h) 32p94(i)	The same.
46.		c) fee income and expense (other than amounts included in determining the effective interest rate) arising from: (i) financial assets or financial liabilities that are not at fair value through profit or loss; and		New.
47.		(ii) trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions;		New.

Analysis of IFRS 7 as compared with IAS 30 and IAS 32 (continued)

IFRS 7			IAS 30 and IAS 32 (amended by fair value option)	
Item	**Para**	**Disclosure**	**Para**	**Commentary**
48.		(d) interest income on impaired financial assets accrued in accordance with paragraph AG93 of IAS 39; and	32p94(h)(iii)	The same.
49.		(e) the amount of any impairment loss for each class of financial asset.	32p94(i)	The same.
Other disclosures				
Accounting policies				
50.	21	In accordance with paragraph 108 of IAS 1 Presentation of Financial Statements, an entity discloses, in the summary of significant accounting policies, the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.	32p60(b) 61, 66	The same.
	B5	Para 21 may include for financial instruments:		
51.		(a) for financial assets or financial liabilities designated as at fair value through profit or loss:	32p66(d) (FVO)	The same.
52.		(i) the nature of the financial assets or financial liabilities the entity has designated as at fair value through profit or loss;		
53.		(ii) the criteria for so designating such financial assets or financial liabilities on initial recognition; and		
54.		(iii) how the entity has satisfied the conditions in paragraph 9, 11A or 12 of IAS 39 for such designation. For instruments designated in accordance with paragraph (b)(i) of the definition of a financial asset or financial liability at fair value through profit or loss in IAS 39, that disclosure includes a narrative description of the circumstances underlying the measurement or recognition inconsistency that would otherwise arise. For instruments designated in accordance with paragraph (b)(ii) of the definition of a financial asset or financial liability at fair value through profit or loss in IAS 39, that disclosure includes a narrative description of how designation at fair value through profit or loss is consistent with the entity's documented risk management or investment strategy.		
55.		(b) the criteria for designating financial assets as available for sale.		New.
56.		(c) whether regular way purchases and sales of financial assets are accounted for at trade date or at settlement date (see paragraph 38 of IAS 39).	32p61	The same.
57.		(d) when an allowance account is used to reduce the carrying amount of financial assets impaired by credit losses: (i) the criteria for determining when the carrying amount of impaired financial assets is reduced directly (or, in the case of a reversal of a write-down, increased directly) and when the allowance account is used; and		New.
58.		(ii) the criteria for writing off amounts charged to the allowance account against the carrying amount of impaired financial assets (see paragraph 16).	30p43(a)	The same.

Appendix II
Analysis of IFRS 7

Analysis of IFRS 7 as compared with IAS 30 and IAS 32 (continued)

IFRS 7			IAS 30 and IAS 32 (amended by fair value option)	
Item	**Para**	**Disclosure**	**Para**	**Commentary**
59.		(e) how net gains or net losses on each category of financial instrument are determined (see paragraph 20(a)), for example, whether the net gains or net losses on items at fair value through profit or loss include interest or dividend income.		New.
60.		(f) the criteria the entity uses to determine that there is objective evidence that an impairment loss has occurred (see paragraph 20(e)).		New. It was required to disclose the basis for the determination of impairment losses on loans and advances (IAS30p8(d)). IFRS 7 is more specific.
61.		(g) when the terms of financial assets that would otherwise be past due or impaired have been renegotiated, the accounting policy for financial assets that are the subject of renegotiated terms (see paragraph 36(d)).		New.
62.		Paragraph 113 of IAS 1 also requires entities to disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.		No change, IAS 1.
Hedge accounting				
63.	22	An entity shall disclose the following separately for each type of hedge described in IAS 39 (ie fair value hedges, cash flow hedges, and hedges of net investments in foreign operations): (a) a description of each type of hedge;	32p58(a)	The same.
64.		(b) a description of the financial instruments designated as hedging instruments and their fair values at the reporting date; and	32p58(b)	The same.
65.		(c) the nature of the risks being hedged.	32p58(c)	The same.
66.	23	For cash flow hedges, an entity shall disclose: (a) the periods when the cash flows are expected to occur and when they are expected to affect profit or loss;	32p58(d)	The same.
67.		(b) a description of any forecast transaction for which hedge accounting had previously been used, but which is no longer expected to occur;		
68.		(c) the amount that was recognised in equity during the period;	32p59(a)	The same.
69.		(d) the amount that was removed from equity and included in profit or loss for the period, **showing the amount included in each line item in the income statement; and**	32p59(b)	The text in bold is new.
70.		(e) the amount that was removed from equity during the period and included in the initial cost or other carrying amount of a non-financial asset or non-financial liability whose acquisition or incurrence was a hedged highly probable forecast transaction.	32p59(c)	The same.
71.	24	An entity shall disclose separately: (a) in fair value hedges, gains or losses: (i) on the hedging instrument; and		New.
72.		(ii) on the hedged item attributable to the hedged risk.		
73.		(b) the ineffectiveness recognised in profit or loss that arises from cash flow hedges; and		

Analysis of IFRS 7 as compared with IAS 30 and IAS 32 (continued)

IFRS 7			IAS 30 and IAS 32 (amended by fair value option)	
Item	**Para**	**Disclosure**	**Para**	**Commentary**
74.		(c) the ineffectiveness recognised in profit or loss that arises from hedges of net investments in foreign operations.		New.
Fair value				
75.	25	Except as set out in paragraph 29, for each class of financial assets and financial liabilities (see paragraph 6), an entity shall disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount.	32p86	The same.
76.	26	In disclosing fair values, an entity shall group financial assets and financial liabilities into classes, but shall offset them only to the extent that their carrying amounts are offset in the balance sheet.		The same.
77.	27	An entity shall disclose: (a) the methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities. For example, if applicable, an entity discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates.	32p92(a)	The same.
78.		(b) whether fair values are determined, in whole or in part, directly by reference to published price quotations in an active market or are estimated using a valuation technique (see paragraphs AG71-AG79 of IAS 39).	32p92(b)	The same.
79.		(c) whether the fair values recognised or disclosed in the financial statements are determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument (ie without modification or repackaging) and not based on available observable market data. For fair values that are recognised in the financial statements, if changing one or more of those assumptions to reasonably possible alternative assumptions would change fair value significantly, the entity shall state this fact and disclose the effect of those changes. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in equity, total equity.	32p92(c)	The same.
80.		(d) if (c) applies, the total amount of the change in fair value estimated using such a valuation technique that was recognised in profit or loss during the period.	32p92(d)	The same.
81.	28	If the market for a financial instrument is not active, an entity establishes its fair value using a valuation technique (see paragraphs AG74-AG79 of IAS 39). Nevertheless, the best evidence of fair value at initial recognition is the transaction price (ie the fair value of the consideration given or received), unless conditions described in paragraph AG76 of IAS 39 are met. It follows that there could be a difference between the fair value at initial recognition and the amount that would be determined at that date using the valuation technique. If such a difference exists, an entity shall disclose, by class of financial instrument: (a) its accounting policy for recognising that difference in profit or loss to reflect a change in factors (including time) that market participants would consider in setting a price (see paragraph AG76A of IAS 39); and		New.

Analysis of IFRS 7 as compared with IAS 30 and IAS 32 (continued)

IFRS 7			IAS 30 and IAS 32 (amended by fair value option)	
Item	**Para**	**Disclosure**	**Para**	**Commentary**
82.		b) the aggregate difference yet to be recognised in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference.		New.
83.	29	Disclosures of fair value are not required: a) when the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short-term trade receivables and payables;	32p88	The same.
84.		b) for an investment in equity instruments that do not have a quoted market price in an active market, or derivatives linked to such equity instruments, that is measured at cost in accordance with IAS 39 because its fair value cannot be measured reliably; or	32p90	The same.
85.		c) for a contract containing a discretionary participation feature (as described in IFRS 4) if the fair value of that feature cannot be measured reliably.	32p91A	The same.
86.	30	In the cases described in paragraph 29(b) and (c), an entity shall disclose information to help users of the financial statements make their own judgements about the extent of possible differences between the carrying amount of those financial assets or financial liabilities and their fair value, including: a) the fact that fair value information has not been disclosed for these instruments because their fair value cannot be measured reliably;	32p90, 91	The same.
87.		b) a description of the financial instruments, their carrying amount, and an explanation of why fair value cannot be measured reliably;		
88.		c) information about the market for the instruments;		
89.		d) information about whether and how the entity intends to dispose of the financial instruments; and		New.
90.		e) if financial instruments whose fair value previously could not be reliably measured are derecognised, that fact, their carrying amount at the time of derecognition, and the amount of gain or loss recognised.	32p90, 91	The same.
Nature and extent of risks arising from financial instruments				
91.	31	An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the reporting date.	32p60(a)	The same.
92.	32	The disclosures required by paragraphs 33-42 focus on the risks that arise from financial instruments and how they have been managed. These risks typically include, but are not limited to, credit risk, liquidity risk and market risk.		New.
93.	33	For each type of risk arising from financial instruments, an entity shall disclose: a) the exposures to risk and how they arise;	32p52 (a-d)	The same.

Analysis of IFRS 7 as compared with IAS 30 and IAS 32 (continued)

IFRS 7			IAS 30 and IAS 32 (amended by fair value option)	
Item	**Para**	**Disclosure**	**Para**	**Commentary**
94.		b) its objectives, policies and **processes** for managing the risk and the methods used to measure the risk; and	32p56	Additional disclosure required on: a) processes for managing the risk; and b) methods used to measure the risk.
95.		c) any changes in (a) or (b) from the previous period.		New.
Quantitative disclosures				
96.	34	For each type of risk arising from financial instruments, an entity shall disclose: a) summary quantitative data about its exposure to that risk at the reporting date. This disclosure shall be based on the information provided internally to key management personnel of the entity (as defined in IAS 24 Related Party Disclosures), for example the entity's board of directors or chief executive officer.		New.
97.		b) the disclosures required by paragraphs 36-42, to the extent not provided in (a), unless the risk is not material (see paragraphs 29-31 of IAS 1 for a discussion of materiality).		
98.		c) concentrations of risk if not apparent from (a) and (b).	30p40	The same.
99.	B8	Disclosure of concentrations of risk shall include: a) a description of how management determines concentrations;		New.
100.		b) a description of the shared characteristic that identifies each concentration (eg counterparty, geographical area, currency or market); and		
101.		c) the amount of the risk exposure associated with all financial instruments sharing that characteristic.		
102.	35	If the quantitative data disclosed as at the reporting date are unrepresentative of an entity's exposure to risk during the period, an entity shall provide further information that is representative.		
Credit risk				
103.	36	An entity shall disclose by class of financial instrument: a) the amount that best represents its maximum exposure to credit risk at the reporting date without taking account of any collateral held or other credit enhancements (eg netting agreements that do not qualify for offset in accordance with IAS 32);	32p76(a)	The same.
104.		b) in respect of the amount disclosed in (a), a description of collateral held as security and other credit enhancements;	32p63(g)	The same.
105.		c) information about the credit quality of financial assets that are neither past due nor impaired; and		New.
106.		d) the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.		

Analysis of IFRS 7 as compared with IAS 30 and IAS 32 (continued)

IFRS 7			IAS 30 and IAS 32 (amended by fair value option)	
Item	**Para**	**Disclosure**	**Para**	**Commentary**
107.	B10	Activities that give rise to credit risk include, but are not limited to:		New.
108.		a) granting loans and receivables to customers and placing deposits with other entities. In these cases, the maximum exposure to credit risk is the carrying amount of the related financial assets.		
109.		b) entering into derivative contracts, eg foreign exchange contracts, interest rate swaps and credit derivatives. When the resulting asset is measured at fair value, the maximum exposure to credit risk at the reporting date will equal the carrying amount.		
110.		c) granting financial guarantees. In this case, the maximum exposure to credit risk is the maximum amount the entity could have to pay if the guarantee is called on, which may be significantly greater than the amount recognised as a liability.		
111.		d) making a loan commitment that is irrevocable over the life of the facility or is revocable only in response to a material adverse change. If the issuer cannot settle the loan commitment net in cash or another financial instrument, the maximum credit exposure is the full amount of the commitment. This is because it is uncertain whether the amount of any undrawn portion may be drawn upon in the future. This may be significantly greater than the amount recognised as a liability.		
Financial assets that are either past due or impaired				
112.	37	An entity shall disclose by class of financial asset: a) an analysis of the age of financial assets that are past due as at the reporting date but not impaired; **Note** **Appx A – Defined terms** **Past due –** A financial asset is past due when a counterparty has failed to make a payment when contractually due.		New.
113.		b) an analysis of financial assets that are individually determined to be impaired as the reporting date, including the factors the entity considered in determining that they are impaired; and		
114.		c) for the amounts disclosed in (a) and (b), a description of collateral held by the entity as security and other credit enhancements and, unless impracticable, an estimate of their fair value.		
Collateral and other credit enhancements obtained				
115.	38	When an entity obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (eg guarantees), and such assets meet the recognition criteria in other Standards, an entity shall disclose: a) the nature and carrying amount of the assets obtained; and		New.
116.		b) when the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.		New.

Analysis of IFRS 7 as compared with IAS 30 and IAS 32 (continued)

IFRS 7			IAS 30 and IAS 32 (amended by fair value option)	
Item	**Para**	**Disclosure**	**Para**	**Commentary**
Liquidity risk				
117.	39	An entity shall disclose: a) a maturity analysis for financial liabilities that shows the remaining contractual maturities; and	30p30	New. Previously required to show all assets and liabilities.
118.		b) a description of how it manages the liquidity risk inherent in (a).		
119.	B12	When a counterparty has a choice of when an amount is paid, the liability is included on the basis of the earliest date on which the entity can be required to pay. For example, financial liabilities that an entity can be required to repay on demand (eg demand deposits) are included in the earliest time band.	30p36	The same.
120.	B13	When an entity is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the entity can be required to pay. For example, an undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.		The same.
121.	B14	The amounts disclosed in the maturity analysis are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows.		
Market risk				
122.	40	Unless an entity complies with paragraph 41, it shall disclose: a) a sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date;		New. NB: IAS32p75 – voluntary disclosure of sensitive analysis for IRR.
123.		b) the methods and assumptions used in preparing the sensitivity analysis; and		New.
124.		c) changes from the previous period in the methods and assumptions used, and the reasons for such changes.		New.
125.	41	If an entity prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between risk variables (eg interest rates and exchange rates) and uses it to manage financial risks, it may use that sensitivity analysis in place of the analysis specified in paragraph 40. The entity shall also disclose: a) an explanation of the method used in preparing such a sensitivity analysis, and of the main parameters and assumptions underlying the data provided; and		New.
126.		b) an explanation of the objective of the method used and of limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved.		New.
127.	B22	Interest rate risk arises on interest-bearing financial instruments recognised in the balance sheet (eg loans and receivables and debt instruments issued) and on some financial instruments not recognised in the balance sheet (eg some loan commitments).		The same.

Analysis of IFRS 7 as compared with IAS 30 and IAS 32 (continued)

IFRS 7			IAS 30 and IAS 32 (amended by fair value option)	
Item	Para	Disclosure	Para	Commentary
128.	B23	Currency risk (or foreign exchane risk) arises on financial instruments that are denominated in a foreign currency, ie in a currency other than the functional currency in which they are measured. For the purpose of this IFRS, currency risk does not arise from financial instruments that are non-monetary items or from financial instruments denominated in the functional currency.		New. This means that all equity instruments classified as AFS securities and investments in foreign subsidiary are excluded from the disclosure of currency risk under IFRS 7.
Other market risk disclosures				
129.	42	When the sensitivity analyses disclosed in accordance with paragraph 40 or 41 are unrepresentative of a risk inherent in a financial instrument (for example because the year-end exposure does not reflect the exposure during the year), the entity shall disclose that fact and the reason it believes the sensitivity analyses are unrepresentative.		New.

Disclosures no longer required

IAS 30

IAS 30		Disclosure	Analysis
1.	20	The most useful approach to the classification of the assets and liabilities of a bank is to group them by their nature and list them in the approximate order of their liquidity; this may equate broadly to their maturities. **Current and non-current items are not presented separately because most assets and liabilities of a bank can be realised or settled in the near future.**	No exemption in IFRS 7. IAS 1 says: 51 An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its balance sheet in accordance with paragraphs 57-67 **except when a presentation based on liquidity provides information that is reliable and is more relevant.** When that exception applies, all assets and liabilities shall be presented broadly in order of liquidity. 52 Whichever method of presentation is adopted, for each asset and liability line item that combines amounts expected to be recovered or settled (a) no more than twelve months after the balance sheet date and (b) more than twelve months after the balance sheet date, **an entity shall disclose the amount expected to be recovered or settled after more than twelve months.** 54 For some entities, such as financial institutions, a presentation of assets and liabilities in increasing or decreasing order of liquidity provides information that is reliable and is more relevant than a current/ non-current presentation because the entity does not supply goods or services within a clearly identifiable operating cycle.

Disclosures no longer required (continued)

IAS 30		Disclosure	Analysis
2.	21	The distinction between balances with other banks and those with other parts of the money market and from other depositors is relevant information because it gives an understanding of a bank's relations with, and dependence on, other banks and the money market. Hence, a bank discloses separately: a) balances with the central bank; b) placements with other banks; c) other money market placements; d) deposits from other banks; e) other money market deposits; and f) other deposits. A bank generally does not know the holders of its certificates of deposit because they are usually traded on an open market. Hence, a bank discloses separately deposits that have been obtained through the issue of its own certificates of deposit or other negotiable paper.	Not required under IFRS 7.
3.	26	A bank shall disclose the following contingent liabilities and commitments: (a) the nature and amount of commitments to extend credit that are irrevocable because they cannot be withdrawn at the discretion of the bank without the risk of incurring significant penalty or expense; and (b) the nature and amount of contingent liabilities and commitments arising from off balance sheet items including those relating to: (i) direct credit substitutes including general guarantees of indebtedness, bank acceptance guarantees and standby letters of credit serving as financial guarantees for loans and securities; (ii) certain transaction-related contingent liabilities including performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions; (iii) short-term self-liquidating trade-related contingent liabilities arising from the movement of goods, such as documentary credits where the underlying shipment is used as security; and (iv) *[Deleted]* (v) *[Deleted]* (vi) other commitments, note issuance facilities and revolving underwriting facilities.	Not required under IFRS 7. However, required by IAS 37.
4.	50	Guidance on provision for general banking risks.	No specific guidance exists. However, IAS 39 is clear about the incurred loss model: provision for general banking risks cannot be recognised anyway. All provisions for general banking risks would be treated as appropriations of retained earnings.

Disclosures no longer required (continued)

IAS 30		Disclosure	Analysis
5.	55	Trust activities: Banks commonly act as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. Provided the trustee or similar relationship is legally supported, these assets are not assets of the bank and, therefore, are not included in its balance sheet. If the bank is engaged in significant trust activities, disclosure of that fact and an indication of the extent of those activities is made in its financial statements because of the potential liability if it fails in its fiduciary duties. For this purpose, trust activities do not encompass safe custody functions.	Not required under IFRS 7. IFRS 7 requires specific disclosure of fee income from trust activities. IAS 1 requires that principal activities are disclosed. Thus trust activities would be disclosed if significant.
6.	56-58	Disclosure requirements on RPT.	No impact as all the requirements in IAS30p56-58 can be found in IAS 24.

IAS 32

IAS 32		Disclosure	Analysis
7.	67	Disclose EIR for each class of financial assets and liabilities, if applicable.	Not required by IFRS 7.
8.	71	Disclose the exposure to fair value interest rate risk and cash flow interest rate risk.	Not required by IFRS 7.

ABC Bank Group's financial instruments by class under IFRS 7 – Summary

IFRS 7 requires certain disclosures to be given by class of financial instrument, such as the reconciliation of an allowance account (IFRS 7p16). It does not provide a prescriptive list of classes of financial instrument. It states 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 balance sheet (IFRS 7p6).

A 'class' of financial instruments is not the same as a 'category' of financial instruments. Categories are defined in IAS 39 as financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets, financial liabilities at fair value through profit or loss and financial liabilities measured at amortised cost.

Classes should be determined at a lower lever than the measurement categories in IAS 39 and reconciled back to the balance sheet, as required by IFRS 7p6. However, the level of detail for a class should be determined on an entity-specific basis.

<table>
<tr><th colspan="2">Category (as defined by IAS 39)</th><th colspan="3">Class (as determined by ABC Bank Group)</th></tr>
<tr><td rowspan="20">Financial assets</td><td rowspan="7">Financial assets at fair value through profit or loss</td><td rowspan="2">Trading assets</td><td colspan="2">Debt securities</td></tr>
<tr><td colspan="2">Equity securities</td></tr>
<tr><td>Derivative financial instruments</td><td colspan="2"></td></tr>
<tr><td rowspan="4">Designated at fair value through profit and loss</td><td colspan="2">Debt securities</td></tr>
<tr><td colspan="2">Equity securities</td></tr>
<tr><td colspan="2">Loans and advances to banks</td></tr>
<tr><td colspan="2">Loans and advances to customers</td></tr>
<tr><td rowspan="8">Loans and receivables</td><td>Loans and advances to banks</td><td colspan="2"></td></tr>
<tr><td rowspan="7">Loans and advances to customers</td><td></td><td>Overdrafts</td></tr>
<tr><td rowspan="3">Loans to individuals (retail)</td><td>Credit cards</td></tr>
<tr><td>Term loans</td></tr>
<tr><td>Mortgages</td></tr>
<tr><td rowspan="3">Loans to corporate entities</td><td>Large corporate customers</td></tr>
<tr><td>SMEs</td></tr>
<tr><td>Others</td></tr>
<tr><td rowspan="2">Held-to-maturity investments</td><td rowspan="2">Investment securities – debt securities</td><td colspan="2">Listed</td></tr>
<tr><td colspan="2">Unlisted</td></tr>
<tr><td rowspan="3">Available-for-sale financial assets</td><td>Investment securities – debt securities</td><td colspan="2">Listed</td></tr>
<tr><td rowspan="2">Investment securities – equity securities</td><td colspan="2">Listed</td></tr>
<tr><td colspan="2">Unlisted</td></tr>
<tr><td rowspan="10">Financial liabilities</td><td rowspan="3">Financial liabilities at fair value through profit or loss</td><td colspan="3">Trading liabilities</td></tr>
<tr><td colspan="3">Derivative financial instruments</td></tr>
<tr><td colspan="2">Designated at fair value through profit and loss</td><td>Debt securities in issue</td></tr>
<tr><td rowspan="7">Financial liabilities at amortised cost</td><td colspan="3">Deposits from banks</td></tr>
<tr><td rowspan="3">Due to customers</td><td colspan="2">Retail customers</td></tr>
<tr><td colspan="2">Large corporate customers</td></tr>
<tr><td colspan="2">SMEs</td></tr>
<tr><td colspan="3">Debt securities in issue</td></tr>
<tr><td colspan="3">Other deposits</td></tr>
<tr><td colspan="3">Other borrowed funds</td></tr>
</table>

Disclosure requirements by class under IFRS 7

When IFRS 7 requires disclosures by class of financial instrument, management should:

- Group financial instruments into classes that are appropriate to the nature of the information disclosed and take into account the characteristics of those financial instruments; and
- Provide sufficient information to permit reconciliation to the line items presented in the balance sheet **(IFRS7p6, AppxB1-B3).**

The table below is a summary of the disclosure requirements in IFRS 7 that should be made by class. The concept of disclosing by class previously existed in IAS 30 and IAS 32 for certain disclosure requirements. A comparison between IFRS 7, and IAS 30 and IAS 32 by class, is also shown in the table below.

Disclosure requirements by class under IFRS 7	IFRS 7 para reference	Comparison with IAS30/32	IAS 30/32 para ref
(a) Significance of financial instruments for financial position and performance			
Derecognition			
1. Transferred financial assets **not** qualifying for derecognition: • **nature** of the assets • nature of the **risks and rewards** • if continues to recognise all of the assets, **carrying amounts** of: – assets, – associated liabilities; • if continues to recognise the continuing involvement, **carrying amount** of: – original assets, – assets relating to continuing involvement and associated liabilities.	IFRS7p13	By class	32p94(a)
Impairment for credit losses			
2. Impairment allowance account for credit losses of financial assets:			
• **movement** of balance sheet allowance accounts;	IFRS7p16	By category	30p43(b)
• impairment loss recognised in income statement.	IFRS7p20(e)	By class	32p94(i)
Fair value 3. Fair value of financial assets and financial liabilities[1] (to be compared with its carrying amount): • **methods** applied in determining fair value; • **assumptions** applied if using valuation technique; • whether any assumptions are not supported by observable market data, and their impact on fair value if significant; and • total **recognised amount** in income statement of change in fair value **using a valuation technique.**	IFRS7p25-27	By class	32p86-93
4. Deferred day one profit/loss of financial instruments: • **accounting policy**; and • **reconciliation** and the aggregate difference yet to be recognised in income statement.	IFRS7p28	None	N/A
(b) Nature and extent of risks arising from financial instruments			
Credit risk			
5. For all financial instruments: • **maximum exposure** to credit risk at the reporting date (without taking account of collateral held or other credit enhancements); and • **collateral** held or **other credit enhancements.**	IFRS7p36 (a)-(b)	By class (Note: IAS 32 requires disclosure by class for financial assets only; IFRS 7 requires disclosure by class for all financial instruments).	32p76

[1] Disclosures of fair value are not required: (a) when the carrying amount is a reasonable approximation of fair value – for example, for financial instruments such as short-term trade receivables and payables; (b) for an investment in equity instruments that do not have a quoted market price in an active market, or derivatives linked to such equity instruments, that is measured at cost in accordance with IAS 39 because its fair value cannot be measured reliably; or (c) for a contract containing a discretionary participation feature (as described in IFRS 4) if the fair value of that feature cannot be measured reliably (IFRS 7p29).

Disclosure requirements by class under IFRS 7 (continued)

Disclosure requirements by class under IFRS 7	IFRS 7 para reference	Comparison with IAS30/32	IAS 30/32 para ref
6. For financial assets neither past due nor impaired: • **credit quality ; and** • **carrying amount of** financial assets with terms **renegotiated** (would otherwise be past due or impaired if not renegotiated).	IFRS7p36 (c-d)	None	N/A
7. For financial assets past due but not impaired: • analysis of the **age; and** • **collateral** held and **other credit enhancements**: – description – estimated fair value.	IFRS7p37 (a), (d)	None	N/A
8. For financial assets impaired: • analysis of the **individually impaired** financial assets; • **factors considered** in determining that they are impaired; and • **collateral** held and **other credit enhancements**: – description, – estimated fair value.	IFRS7p37 (b-d)	None	N/A
Market risk 9. Sensitivity analysis: An entity shall provide sensitivity analyses for the whole of its business, but **may** provide different types of sensitivity analysis for different classes of financial instruments.	IFRS7 p40-41, Appx B21	None	N/A

IFRS7 also requires disclosure by category of financial assets and financial liabilities. The requirement by category, as defined in IAS 39, relates to the structure of the balance sheet and income statement, which can be disclosed either on the face or in the notes (IFRS7p8 and IFRS7p20).

Notes

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