KPMG

cutting through complexity

IFRS

Guide to annual financial statements – Illustrative disclosures for banks

December 2014

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About this guide – Compliance focused

This guide has been produced by the KPMG International Standards Group (part of KPMG IFRG Limited) and the views expressed herein are those of the KPMG International Standards Group.

It helps you to prepare financial statements in accordance with IFRS, illustrating one possible format for financial statements based on a fictitious banking group involved in a range of general banking activities; the bank is not a first-time adopter of IFRS.

Standards covered

This guide reflects IFRSs in issue at 1 December 2014 that are required to be applied by an entity with an annual period beginning *on* 1 January 2014 ('currently effective' requirements). The early adoption of IFRSs that are effective for annual periods beginning *after* 1 January 2014 ('forthcoming' requirements) has not been illustrated in this guide.

This guide is not intended to be seen as a complete and exhaustive summary of all disclosure requirements under IFRS. Instead, it focuses on disclosure requirements that are particularly relevant to banks. For more examples of other disclosures see our Guide to annual financial statements – Illustrative disclosures (September 2014).

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

You should also have regard to applicable legal and regulatory requirements. This guide does not consider the requirements of any particular jurisdiction.

Other guidance

In preparing this guide, we had regard to the recommendations made by the Enhanced Disclosure Task Force (EDTF) in its report *Enhancing the Risk Disclosures of Banks,* issued on 29 October 2012. The purpose of this report is to help banks improve their communication with their stakeholders in the area of risk disclosures, with the ultimate aim of improving investor confidence. The scope of the recommendations is wider than the financial statements because they apply to all financial reports, including public disclosures required by regulators and other communications with stakeholders. In some cases, recommendations in the report may impact the manner of presentation of information that is already required to be disclosed under IFRS. In other cases, it recommends disclosure of new information.

Many regulators are currently focusing on disclosures in financial statements. For example, the European Securities and Markets Authority (ESMA) has published its public statement on European common enforcement priorities for 2014. This statement identifies specific considerations relevant for the banking sector in 2014.

What's new in 2014?

Appendix I provides a comprehensive list of new requirements, distinguishing between those that are effective for an annual reporting period beginning on 1 January 2014, and those with a later effective date. None of the new standards or amendments to standards had an impact on this guide.

Need for judgement

These illustrative disclosures are part of our suite of products – Guides to financial statements – and specifically focus on compliance with IFRS. Although they are not exhaustive, they illustrate the disclosures *required* by IFRS for one hypothetical bank or a similar financial institution, largely without regard to materiality.

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

But compliance is just the beginning ...

Compliance with the standards is a given for investors, but there is a bigger question that needs to be asked: are your financial statements simply a compliance exercise, or have you taken the opportunity to maximise their value to investors? After all, if the statements have to be prepared anyway, then it makes sense to get maximum mileage from your efforts.

As a starting point, ask yourself these simple questions.

1. Does the most important information have prominence in my financial statements?

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2. Are my disclosures clear, including eliminating immaterial disclosures that obscure key messages?
3. Is my messaging in the financial statements aligned with other published information, such as the management report and earnings releases?

We suspect that you will implicitly know the answers to these questions, so the only question left is how can you make your reporting better? To begin answering that question, visit our Better Business Reporting website.

References and abbreviations

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

IAS 1.82(a)	Paragraph 82(a) of IAS 1.
[IAS 39.46(a)]	Paragraph 46(a) of IAS 39. The bracket indicates that the paragraph relates to recognition and measurement requirements, as opposed to presentation and disclosure requirements.
Insights 2.3.60.10	Paragraph 2.3.60.10 of the 11th edition 2014/15 of our publication Insights into IFRS
▌	Disclosures that are applicable only to entities in the scope of IFRS 8 *Operating Segments* and IAS 33 *Earnings per Share*.
‖	Major changes, either in terms of what was illustrated in the 2013 edition of this guide or related to requirements that are new in 2014.

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

The following abbreviations are used often in this guide.

CGU	Cash-generating unit
EPS	Earnings per share
NCI	Non-controlling interests
Notes	Notes to the financial statements
OCI	Other comprehensive income

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[*Name of bank*]

Independent auditors' report

Independent auditors' report on consolidated financial statements[a]

[*Addressee*]

We have audited the accompanying consolidated financial statements of [*name of bank*] (the 'Bank'), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statements of profit or loss and comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Bank as at 31 December 2014, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

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

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[*Name of bank*]

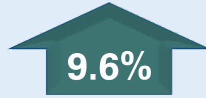
Consolidated financial statements

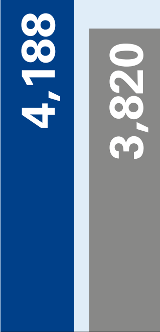
31 December 2014

Financial highlights

REVENUE

(million euro)

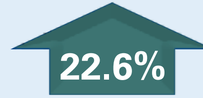




2014 2013

PROFIT BEFORE TAX

(million euro)



824 672

2014 2013

BASIC EARNINGS PER SHARE

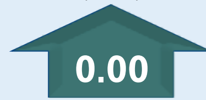
(euro)

0.34 0.29

2014 2013

DIVIDENDS PER ORDINARY SHARE

(euro)

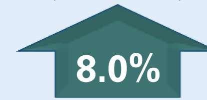


0.15 0.15

2014 2013

CORE TIER 1 CAPITAL

(million euro)

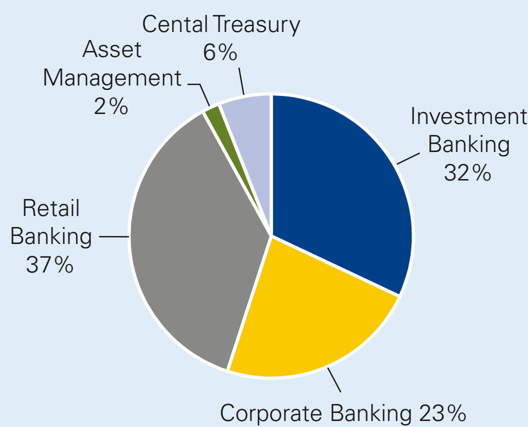


4,380 4,056

2014 2013

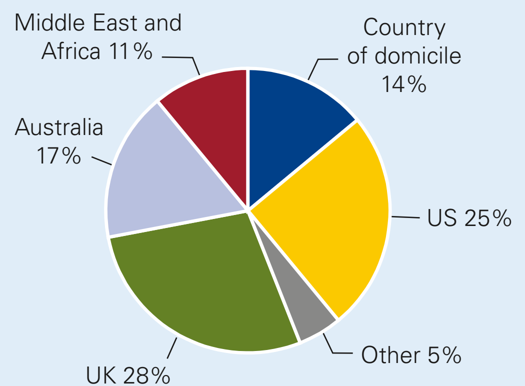
REVENUE BY SEGMENT

2014



REVENUE BY REGION

2014



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Consolidated statement of financial position[a, b]

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

Reference	*In millions of euro*	*Note*	31 December 2014	31 December 2013
	Assets			
IAS 1.54(i)	Cash and cash equivalents	*18*	**2,907**	2,992
IAS 1.54(d), 39.37(a)	Pledged trading assets	*19*	**540**	519
IAS 1.54(d)	Non-pledged trading assets	*19*	**16,122**	15,249
IAS 1.54(d)	Derivative assets held for risk management	*20*	**858**	726
IAS 1.54(d)	Loans and advances to banks	*21*	**5,572**	4,707
IAS 1.54(d)	Loans and advances to customers	*22*	**63,070**	56,805
IAS 1.54(d)	Investment securities	*23*	**6,302**	5,269
IAS 1.54(n)	Current tax assets		**49**	53
IAS 1.54(a)	Property and equipment	*24*	**409**	378
IAS 1.54(c)	Intangible assets	*25*	**275**	259
IAS 1.54(o)	Deferred tax assets	*16*	**316**	296
	Other assets	*26*	**689**	563
	Total assets		**97,109**	87,816

The notes on pages 16 to 147 are an integral part of these consolidated financial statements.

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Consolidated statement of financial position (continued)

IAS reference	In millions of euro	Note	31 December 2014	31 December 2013
IAS 1.10(a), 10(f), 38–38A, 40A–40B, 113				
	Liabilities			
IAS 1.54(m)	Trading liabilities	19	**7,026**	6,052
IAS 1.54(m)	Derivative liabilities held for risk management	20	**828**	789
IAS 1.54(m)	Deposits from banks	27	**11,678**	10,230
IAS 1.54(m)	Deposits from customers	28	**53,646**	48,904
IAS 1.54(m)	Debt securities issued	29	**11,227**	10,248
IAS 1.54(m)	Subordinated liabilities	30	**5,642**	4,985
IAS 1.54(l)	Provisions	31	**90**	84
IAS 1.54(o)	Deferred tax liabilities	16	**132**	123
	Other liabilities	32	**450**	431
	Total liabilities		**90,719**	81,846
	Equity			
IAS 1.54(r)	Share capital and share premium		**2,725**	2,695
IAS 1.54(r)	Reserves		**160**	203
IAS 1.54(r)	Retained earnings		**3,350**	2,944
IAS 1.54(r)	**Total equity attributable to equity holders of the Bank**		**6,235**	5,842
IAS 1.54(q)	**Non-controlling interests**		**155**	128
	Total equity	33	**6,390**	5,970
	Total liabilities and equity		**97,109**	87,816

The notes on pages 16 to 147 are an integral part of these consolidated financial statements.

IAS 1.10

a. An entity may also use other titles – e.g. 'balance sheet' – as long as the meaning is clear and the title not misleading.

IAS 1.60–61, 63, Insights 3.1.10

b. A bank or similar financial institution usually presents a statement of financial position showing assets and liabilities in their broad order of liquidity because this presentation provides reliable and more relevant information than separate current and non-current classifications. For each asset and liability line item that combines amounts expected to be recovered or settled within:

- no more than 12 months after the reporting date; and
- more than 12 months after the reporting date,

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

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

IAS 1.10(b), 81A

For the year ended 31 December

Reference	In millions of euro	Note	2014	2013
IFRS 7.20(b)	Interest income	8	**3,341**	3,528
IFRS 7.20(b), IAS 1.82(b)	Interest expense	8	**(1,406)**	(1,686)
	Net interest income		**1,935**	1,842
IFRS 7.20(c)	Fee and commission income	9	**854**	759
IFRS 7.20(c)	Fee and commission expense	9	**(179)**	(135)
	Net fee and commission income		**675**	624
IFRS 7.20(a)	Net trading income	10	**1,434**	1,087
IFRS 7.20(a)	Net income from other financial instruments at fair value through profit or loss	11	**21**	81
IFRS 7.20(a)	Other revenue	12	**123**	186
IAS 1.85	**Revenue**[b]		**4,188**	3,820
	Other income		**18**	10
IFRS 7.20(e)	Net impairment loss on financial assets	21, 22, 23	**(336)**	(233)
IAS 1.99	Personnel expenses	13	**(2,264)**	(1,974)
IAS 17.35(c)	Operating lease expenses		**(338)**	(327)
IAS 1.99, 38.118(d)	Depreciation and amortisation	24, 25	**(47)**	(39)
IAS 1.99	Other expenses	14	**(397)**	(585)
IAS 1.85	**Profit before tax**		**824**	672
IAS 1.82(d), 12.77	Income tax expense	16	**(187)**	(118)
IAS 1.81A(a)	**Profit**		**637**	554
	Other comprehensive income			
IAS 1.82A(a)	**Items that will never be reclassified to profit or loss**			
IAS 1.85	Remeasurements of defined benefit liability (asset)		**7**	9
IAS 1.91(b)	*Related tax*		**(2)**	(3)
			5	6
IAS 1.82A(b)	**Items that are or may be reclassified to profit or loss**			
IAS 21.52(b)	Foreign currency translation differences for foreign operations		**(45)**	17
IAS 21.52(b)	Net gain (loss) on hedges of net investments in foreign operations		**30**	(15)
	Cash flow hedges:			
IFRS 7.23(c)	Effective portion of changes in fair value		**(25)**	(21)
IFRS 7.23(d), IAS 1.92	Net amount transferred to profit or loss		**15**	12
	Fair value reserve (available-for-sale financial assets):			
IFRS 7.20(a)(ii)	Net change in fair value		**(361)**	(160)
IFRS 7.20(a)(ii), IAS 1.92	Net amount transferred to profit or loss		**329**	125
IAS 1.91(b)	*Related tax*		**14**	15
			(43)	(27)
IAS 1.81A(b)	**Other comprehensive income, net of tax**		**(38)**	(21)
IAS 1.81A(c)	**Total comprehensive income**		**599**	533

The notes on pages 16 to 147 are an integral part of these consolidated financial statements.

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

For the year ended 31 December

	In millions of euro	*Note*	2014	2013
	Profit attributable to:			
IAS 1.81B(a)(ii)	Equity holders of the Bank		**610**	528
IAS 1.81B(a)(i)	Non-controlling interests		**27**	26
	Profit		**637**	554
	Total comprehensive income attributable to:			
IAS 1.81B(b)(ii)	Equity holders of the Bank		**572**	507
IAS 1.81B(b)(i)	Non-controlling interests		**27**	26
	Total comprehensive income		**599**	533
IAS 33.4	**Earnings per share**			
IAS 33.66	Basic earnings per share (euro)	*15*	**0.34**	0.29
IAS 33.66	Diluted earnings per share (euro)	*15*	**0.33**	0.29

The notes on pages 16 to 147 are an integral part of these consolidated financial statements.

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

IAS 1.82(a) b. IFRS does not specify whether revenue should be presented only as a single line item in the statement of profit or loss and OCI, or whether an entity may also present the individual components of revenue, with a subtotal for revenue from continuing operations. In this guide, the most relevant measure of revenue is considered to be the sum of net interest income, net fee and commission income, net trading income, net income from other financial instruments at fair value through profit or loss and other revenue. However, other presentations are possible.

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Consolidated statement of changes in equity

IAS 1.10(c), 108, 113

For the year ended 31 December 2014

Reference	*In millions of euro*	Attributable to equity holders of the Bank								
		Share capital	**Share premium**	**Translation reserve**	**Hedging reserve**	**Fair value reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
	Balance at 31 December 2013	**2,256**	**439**	**77**	**(85)**	**211**	**2,944**	**5,842**	**128**	**5,970**
	Total comprehensive income									
IAS 1.106(d)(i)	Profit	-	-	-	-	-	610	610	27	637
IAS 1.106(d)(ii), 106A	**Other comprehensive income, net of tax**									
IAS 1.85	Remeasurements of defined benefit liability (asset)	-	-	-	-	-	7	7	-	7
IAS 21.52(b)	Foreign currency translation differences for foreign operations	-	-	(45)	-	-	-	(45)	-	(45)
IAS 21.52(b)	Net gain on hedge of net investment in foreign operations	-	-	30	-	-	-	30	-	30
	Cash flow hedges:									
IFRS 7.23(c)	Effective portion of changes in fair value	-	-	-	(25)	-	-	(25)	-	(25)
IFRS 7.23(d), IAS 1.92	Net amount reclassified to profit or loss	-	-	-	15	-	-	15	-	15
IFRS 7.20(a)(ii)	Fair value reserve (available-for-sale financial assets):									
	Net change in fair value	-	-	-	-	(361)	-	(361)	-	(361)
IFRS 7.20(a)(ii), IAS 1.92	Net amount reclassified to profit or loss	-	-	-	-	329	-	329	-	329
IAS 1.91(b)	Tax on other comprehensive income	-	-	-	3	11	(2)	12	-	12
	Total other comprehensive income	-	-	(15)	(7)	(21)	5	(38)	-	(38)
IAS 1.106(a)	Total comprehensive income	-	-	(15)	(7)	(21)	615	572	27	599
	Transactions with owners of the Bank									
IAS 1.106(d)(iii)	**Contributions and distributions**									
	Equity-settled share-based payment[a]	-	-	-	-	-	75	75	-	75
	Share options exercised	3	27	-	-	-	-	30	-	30
	Dividends to equity holders	-	-	-	-	-	(284)	(284)	-	(284)
	Total contributions and distributions	-	27	-	-	-	(209)	(179)	-	(179)
	Balance at 31 December 2014	**2,259**	**466**	**62**	**(92)**	**190**	**3,350**	**6,235**	**155**	**6,390**

The notes on pages 16 to 147 are an integral part of these consolidated financial statements.

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Consolidated statement of changes in equity (continued)

For the year ended 31 December 2013

	In millions of euro	Note	Attributable to equity holders of the Bank								
			Share capital	Share premium	Translation reserve	Hedging reserve	Fair value reserve	Retained earnings	Total	Non-controlling interest	Total equity
IAS 1.10(c), 38, 38A 108, 113	Balance at 1 January 2013		2,256	439	75	(79)	234	2,669	5,594	102	5,696
	Total comprehensive income										
IAS 1.106(d)(i)	Profit		-	-	-	-	-	528	528	26	554
IAS 1.106(d)(ii), 106A	**Other comprehensive income**										
IAS 1.85	Remeasurements of defined benefit liability (asset)		-	-	-	-	-	9	9	-	9
IAS 21.52(b)	Foreign currency translation differences for foreign operations		-	-	17	-	-	-	17	-	17
IAS 21.52(b)	Net loss on hedge of net investment in foreign operations		-	-	(15)	-	-	-	(15)	-	(15)
	Cash flow hedges:										
IFRS 7.23(c)	Effective portion of changes in fair value		-	-	-	(21)	-		(21)		(21)
IFRS 7.23(d), IAS 1.92	Net amount reclassified to profit or loss		-	-	-	12	-	-	12	-	12
	Fair value reserve (available-for-sale financial assets):										
IFRS 7.20(a)(ii)	Net change in fair value		-	-	-	-	(160)	-	(160)	-	(160)
IFRS 7.20(a)(ii), IAS 1.92	Net amount reclassified to profit or loss		-	-	-	-	125	-	125	-	125
IAS 1.91(b)	Tax on other comprehensive income		-	-	-	3	12	(3)	12	-	12
	Total other comprehensive income		-	-	2	(6)	(23)	6	(21)	-	(21)
IAS 1.106(a)	Total comprehensive income		-	-	2	(6)	(23)	534	507	26	533
	Transactions with owners of the Bank										
IAS 1.106(d)(iii)	**Contributions and distributions**										
	Equity-settled share-based payment[a]		-	-	-	-	-	25	25	-	25
	Dividends to equity holders		-	-	-	-	-	(284)	(284)	-	(284)
	Total contributions and distributions		-	-	-	-	-	(259)	(259)	-	(259)
	Balance at 31 December 2013		2,256	439	77	(85)	211	2,944	5,842	128	5,970

The notes on pages 16 to 147 are an integral part of these consolidated financial statements.

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

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Consolidated statement of cash flows[a]

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

For the year ended 31 December

Reference	In millions of euro	Note	2014	2013
IAS 7.18(b)	**Cash flows from operating activities**[b, c]			
	Profit[d]		**637**	554
	Adjustments for:			
	– Depreciation and amortisation	24, 25	**47**	39
	– Net impairment loss on investment securities	23	**128**	16
	– Net impairment loss on loans and advances	21, 22	**208**	217
	– Net interest income	8	**(1,935)**	(1,842)
	– Net gain on investment securities at fair value through profit or loss	11	**(158)**	(46)
	– Net gain on loans and advances at fair value through profit or loss	11	**(153)**	(194)
	– Net loss on debt securities issued at fair value through profit or loss	11	**194**	137
	– Net loss on sale of available-for-sale securities	12	**92**	69
	– Dividends on available-for-sale securities	12	**(13)**	(8)
	– Equity-settled share-based payment transactions	13	**75**	25
	– Tax expense	16	**187**	118
			(691)	(915)
	Changes in:			
	– Trading assets	19	**(894)**	(993)
	– Derivative assets held for risk management	20	**(132)**	(104)
	– Loans and advances to banks	21	**(872)**	(389)
	– Loans and advances to customers	22	**(6,313)**	(6,275)
	– Other assets		**(126)**	(175)
	– Trading liabilities	19	**974**	885
	– Derivative liabilities held for risk management	20	**39**	35
	– Deposits from banks	27	**1,448**	1,071
	– Deposits from customers	28	**4,742**	4,245
	– Other liabilities and provisions		**34**	194
			(1,791)	(2,421)
IAS 7.31, 33	Interest received[e]		**3,341**	3,528
IAS 7.31, 33	Dividends received[e]		**13**	8
IAS 7.31, 33	Interest paid[e, f]		**(1,415)**	(1,695)
IAS 7.35	Income taxes paid		**(184)**	(222)
IAS 7.10	**Net cash used in operating activities**		**(36)**	(802)
IAS 7.21	**Cash flows from investing activities**[b, c]			
IAS 7.16(c)	Acquisition of investment securities		**(1,693)**	(647)
IAS 7.16(d)	Proceeds from sale of investment securities		**577**	444
IAS 7.16(a)	Acquisition of property and equipment	24	**(88)**	(63)
IAS 7.16(b)	Proceeds from the sale of property and equipment	24	**36**	18
IAS 7.16(a)	Acquisition of intangible assets	25	**(42)**	(34)
IAS 7.10	**Net cash used in investing activities**		**(1,210)**	(282)

The notes on pages 16 to 147 are an integral part of these consolidated financial statements.

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Consolidated statement of cash flows (continued)

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

For the year ended 31 December

	In millions of euro	Note	2014	2013
IAS 7.21	**Cash flows from financing activities**[b, c]			
IAS 7.17(c)	Proceeds from issue of debt securities		**1,018**	762
IAS 7.17(d)	Repayment of debt securities		**(233)**	(99)
IAS 7.17(c)	Proceeds from issue of subordinated liabilities		**657**	651
IAS 7.17(a)	Proceeds from exercise of share options	*33*	**30**	-
IAS 7.31, 34	Dividends paid[g]	*33*	**(284)**	(284)
IAS 7.10	**Net cash from financing activities**		**1,188**	1,030
	Net decrease in cash and cash equivalents		**(58)**	(54)
	Cash and cash equivalents at 1 January	*18*	**2,992**	3,040
IAS 7.28	Effect of exchange rate fluctuations on cash and cash equivalents held		**(27)**	6
	Cash and cash equivalents at 31 December	*18*	**2,907**	2,992

The notes on pages 16 to 147 are an integral part of these consolidated financial statements.

IAS 7.18–19 **a.** The Group has elected to present cash flows from operating activities using the indirect method. Alternatively, an entity may present operating cash flows using the direct method, disclosing major classes of gross cash receipts and payments related to operating activities. For an illustration presenting the operating cash flows using the direct method, see Appendix III of our publication Guide to annual financial statements – Illustrative disclosures, September 2014.

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

IAS 7.16(g)–(h), Insights 7.8.220.80, 225.70 **c.** If hedge accounting is not applied to a derivative instrument that is entered into as an economic hedge, then in our view derivative gains and losses may be shown in the statement of profit or loss and OCI as either operating or financing items depending on the nature of the item being economically hedged. In our view, the possibilities for the presentation in the statement of profit or loss and OCI also apply to the presentation in the statement of cash flows.

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

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

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

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

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

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INTRODUCTION Basis of preparation Financial risk review AUDITORS' REPORT Performance Income taxes PRIMARY STATEMENTS Assets Liabilities and equity NOTES Group composition APPENDICES Other information Accounting policies

IAS 1.10(e)

Notes to the consolidated financial statements[a]

1. Reporting entity

IAS 1.51(a)–(b)
IAS 1.138(a)–(b)

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

2. Basis of accounting

IAS 1.16, 112(a), 10.17

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

Details of the Group's accounting policies, including changes during the year, are included in Notes 43 and 44.

3. Functional and presentation currency

IAS 1.51(d)–(e)

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

4. Use of judgements and estimates

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

A. Judgements

IAS 1.122

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is set out below.

i. Determination of control over investees

IFRS 12.7

Management applies its judgement to determine whether the control indicators set out in Note 44(A)(iii) indicate that the Group controls a securitisation vehicle or an investment fund.

Securitisation vehicles

IFRS 12.7(a), 9(b)

Certain securitisation vehicles sponsored by the Group under its securitisation programme are run according to predetermined criteria that are part of the initial design of the vehicles. In addition, the Group is exposed to variability of returns from the vehicles through its holding of debt securities in the vehicles and by issuing financial guarantees. Outside the day-to-day servicing of the receivables (which is carried out by the Group under a servicing contract), key decisions are usually required only when receivables in the vehicles go into default. Therefore, in considering whether it has control, the Group considers whether it manages the key decisions that most significantly affect these vehicles' returns. As a result, the Group has concluded that it controls some of these vehicles (for more information on consolidated vehicles, see Note 34.

IAS 1.113–115

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

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

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Notes to the consolidated financial statements (continued)

4. Use of judgements and estimates (continued)

A. Judgements (continued)

i. Determination of control over investees (continued)

Investment funds

IFRS 12.7(a), 9(c)

The Group acts as fund manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the fund (comprising any carried interests and expected management fees) and the investors' rights to remove the fund manager. For all funds managed by the Group, the investors (whose number ranges from 300 to over 1,000) are able to vote by simple majority to remove the Group as fund manager without cause, and the Group's aggregate economic interest is in each case less than 15%. As a result, the Group has concluded that it acts as agent for the investors in all cases, and therefore has not consolidated these funds.

For further disclosure in respect of unconsolidated securitisation vehicles and investment funds in which the Group has an interest or for which it is a sponsor, see Note 35.

B. Assumptions and estimation uncertainties

IAS 1.125, 129–130

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2015 is set out below in relation to the impairment of financial instruments and in the following notes in relation to other areas:

- Note 6 – determination of the fair value of financial instruments with significant unobservable inputs;
- Note 13(B)(iv) – measurement of defined benefit obligations: key actuarial assumptions;
- Note 16(F) – recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used;
- Note 25(B) – impairment testing for CGUs containing goodwill: key assumptions underlying recoverable amounts; and
- Notes 31 and 37 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

IAS 1.122, 125

i. Impairment of financial instruments

Assets accounted for at amortised cost are evaluated for impairment on the basis described in Note 44(J)(vii).

The individual component of the total allowance for impairment applies to financial assets evaluated individually for impairment and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

A collective component of the total allowance is established for:

- groups of homogeneous loans that are not considered individually significant; and
- groups of assets that are individually significant but that were not found to be individually impaired (loss 'incurred but not reported' or IBNR).

The collective allowance for groups of homogeneous loans is established using statistical methods such as roll rate methodology or, for small portfolios with insufficient information, a formula approach based on historical loss rate experience. The roll rate methodology uses statistical analysis of historical data on delinquency to estimate the amount of loss. Management applies judgement to ensure that the estimate of loss arrived at on the basis of historical information is appropriately adjusted to reflect the economic conditions and product mix at the reporting date. Roll rates and loss rates are regularly benchmarked against actual loss experience.

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Notes to the consolidated financial statements (continued)

4. Use of judgements and estimates (continued)

B. Assumptions and estimation uncertainties (continued)

i. Impairment of financial instruments (continued)

The IBNR allowance covers credit losses inherent in portfolios of loans and advances, and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired items but the individual impaired items cannot yet be identified.

In assessing the need for collective loss allowance, management considers factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions are made to define how inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depends on the model assumptions and parameters used in determining the collective allowance.

Investments in equity securities are evaluated for impairment on the basis described in Note 44(J)(vii). For an investment in an equity security, a *significant* or *prolonged* decline in its fair value below its cost is objective evidence of impairment. In this respect, the Group regards a decline in fair value in excess of 20% to be 'significant' and a decline in a quoted market price that persisted for nine months or longer to be 'prolonged'.

IAS 1.122

In making an assessment of whether an investment in sovereign debt (see Note 5(A)) is impaired, the Group considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

For the Group's assessment of whether there is objective evidence of impairment of its investments in sovereign debt of Countries X and Y, based on the above factors, see Note 5(A)(vi).

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Notes to the consolidated financial statements (continued)

IFRS 7.31

5. Financial risk review[a]

IFRS 7.33, IAS 1.134

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

For information on the Group's financial risk management framework, see Note 41.

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IFRS 7.33

A. Credit risk[b]

For the definition of credit risk and information on how credit risk is managed by the Group, see Note 41(B).

i. Credit quality analysis

IFRS 7.36(c)

The tables below set out information about the credit quality of financial assets and the allowance for impairment/loss held by the Group against those assets.

IFRS 7.34 a. The financial risk disclosures presented are only illustrative and reflect the facts and circumstances of the Group. In particular, IFRS 7 *Financial Instruments: Disclosures* requires the disclosure of summary quantitative data about an entity's risk exposure based on information provided internally to the entity's key management personnel, although certain minimum disclosures are also required to the extent that they are not otherwise covered by the disclosures made under the 'management approach' above.

IFRS 7.34, 36–38 b. The example shown in this guide in relation to credit risk assumes that the primary basis for reporting to key management personnel on credit risk is an analysis of the carrying amount of each class of non-trading assets for each internal risk grade, and the provisions recognised to cover impairment losses. The illustrative table of quantitative credit risk information therefore combines a number of the specific requirements of paragraphs 36–38 of IFRS 7 with the management information required under paragraph 34 of IFRS 7. However, other presentations are possible.

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IFRS 7.31

5. Financial risk review (continued)

IFRS 7.33

A. Credit risk (continued)

i. Credit quality analysis (continued)

IFRS 7.36

In millions of euro	*Note*	Loans and advances to customers 2014	Loans and advances to customers 2013	Loans and advances to banks 2014	Loans and advances to banks 2013	Investment securities 2014	Investment securities 2013	Lending commitments and financial guarantees 2014	Lending commitments and financial guarantees 2013
Maximum exposure to credit risk									
Carrying amount	*21, 22, 23*	**63,070**	56,805	**5,572**	4,707	**5,807**	4,843	**-**	-
Amount committed/guaranteed		**-**	-	**-**	-	**-**	-	**1,941**	1,615
At amortised cost									
Grade 1–3: Low–fair risk (*IFRS 7.34(a)*)		**50,947**	47,411	**5,560**	4,692	**101**	101		
Grade 4–5: Watch list (*IFRS 7.34(a)*)		**4,736**	3,806	**-**	-	**-**	-		
Grade 6: Substandard (*IFRS 7.34(a)*)		**3,127**	2,446	**15**	12	**-**	-		
Grade 7: Doubtful (*IFRS 7.34(a)*)		**1,460**	1,139	**7**	6	**-**	-		
Grade 8: Loss (*IFRS 7.34(a)*)		**487**	380	**2**	2	**-**	-		
Total gross amount (*IFRS 7.34(a)*)		**60,757**	55,182	**5,584**	4,712	**101**	101		
Allowance for impairment (individual and collective) (*IFRS 7.34(a)*)		**(1,673)**	(1,522)	**(12)**	(5)	**-**	-		
Net carrying amount (*IFRS 7.34(a)*)	*21, 22, 23*	**59,084**	53,660	**5,572**	4,707	**101**	101		
Available for sale									
Grade 1–3: Low–fair risk (*IFRS 7.34(a)*)						**1,429**	1,443		
Grade 4–5: Watch list (*IFRS 7.34(a)*)						**172**	112		
Grade 6: Substandard (*IFRS 7.34(a)*)						**48**	51		
Grade 7: Doubtful (*IFRS 7.34(a)*)						**24**	25		
Grade 8: Loss (*IFRS 7.34(a)*)						**108**	9		
Total carrying amount (*IFRS 7.34(a)*)	*23*					**1,781**	1,640		
Allowance for impairment (individual) (*IFRS 7.34(a)*)	*23*					**(160)**	(35)		
At fair value through profit or loss									
Grade 1–3: Low–fair risk (*IFRS 7.34(a)*)		**3,188**	2,516			**2,509**	2,243		
Grade 4–5: Watch list (*IFRS 7.34(a)*)		**399**	331			**858**	687		
Grade 6: Substandard (*IFRS 7.34(a)*)		**199**	161			**172**	103		
Grade 7: Doubtful (*IFRS 7.34(a)*)		**120**	95			**194**	38		
Grade 8: Loss (*IFRS 7.34(a)*)		**80**	42			**192**	31		
Total carrying amount (*IFRS 7.34(a)*)	*22, 23*	**3,986**	3,145			**3,925**	3,102		

IFRS 7.31

5. Financial risk review (continued)

IFRS 7.33

A. Credit risk (continued)

i. Credit quality analysis (continued)

			Loans and advances to customers		Loans and advances to banks		Investment securities		Lending commitments and financial guarantees	
IFRS 7.36	*In millions of euro*	***Note***	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
	Off balance sheet									
	Maximum exposure									
	Lending commitments									
IFRS 7.36(a), B10(d)	Grade 1–3: Low–fair risk								**1,883**	1,566
	Financial guarantees									
IFRS 7.36(a), B10(c)	Grade 1–3: Low–fair risk								**58**	49
IFRS 7.34(a)	Total exposure								**1,941**	1,615
	Loans with renegotiated terms									
IFRS 7.34(a)	Gross carrying amount		**1,120**	982						
IFRS 7.34(a)	Impaired amount		**1,013**	884						
IFRS 7.34(a)	Allowance for impairment		**(390)**	(288)						
IFRS 7.34(a)	Net carrying amount		**730**	694						
	Neither past due nor impaired									
IFRS 7.36(c)	Grade 1–3: Low–fair risk		**50,665**	47,007	**5,560**	4,692	**101**	101		
IFRS 7.36(c)	Grade 4–5: Watch list		**3,963**	3,200	**-**	-	**-**	-		
IFRS 7.36(c)			**54,628**	50,207	**5,560**	4,692	**101**	101		
	Past due but not impaired									
IFRS 7.37(a)	30–60 days		**512**	361						
IFRS 7.37(a)	60–90 days		**141**	98						
IFRS 7.37(a)	90–180 days		**14**	8						
IFRS 7.37(a)	180 days+		**5**	2						
IFRS 7.37(a)			**672**	469						
	Individually impaired									
IFRS 7.37(b)	Grade 6: Substandard		**2,920**	2,277	**15**	12	**48**	51		
IFRS 7.37(b)	Grade 7: Doubtful		**1,460**	1,139	**7**	6	**24**	25		
IFRS 7.37(b)	Grade 8: Loss		**487**	380	**2**	2	**108**	9		
			4,867	3,796	**24**	20	**180**	85		
IFRS 7.37(b)	**Allowance for impairment**									
IFRS 7.37(b)	Individual	*21, 22, 23*	**920**	791	**12**	5	**160**	35		
IFRS 7.34(a)	Collective		**753**	731	**-**	-	**-**	-		
IFRS 7.34(a)	Total allowance for impairment		**1,673**	1,522	**12**	5	**160**	35		

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Notes to the consolidated financial statements (continued)

IFRS 7.31

5. Financial risk review (continued)

IFRS 7.33

A. Credit risk (continued)

i. Credit quality analysis (continued)

Impaired loans and investment debt securities

See accounting policy in Note 44(J)(vii).

The Group regards a loan and advance or a debt security as impaired in the following circumstances.

- There is objective evidence that a loss event has occurred since initial recognition and the loss event has an impact on future estimated cash flows from the asset.
- A retail loan is overdue for 90 days or more.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Loans that are subject to a collective IBNR provision are not considered impaired.

Impaired loans and advances are graded 6 to 8 in the Group's internal credit risk grading system (see Notes 4(B) and 41(B)).

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

Loans and investment debt securities that are 'past due but not impaired' are those for which contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Group. The amounts disclosed exclude assets measured at fair value through profit or loss.

IFRS 7.B5(g)

Loans with renegotiated terms and the Group's forbearance policy[a]

See accounting policy in Note 44(J)(vii).

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 44(J)(vii).

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

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

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

Irrespective of whether loans with renegotiated terms have been derecognised, they remain disclosed as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and there are no other indicators of impairment.

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

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Notes to the consolidated financial statements (continued)

IFRS 7.31

5. Financial risk review (continued)

IFRS 7.33

A. Credit risk (continued)

i. Credit quality analysis (continued)

Trading assets

IFRS 7.34(a)

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

IFRS 7.36(c)

In millions of euro	*Note*	2014	2013
Government bonds and treasury bills			
Rated AAA	*19*	**213**	1,567
Rated AA- to AA+	*19*	**4,320**	3,256
Rated A- to A+	*19*	**5,316**	4,821
Rated BBB+ and below	*19*	**372**	198
		10,221	9,842
Corporate bonds			
Rated AA- to AA+	*19*	**2,500**	3,130
Rated A- to A+	*19*	**1,437**	814
Rated BBB+ and below	*19*	**554**	126
		4,491	4,070
Asset-backed securities			
Rated AA- to AA+	*19*	**340**	372
Rated A- to A+	*19*	**119**	46
Rated BBB+ and below	*19*	**57**	45
		516	463

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

					Over-the-counter			
	Total		Exchange-traded		Central counterparties		Other bilateral collateralised	
In millions of euro	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
2014								
Derivative assets	**13,318**	**1,836**	**979**	**261**	**8,559**	**1,106**	**3,780**	**469**
Derivative liabilities	**11,740**	**(1,236)**	**774**	**(136)**	**9,183**	**(918)**	**1,783**	**(182)**
2013								
Derivative assets	12,064	1,683	982	248	2,543	387	8,539	1,048
Derivative liabilities	10,452	(1,161)	636	(111)	2,153	(230)	7,663	(820)

Cash and cash equivalents

IFRS 7.34(a), 36(a), (c)

The Group held cash and cash equivalents of €2,907 million at 31 December 2014 (2013: €2,992 million). The cash and cash equivalents are held with central banks and financial institution counterparties that are rated at least AA- to AA+, based on [*Rating Agency X*] ratings.

a. *The EDTF report recommends that banks disclose a quantitative and qualitative analysis of the counterparty credit risk that arises from their derivatives transactions. Recommended disclosures include quantification of gross notional amounts of derivatives analysis between exchange-traded and over-the-counter (OTC) transactions and, for the latter, a description of collateral agreements and how much is settled through central counterparties (CCPs). For the purposes of this guide, we have assumed that disclosure of this information enhances the user's understanding of the Group's credit risk exposures and so such disclosures have been included.*

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Notes to the consolidated financial statements (continued)

5. Financial risk review (continued)

IFRS 7.31

A. Credit risk (continued)

IFRS 7.33

ii. Collateral held and other credit enhancements

IFRS 7.36(b)

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

Type of credit exposure

In millions of euro	*Note*	Percentage of exposure that is subject to collateral requirements 31 December 2014	31 December 2013	Principal type of collateral held
Trading derivative assets[b]	19	**100**	100	Cash
Derivative assets held for risk management[b]	20	**100**	100	Cash
Loans and advances to banks	21			
Reverse sale and repurchase agreements[b]		**100**	100	Marketable securities
Securities borrowing[b]		**100**	100	Marketable securities
Loans and advances to retail customers	22			
Mortgage lending		**100**	100	Residential property
Personal loans		**-**	-	None
Credit cards		**-**	-	None
Loans and advances to corporate customers	22			
Finance leases		**100**	100	Property and equipment
Other		**91**	92	Commercial property, floating charges over corporate assets
Reverse sale and repurchase agreements		**100**	100	Marketable securities
Investment debt securities	23	**-**	-	None

IFRS 7.36(b)

Derivatives, reverse sale and repurchase agreements and securities borrowing

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

IFRS 7.13E, B50

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

IFRS 7.36(b), Insight 7.8.350.20

a. An entity discloses the financial effect of any collateral held as security and other credit enhancements. IFRS 7 does not specify how an entity should apply the term 'financial effect' in practice. Providing quantitative disclosure of the financial effect of collateral may be appropriate in some cases. However, in other cases it may be impracticable to obtain quantitative information; or, if it is available, the information may not be determined to be relevant, meaningful or reliable.

IFRS 7.13A–F, 36(b)

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

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Notes to the consolidated financial statements (continued)

IFRS 7.31

5. Financial risk review (continued)

IFRS 7.33

A. Credit risk (continued)

ii. Collateral held and other credit enhancements (continued)

IFRS 7.36(b)

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

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

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

IFRS 7.36(b)

Residential mortgage lending

The tables below stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The gross amounts exclude any impairment allowance. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

In millions of euro	*Note*	31 December 2014	31 December 2013
LTV ratio			
Less than 50%		**4,780**	4,385
51–70%		**6,065**	5,564
71–90%		**2,755**	2,528
91–100%		**879**	806
More than 100%		**377**	346
Total	*22*	**14,856**	13,629

Commitments to advance residential mortgage loans

In millions of euro	31 December 2014	31 December 2013
LTV ratio		
Less than 50%	**590**	503
51–70%	**845**	679
71–90%	**400**	338
91–100%	**48**	46
More than 100%	**-**	-
Total	**1,883**	1,566

IFRS 7.36(b)

Loans and advances to corporate customers

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it (see Note 41(B)). However, collateral provides additional security and the Group generally requests that corporate borrowers provide it. The Group may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Because of the Group's focus on corporate customers' creditworthiness, the Group does not routinely update the valuation of collateral held against all loans to corporate customers. Valuation of collateral is updated when the credit risk of a loan deteriorates significantly and the loan is monitored more closely. For impaired loans, the Group obtains appraisals of collateral because the current value of the collateral is an input to the impairment measurement. At 31 December 2014, the net carrying amount of impaired loans and advances to corporate customers amounted to €2,078 million (2013: €1,506 million) and the value of identifiable collateral held against those loans and advances amounted to €1,943 million (2013: €1,312 million).

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Notes to the consolidated financial statements (continued)

IFRS 7.31

5. Financial risk review (continued)

IFRS 7.33

A. Credit risk (continued)

ii. Collateral held and other credit enhancements (continued)

Loans and advances to customers at fair value through profit or loss

IFRS 7.9(b)

The Group has mitigated the credit risk exposure of loans and advances measured at fair value through profit or loss by purchasing credit risk protection in the form of credit derivatives. At 31 December 2014, these derivative contracts provided a notional principal protection of €3,108 million (2013: €2,325 million).

IFRS 7.9(c)–(d)

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

In millions of euro	For the year 2014	Cumulative 2014	For the year 2013	Cumulative 2013
Loans and advances as at fair value through profit or loss	**(32)**	**(11)**	21	21
Related credit derivative contracts	**25**	**8**	(17)	(17)

IFRS 7.11(a)

The above change in fair value attributable to changes in credit risk has been determined based on changes in the prices of credit-default swaps referenced to similar obligations of the same borrower if such prices are observable or, if they are not observable, as the total amount of the change in fair value that is not attributable to changes in the observed benchmark interest rate.

Other types of collateral and credit enhancements

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

Assets obtained by taking possession of collateral

IFRS 7.38

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

In millions of euro	2014	2013
Property	**812**	794
Debt securities	**107**	116
Other	**63**	44

The Group's policy is to pursue timely realisation of the collateral in an orderly manner. The Group does not generally use the non-cash collateral for its own operations.

iii. Offsetting financial assets and financial liabilities

IFRS 7.13A

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

IFRS 7.B40–B41

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the tables below unless they are offset in the statement of financial position.

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Notes to the consolidated financial statements (continued)

IFRS 7.31

5. Financial risk review (continued)

IFRS 7.33

A. Credit risk (continued)

iii. Offsetting financial assets and financial liabilities (continued)

The ISDA and similar master netting arrangements (see (ii)) do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties or following other predetermined events. In addition, the Group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The Group receives and gives collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives;
- sale and repurchase, and reverse sale and repurchase agreements; and
- securities lending and borrowing.

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

IFRS 7.13C

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

				Related amounts not offset in the statement of financial position		
31 December 2014 *In millions of euro*	**Gross amounts of recognised financial assets**	**Gross amounts of recognised financial liabilities offset in the statement of financial position**	**Net amounts of financial assets presented in the statement of financial position**	**Financial instruments (including non-cash collateral)**	**Cash collateral received**	**Net amount**
Types of financial assets						
Derivatives – trading assets	**978**	**-**	**978**	**(287)**	**(688)**	**3**
Derivatives held for risk management	**858**	**-**	**858**	**(147)**	**(708)**	**3**
Reverse sale and repurchase, securities borrowing and similar agreements	**7,818**	**-**	**7,818**	**(7,818)**	**-**	**-**
Loans and advances to customers	**112**	**(98)**	**14**	**-**	**-**	**14**
Total	**9,766**	**(98)**	**9,668**	**(8,252)**	**(1,396)**	**20**

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Notes to the consolidated financial statements (continued)

IFRS 7.31

IFRS 7.33

5. Financial risk review (continued)

A. Credit risk (continued)

iii. Offsetting financial assets and financial liabilities (continued)

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

31 December 2014 *In millions of euro*	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position: Financial instruments (including non-cash collateral)	Related amounts not offset in the statement of financial position: Cash collateral pledged	Net amount
Types of financial liabilities						
Derivatives – trading liabilities	**408**	**-**	**408**	**(287)**	**(117)**	**4**
Derivatives held for risk management	**828**	**-**	**828**	**(147)**	**(676)**	**5**
Sale and repurchase, securities lending and similar agreements	**387**	**-**	**387**	**(387)**	**-**	**-**
Customer deposits	**98**	**(98)**	**-**	**-**	**-**	**-**
Total	**1,721**	**(98)**	**1,623**	**(821)**	**(793)**	**9**

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

31 December 2013 *In millions of euro*	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position: Financial instruments (including non-cash collateral)	Related amounts not offset in the statement of financial position: Cash collateral received	Net amount
Types of financial assets						
Derivatives – trading assets	957	-	957	(239)	(715)	3
Derivatives held for risk management	726	-	726	(109)	(614)	3
Reverse sale and repurchase, securities borrowing and similar agreements	7,412	-	7,412	(7,343)	-	69
Loans and advances to customers	109	(97)	12	-	-	12
Total	9,204	(97)	9,107	(7,691)	(1,329)	87

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Notes to the consolidated financial statements (continued)

IFRS 7.31

5. Financial risk review (continued)

IFRS 7.33

A. Credit risk (continued)

iii. Offsetting financial assets and financial liabilities (continued)

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

31 December 2013 *In millions of euro*	**Gross amounts of recognised financial liabilities**	**Gross amounts of recognised financial assets offset in the statement of financial position**	**Net amounts of financial liabilities presented in the statement of financial position**	**Related amounts not offset in the statement of financial position**		
				Financial instruments (including non-cash collateral)	**Cash collateral pledged**	**Net amount**
Types of financial liabilities						
Derivatives – trading liabilities	372	-	372	(239)	(130)	3
Derivatives held for risk management	789	-	789	(109)	(677)	3
Sale and repurchase, securities lending and similar agreements	412	-	412	(412)	-	-
Customer deposits	97	(97)	-	-	-	-
Total	1,670	(97)	1,573	(760)	(807)	6

IFRS 7.B42

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

- derivative assets and liabilities – fair value;
- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements and securities lending and borrowing – amortised cost;
- loans and advances to customers – amortised cost; and
- customer deposits – amortised cost.

IFRS 7.B46

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

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Notes to the consolidated financial statements (continued)

IFRS 7.31

IFRS 7.33

5. Financial risk review (continued)

A. Credit risk (continued)

iii. Offsetting financial assets and financial liabilities (continued)

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

In millions of euro

31 December 2014 Types of financial assets	Net amounts	Line item in statement of financial position	Carrying amount in statement of financial position	Financial assets not in scope of offsetting disclosures	*Note*
Derivatives – trading assets	**978**	Non-pledged trading assets	**16,122**	**15,144**	*19*
Derivatives held for risk management	**858**	Derivative assets held for risk management	**858**	**-**	*20*
Loans and advances to customers	**14**	Loans and advances to customers	**63,070**	**56,738**	*22*
Reverse sale and repurchase, securities borrowing and similar agreements	**6,318**				
	1,500	Loans and advances to banks	**5,572**	**4,072**	*21*

In millions of euro

Types of financial liabilities	Net amounts	Line item in statement of financial position	Carrying amount in statement of financial position	Financial liabilities not in scope of offsetting disclosures	*Note*
Derivatives – trading liabilities	**408**	Trading liabilities	**7,026**	**6,618**	*19*
Derivatives held for risk management	**828**	Derivative liabilities held for risk management	**828**	**-**	*20*
Sale and repurchase, securities lending and similar agreements	**387**	Deposits from banks	**11,678**	**11,291**	*27*
Customer deposits	**-**	Deposits from customers	**53,646**	**53,646**	*28*

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Notes to the consolidated financial statements (continued)

IFRS 7.31

5. Financial risk review (continued)

IFRS 7.33

A. Credit risk (continued)

iii. Offsetting financial assets and financial liabilities (continued)

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

In millions of euro

31 December 2013 Types of financial assets	Net amounts	Line item in statement of financial position	Carrying amount in statement of financial position	Financial assets not in scope of offsetting disclosures	*Note*
Derivatives – trading assets	957	Non-pledged trading assets	15,249	14,292	*19*
Derivatives held for risk management	726	Derivative assets held for risk management	726	-	*20*
Loans and advances to customers	12	Loans and advances to customers	56,805	50,659	*22*
Reverse sale and repurchase, securities borrowing and similar agreements	6,134				
	1,278	Loans and advances to banks	4,707	3,429	*21*

In millions of euro

Types of financial liabilities	Net amounts	Line item in statement of financial position	Carrying amount in statement of financial position	Financial liabilities not in scope of offsetting disclosures	*Note*
Derivatives – trading liabilities	372	Trading liabilities	6,052	5,680	*19*
Derivatives held for risk management	789	Derivative liabilities held for risk management	789	-	*20*
Sale and repurchase, securities lending and similar agreements	412	Deposits from banks	10,230	9,818	*27*
Customer deposits	-	Deposits from customers	48,904	48,904	*28*

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IFRS 7.31

5. Financial risk review (continued)

IFRS 7.33

A. Credit risk (continued)

iv. Concentrations of credit risk

IFRS 7.34(c)

The Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and advances, lending commitments, financial guarantees and investment securities is shown below.

IFRS 7.34(c), IFRS 7.34(c)

In millions of euro	***Note***	**Loans and advances to banks**		**Loans and advances to customers**		**Investment debt securities**		**Lending commitments and financial guarantees**	
		2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Carrying amount	*21, 22, 23*	**5,572**	4,707	**63,070**	56,805	**5,807**	4,843	**(32)**	(28)
Amount committed/guaranteed								**1,941**	1,615
Concentration by sector									
Corporate:		**-**	-	**42,414**	37,987	**4,885**	4,047	**1,288**	1,071
Real estate		**-**	-	***16,966***	*15,574*	***2,399***	*2,042*	***1,234***	*1,039*
Transport		**-**	-	***12,724***	*10,636*	***2,421***	*1,843*	***54***	*32*
Funds		**-**	-	***9,331***	*8,737*	**-**	-		
Other		**-**	-	***3,393***	*3,040*	***65***	*162*		
Government		**-**	-	**-**	-	**824**	709		
Banks		**5,572**	4,707	**-**	-	**-**	-		
Retail:		**-**	-	**20,656**	18,818	**98**	87	**653**	544
Mortgages		**-**	-	***14,547***	*13,361*	***98***	*87*	***630***	*524*
Unsecured lending		**-**	-	***6,109***	*5,457*	**-**	-	***23***	*20*
		5,572	4,707	**63,070**	56,805	**5,807**	4,843	**1,941**	1,615
Concentration by location									
North America		**1,118**	944	**12,649**	11,393	**2,374**	2,246	**80**	67
Europe		**3,139**	2,652	**36,238**	32,656	**2,443**	1,761	**1,803**	1,499
Asia Pacific		**722**	664	**8,188**	7,356	**528**	446	**40**	33
Middle East and Africa		**593**	447	**5,995**	5,400	**462**	390	**18**	16
		5,572	4,707	**63,070**	56,805	**5,807**	4,843	**1,941**	1,615

Concentration by location for loans and advances, and for lending commitments and financial guarantees, is based on the customer's country of domicile. Concentration by location for investment securities is based on the country of domicile of the issuer of the security. The Group's exposures to higher-risk eurozone countries are analysed below.

Notes to the consolidated financial statements (continued)

IFRS 7.31

5. Financial risk review (continued)

IFRS 7.33

A. Credit risk (continued)

v. Impaired loans and advances and investment debt securities[a]

For the definition of 'impaired financial asset', see Note 5(A)(i).

The table below sets out a reconciliation of changes in the carrying amount of impaired loans and advances to customers.

In millions of euro	2014	2013
Impaired loans and advances to customers at 1 January	**5,375**	4,987
Change in allowance for impairment	**(139)**	(199)
Classified as impaired during the year	**991**	824
Transferred to not impaired during the year	**(115)**	(512)
Net repayments	**409**	333
Amount written off	**(47)**	-
Recoveries of amounts previously written off	**21**	-
Disposals	**(200)**	(150)
Other movements	**84**	92
Impaired loans and advances to customers at 31 December	**6,379**	5,375

For details of impairment allowances for loans and advances to banks, see Note 21; and for loans and advances to customers, see Note 22.

Set out below is an analysis of the gross and net (of allowance for impairment) amounts of individually impaired loans and advances and of the carrying amounts of impaired available-for-sale investment debt securities by risk grade.

		Loans and advances to customers		Loans and advances to banks		Available-for-sale investment debt securities
31 December 2014						Carrying
In millions of euro		Gross	Net	Gross	Net	amount
IFRS 7.37(b)	Grade 6: Substandard	**2,920**	**2,595**	**15**	**9**	**48**
IFRS 7.37(b)	Grade 7: Doubtful	**1,460**	**1,160**	**7**	**2**	**24**
IFRS 7.37(b)	Grade 8: Loss	**487**	**192**	**2**	**1**	**108**
		4,867	**3,947**	**24**	**12**	**180**
31 December 2013						
IFRS 7.37(b)	Grade 6: Substandard	2,277	2,049	12	10	51
IFRS 7.37(b)	Grade 7: Doubtful	1,139	824	6	4	25
IFRS 7.37(b)	Grade 8: Loss	380	132	2	1	9
		3,796	3,005	20	15	85

a. *The EDTF report recommends that banks disclose:*

- *their policies for identifying impaired or non-performing loans, including how the bank defines impaired or non-performing loans; and*
- *a reconciliation of the opening and closing balances of non-performing or impaired loans in the period.*

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

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Notes to the consolidated financial statements (continued)

IFRS 7.31

5. Financial risk review (continued)

IFRS 7.33

A. Credit risk (continued)

vi. Exposures to higher-risk countries[a, b]

This note summarises the Group's exposure to higher-risk countries. The Group regards a country as 'higher-risk' when the country exhibits higher vulnerability to economic and political uncertainties than other countries. The specific factors that are taken into account in making this assessment include the ratio of sovereign debt to GDP, seeking international financial assistance, credit ratings, levels of market yields and concentrations of maturities.

The Group regards the following countries as higher-risk: [*Country A*] and [*Country B*]. Both countries are subject to existing financial assistance plans from the International Monetary Fund. During 2014, there have been renewed concerns about the fiscal deficit of [*Country A*] and the impact of its austerity plan. [*Country B*] suffered additional credit downgrades and there has been renewed speculation about further restructuring of its debt. However, yields on sovereign bonds issued by both countries are significantly below their peak in 2013.

The Group believes that the economic data available continues to indicate that its exposure to sovereign bonds issued by [*Country A*] and [*Country B*] was not impaired at 31 December 2014 (see also Note 4(A)).

IFRS 7.B9–B10

The tables below set out the Group's direct exposure to each higher-risk country based on the counterparty's country of domicile. The maximum exposure to credit risk for loans, investment securities and derivatives is the carrying amount; for financial guarantees, the maximum amount the Group could have to pay if the guarantee were called on; for loan commitments, the full amount of the commitment; and for credit default swaps, the nominal amount of the contract. The government bonds comprise bonds issued by governments and quasi-government agencies.

The amounts in the tables below are gross exposures before taking into account the effect of credit mitigation. The Group's collateral arrangements in respect of these amounts are as follows.

- No collateral or other credit enhancements are held against government bonds or loans and advances to banks.
- Corporate loans and advances are usually collateralised. Collateral is principally in the form of a charge over real estate or over the borrower's floating assets and is generally located in the country of domicile of the borrower. Where the Group has received guarantees in respect of corporate loans, they are provided by guarantors located outside [*Country A*] and [*Country B*].
- Derivative exposures are subject to master netting agreements, which means that if a credit event occurs, such as a default, then all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions. At 31 December 2014 and 2013, in accordance with the collateral agreements, the net derivative asset positions for each counterparty located in [*Country A*] or [*Country B*] were fully covered by cash collateral received.

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a. The disclosures under IFRS 7 may not be the same year-on-year because they reflect specific risks and uncertainties created by the conditions during the reporting period or at the reporting date.

IFRS 7.1, B3

b. The risk resulting from direct and indirect exposures to higher-risk countries, as well as the wider political and economic consequences of fiscal austerity programmes and other government actions, may be a focus area for banks. Each bank will have to determine, in light of its specific circumstances, what disclosures are appropriate. Factors to consider when updating disclosures of exposures related to higher-risk sovereign debt include the following.

- The countries or exposures for which disclosures are relevant for the periods presented. This may change over time and it would be helpful for an entity to disclose how the selection has been made.
- Whether it is helpful to provide an explanation of the basis used for selecting and identifying exposures for disclosure. In particular, the identification of indirect exposures may involve a high degree of judgement, or meaningful quantification of indirect exposures may not be possible; management might consider explaining how it identifies such exposures and its approach to managing indirect risk.

The example disclosures presented in this guide relate to a hypothetical scenario and may not be appropriate or sufficient in other circumstances.

Transparency may be improved if all disclosures related to sovereign debt are made in one location, or cross-referenced if they are made in different locations.

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Notes to the consolidated financial statements (continued)

IFRS 7.31

5. Financial risk review (continued)

IFRS 7.33

A. Credit risk (continued)

vi. Exposures to higher-risk countries (continued)

- Credit default swaps written on [*Country A*] and [*Country B*] are subject to standard terms issued by ISDA. The transactions are covered by master netting agreements, with net positions being fully collateralised by cash deposits. The counterparties to these derivatives are located in countries other than [*Country A*] and [*Country B*] and have credit ratings of A and above (based on rating agency [*x*]).

31 December 2014

In millions of euro

	[*Country A*]	**[*Country B*]**	**Total**
Held-to-maturity			
Government bonds			
Carrying amount (amortised cost)	**5**	**2**	**7**
Fair value	**4**	**1**	**5**
Available-for-sale			
Government bonds			
Carrying amount (fair value)	**12**	**6**	**18**
Accumulated amount in fair value reserve	**(4)**	**(3)**	**(7)**
Loans and receivables			
Loans and advances to banks			
Carrying amount (amortised cost)	**15**	**18**	**33**
Fair value	**9**	**13**	**22**
Loans and advances to corporate customers			
Carrying amount (amortised cost)	**106**	**57**	**163**
Fair value	**98**	**54**	**152**
Trading assets			
Derivative assets			
Carrying amount (fair value)	**13**	**21**	**34**
Total net on-balance sheet exposure	**151**	**104**	**255**
Off-balance sheet exposures			
Loan commitments and financial guarantees given in respect of corporate customers	**13**	**12**	**25**

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Notes to the consolidated financial statements (continued)

IFRS 7.31
IFRS 7.33

5. Financial risk review (continued)

A. Credit risk (continued)

vi. Exposures to higher-risk countries (continued)

31 December 2013

In millions of euro	[*Country A*]	[*Country B*]	Total
Held-to-maturity			
Government bonds			
Carrying amount (amortised cost)	5	2	7
Fair value	4	1	5
Available-for-sale			
Government bonds			
Carrying amount (fair value)	13	7	20
Accumulated amount in fair value reserve	(3)	(2)	(5)
Loans and receivables			
Loans and advances to banks			
Carrying amount (amortised cost)	18	22	40
Fair value	14	18	32
Loans and advances to corporate customers			
Carrying amount (amortised cost)	99	68	167
Fair value	89	59	148
Trading assets			
Derivative assets			
Carrying amount (fair value)	15	19	34
Total net on-balance sheet exposure	150	118	268
Off-balance sheet exposures			
Loan commitments and financial guarantees given in respect of corporate customers	17	9	26

Credit default swaps written on [*Country A*] and [*Country B*]

In millions of euro	*Note*	31 December 2014	31 December 2013
Credit protection sold (long position)	*19*		
Nominal amount		**12**	14
Carrying amount (fair value)		**(2)**	(3)
Credit protection bought (short position)	*19*		
Nominal amount		**11**	9
Carrying amount (fair value)		**2**	1

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Notes to the consolidated financial statements (continued)

IFRS 7.31

5. Financial risk review (continued)

IFRS 7.33

B. Liquidity risk[a]

For the definition of liquidity risk and information on how liquidity risk is managed by the Group, see Note 41(C).

i. Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose, 'net liquid assets' includes cash and cash equivalents and investment-grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. Details of the reported Group ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period were as follows.

IFRS 7.34(a), 39(c)

	2014	2013
At 31 December	**22.0%**	23.7%
Average for the period	**22.6%**	23.1%
Maximum for the period	**24.2%**	24.7%
Minimum for the period	**18.9%**	21.2%

IFRS 7.34, 39(c)

a. The example shown in this guide in relation to liquidity risk assumes that the primary basis for reporting to key management personnel on liquidity risk is the ratio of liquid assets to deposits from customers. It also assumes that this is the entity's approach to managing liquidity risk. However, other presentations are possible.

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Notes to the consolidated financial statements (continued)

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5. Financial risk review (continued)

IFRS 7.33

B. Liquidity risk (continued)

IFRS 7.39(a)–(b)

ii. Maturity analysis for financial assets and financial liabilities

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

IFRS 7.B11 · *IFRS 7.39(a)* · *IFRS 7.B11C(c)* · *IFRS 7.B11D(e)* · *IFRS 7.39(b), B11B*

31 December 2014 *In millions of euro*	*Note*	Carrying amount	Gross nominal inflow/ (outflow)	Less than 1 month	1–3 months	3 months –1 year	1–5 years	More than 5 years
Financial liability by type								
Non-derivative liabilities								
Trading liabilities	*19*	6,618	(6,882)	(5,625)	(926)	(331)	-	-
Deposits from banks	*27*	11,678	(12,713)	(10,683)	(1,496)	(534)	-	-
Deposits from customers	*28*	53,646	(55,340)	(39,318)	(741)	(3,540)	(11,741)	-
Debt securities issued	*29*	11,227	(12,881)	-	-	(201)	(12,680)	-
Subordinated liabilities	*30*	5,642	(6,660)	-	-	-	(5,499)	(1,161)
Issued financial guarantee contracts	*32*	32	(58)	-	-	(58)	-	-
Unrecognised loan commitments		-	(1,883)	(1,883)	-	-	-	-
		88,843	(96,417)	(57,509)	(3,163)	(4,664)	(29,920)	(1,161)
Derivative liabilities								
Trading:	*19*	408	-	-	-	-	-	-
Outflow		-	(3,217)	(398)	(1,895)	(856)	(68)	-
Inflow		-	2,789	138	1,799	823	29	-
Risk management:	*20*	828	-	-	-	-	-	-
Outflow		-	(9,855)	(476)	(1,506)	(1,458)	(6,113)	(302)
Inflow		-	9,010	466	1,472	1,392	5,509	171
		1,236	(1,273)	(270)	(130)	(99)	(643)	(131)
Financial asset by type								
Non-derivative assets								
Cash and cash equivalents	*18*	2,907	2,920	2,550	370	-	-	-
Pledged trading assets	*19*	540	550	390	125	35	-	-
Non-pledged trading assets	*19*	15,144	15,300	13,540	1,460	270	30	-
Loans and advances to banks	*21*	5,572	5,620	4,480	450	690	-	-
Loans and advances to customers	*22*	63,070	77,929	10,180	5,256	14,780	25,600	22,113
Investment securities	*23*	6,302	6,790	2,713	234	932	2,643	268
		93,535	109,109	33,853	7,895	16,707	28,273	22,381
Derivative assets								
Trading:	*19*	978	-	-	-	-	-	-
Inflow		-	6,345	654	3,890	1,723	78	-
Outflow		-	(5,279)	(250)	(3,321)	(1,643)	(65)	-
Risk management:	*20*	858						
Inflow		-	9,302	514	1,717	1,375	5,432	264
Outflow		-	(8,388)	(493)	(1,678)	(1,301)	(4,765)	(151)
		1,836	1,980	425	608	154	680	113

IFRS 7.39, B11, B11E

a. The entity has disclosed a contractual maturity analysis for its financial instruments. This includes a maturity analysis for financial assets that it holds as part of managing liquidity risk – e.g. financial assets that are expected to generate cash inflows to meet cash outflows on financial liabilities – because the entity considers that such information is necessary to enable financial statement users to evaluate the nature and extent of its liquidity risk. *The EDTF report recommends that banks disclose a contractual maturity analysis for financial assets.*

Insights 7.8.370.80

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

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IFRS 7.31
IFRS 7.33
IFRS 7.39(a)–(b)
IFRS 7.B11
IFRS 7.39(a)
IFRS 7.B11C(c)
IFRS 7.B11D(e)
IFRS 7.39(b), B11B

Notes to the consolidated financial statements (continued)

5. Financial risk review (continued)

B. Liquidity risk (continued)

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

31 December 2013 *In millions of euro*	*Note*	**Carrying amount**	**Gross nominal inflow/ (outflow)**	**Less than 1 month**	**1–3 months**	**3 months –1 year**	**1–5 years**	**More than 5 years**
Financial liability by type								
Non-derivative liabilities								
Trading liabilities	19	5,680	(6,627)	(5,568)	(780)	(279)	-	-
Deposits from banks	27	10,230	(11,324)	(9,516)	(1,332)	(476)	-	-
Deposits from customers	28	48,904	(50,292)	(36,758)	(713)	(3,443)	(9,378)	-
Debt securities issued	29	10,248	(11,785)	-	-	-	(11,785)	-
Subordinated liabilities	30	4,985	(5,898)	-	-	-	(4,782)	(1,116)
Issued financial guarantee contracts	32	28	(49)	-	-	(49)	-	-
Unrecognised loan commitments		-	(1,566)	(1,566)	-	-	-	-
		80,075	(87,541)	(53,408)	(2,825)	(4,247)	(25,945)	(1,116)
Derivative liabilities								
Trading:	19	372	-	-	-	-	-	-
Outflow		-	(2,925)	(381)	(1,651)	(835)	(58)	-
Inflow		-	2,533	122	1,583	789	39	-
Risk management:	20	789	-	-	-	-	-	-
Outflow		-	(7,941)	(313)	(1,041)	(1,423)	(5,125)	(39)
Inflow		-	7,115	299	972	1,341	4,483	20
		1,161	(1,218)	(273)	(137)	(128)	(661)	(19)
Financial asset by type								
Non-derivative assets								
Cash and cash equivalents	18	2,992	3,007	2,649	358	-	-	-
Pledged trading assets	19	519	528	375	121	32	-	-
Non-pledged trading assets	19	14,292	14,450	13,410	750	265	25	-
Loans and advances to banks	21	4,707	4,753	3,721	443	589	-	-
Loans and advances to customers	22	56,805	70,119	9,701	4,976	12,890	22,450	20,102
Investment securities	23	5,269	5,823	2,045	212	679	2,633	254
		84,584	98,680	31,901	6,860	14,455	25,108	20,356
Derivative assets								
Trading:	19	957						
Inflow		-	6,334	678	3,811	1,756	89	-
Outflow		-	(5,258)	(270)	(3,254)	(1,670)	(64)	-
Risk management:	20	726						
Inflow		-	7,378	299	987	1,498	4,532	62
Outflow		-	(6,615)	(278)	(907)	(1,403)	(3,987)	(40)
		1,683	1,839	429	637	181	570	22

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Notes to the consolidated financial statements (continued)

IFRS 7.31

5. Financial risk review (continued)

IFRS 7.33

B. Liquidity risk (continued)

IFRS 7.39(a)–(b)

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

IFRS 7.39, B11B, B11D

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

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

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

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

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

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Notes to the consolidated financial statements (continued)

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5. Financial risk review (continued)

IFRS 7.33

B. Liquidity risk (continued)

IFRS 7.39(a)–(b)

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

IAS 1.61

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

In millions of euro	*Note*	2014	2013
Financial assets			
Loans and advances to customers	*22*	**34,215**	31,002
Investment securities	*23*	**2,668**	2,613
Financial liabilities			
Deposits from customers	*28*	**40,808**	35,789
Debt securities issued	*29*	**10,248**	10,230
Subordinated liabilities	*30*	**5,642**	4,985

iii. Liquidity reserves

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

IFRS 7.34(a), 39(c)

Liquidity reserves

In millions of euro	2014 Carrying amount	2014 Fair value	2013 Carrying amount	2013 Fair value
Balances with central banks	**118**	**118**	128	128
Cash and balances with other banks	**256**	**256**	184	184
Other cash and cash equivalents	**2,133**	**2,133**	2,291	2,291
Unencumbered debt securities issued by sovereigns	**10,657**	**10,657**	10,178	10,178
Undrawn credit lines granted by central banks*	**250**	**-**	231	-
Other assets eligible for use as collateral with central banks	**15,548**	**16,550**	13,686	14,278
Total liquidity reserves	**28,962**	**29,964**	26,698	27,290

* The amount is the actual credit line available.

IAS 12.81(f), 87

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

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Notes to the consolidated financial statements (continued)

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5. Financial risk review (continued)

IFRS 7.33

B. Liquidity risk (continued)

IFRS 7.39(a)–(b)

iv. Financial assets available to support future funding

IFRS 7.34(a)

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

31 December 2014 *In millions of euro*	***Note***	**Encumbered** **Pledged as collateral**	**Encumbered** **Other***	**Unencumbered** **Available as collateral**	**Unencumbered** **Other****	**Total**
Cash and cash equivalents		**-**	**-**	**2,507**	**400**	**2,907**
Trading assets	*19*	**540**	**60**	**14,553**	**1,509**	**16,662**
Derivative assets held for risk management		**-**	**-**	**-**	**858**	**858**
Loans and advances		**2,015**	**-**	**15,548**	**51,079**	**68,642**
Investment securities		**-**	**30**	**5,915**	**357**	**6,302**
Non-financial assets		**-**	**-**	**-**	**1,738**	**1,738**
Total assets (IFRS 7.14(a))		**2,555**	**90**	**38,523**	**55,941**	**97,109**

31 December 2013 *In millions of euro*	***Note***	**Encumbered** **Pledged as collateral**	**Encumbered** **Other***	**Unencumbered** **Available as collateral**	**Unencumbered** **Other****	**Total**
Cash and cash equivalents		-	-	2,603	389	2,992
Trading assets	*19*	519	54	13,838	1,357	15,768
Derivative assets held for risk management		-	-	-	726	726
Loans and advances		1,730	-	13,686	46,096	61,512
Investment securities		-	26	4,922	321	5,269
Non-financial assets		-	-	-	1,549	1,549
Total assets (IFRS 7.14(a))		2,249	80	35,049	50,438	87,816

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

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

In addition, the Group has received collateral that it is permitted to sell or repledge in the absence of default.

v. Financial assets pledged as collateral

IFRS 7.14(a)

The total financial assets recognised in the statement of financial position that had been pledged as collateral for liabilities at 31 December 2014 and 2013 is shown in the preceding table.

IFRS 7.14(b)

Financial assets are pledged as collateral as part of sales and repurchases, securities borrowing and securitisation transactions under terms that are usual and customary for such activities. In addition, as part of these transactions, the Group has received collateral that it is permitted to sell or repledge in the absence of default.

IFRS 7.15(a)

At 31 December 2014, the fair value of financial assets accepted as collateral that the Group is permitted to sell or repledge in the absence of default was €7,788 million (2013: €7,308 million).

IFRS 7.15(b)

At 31 December 2014, the fair value of financial assets accepted as collateral that have been sold or repledged was €5,661 million (2013: €5,205 million). The Group is obliged to return equivalent securities.

At 31 December 2014, for derivative liabilities that are classified as trading liabilities and derivatives liabilities held for risk management, the Group had posted cash collateral with its counterparties for which it had recognised receivables of €793 million (2013: €807 million). These receivables are regarded as encumbered and included in loans and advances to banks or customers.

a. *The EDTF report recommends disclosure of encumbered and unencumbered assets in a tabular format by balance sheet categories, including collateral received that can be rehypothecated or otherwise redeployed. For the purposes of this guide, we have assumed that including this information in the financial statements for assets recognised in the statement of financial position will enhance users' understanding of the Group's exposure to liquidity risk.*

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Notes to the consolidated financial statements (continued)

IFRS 7.31

5. Financial risk review (continued)

IFRS 7.33

C. Market risk[a]

For the definition of market risk and information on how the Group manages the market risks of trading and non-trading portfolios, see Note 41(D).

IFRS 7.34(a)

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

31 December 2014 *In millions of euro*	*Note*	Carrying amount	Market risk measure Trading portfolios	 Non-trading portfolios
Assets subject to market risk				
Cash and cash equivalents	*19*	**2,907**	**-**	**2,907**
Trading assets	*19*	**16,662**	**16,662**	**-**
Derivatives held for risk management	*20*	**858**	**-**	**858**
Loans and advances to banks	*21*	**5,572**	**-**	**5,572**
Loans and advances to customers	*22*	**63,070**	**3,986**	**59,084**
Investment securities	*23*	**6,302**	**4,091**	**2,211**
Liabilities subject to market risk				
Trading liabilities	*19*	**7,026**	**7,026**	**-**
Derivatives held for risk management	*20*	**828**	**-**	**828**
Deposits	*27, 28*	**65,324**	**-**	**65,324**
Debt securities	*29*	**11,227**	**2,409**	**8,818**
Subordinated liabilities	*30*	**5,642**	**-**	**5,642**
31 December 2013				
Assets subject to market risk				
Cash and cash equivalents	*18*	2,992	-	2,992
Trading assets	*19*	15,768	15,768	-
Derivatives held for risk management	*20*	726	-	726
Loans and advances to banks	*21*	4,707	-	4,707
Loans and advances to customers	*22*	56,805	3,145	53,660
Investment securities	*23*	5,269	3,239	2,030
Liabilities subject to market risk				
Trading liabilities	*19*	6,052	6,052	-
Derivatives held for risk management	*20*	789	-	789
Deposits	*27, 28*	59,134	-	59,134
Debt securities	*29*	10,248	2,208	8,040
Subordinated liabilities	*30*	4,985	-	4,985

IFRS 7.34, 40–41

a. The example shown in this guide in relation to market risk from interest rates illustrates value at risk (VaR) and a gap analysis, two common approaches to the measurement and management of market risk arising from interest rates. The example assumes that the primary basis for reporting to key management personnel on market risk from interest rates is a VaR measure for traded portfolios and a gap and sensitivity analysis for non-trading portfolios. In respect of foreign exchange risk, the example assumes that the primary basis for reporting to key management personnel on market risk from foreign exchange rates is a VaR measure and an analysis of concentration risk in relation to individual currencies. However, other presentations are possible.

b. *The EDTF report recommends that banks provide information that facilitates users' understanding of the linkages between line items in the balance sheet and income statement, and positions included in the trading market risk disclosures. For the purposes of this guide, we have assumed that disclosure of the analysis of the line items in the statement of financial position between trading and non-trading risk portfolios will facilitate users' understanding of how the group manages market risk.*

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Notes to the consolidated financial statements (continued)

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5. Financial risk review (continued)

IFRS 7.33

C. Market risk (continued)

i. Exposure to market risk – Trading portfolios

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

IFRS 7.41

2014 *In millions of euro*	**At 31 December**	**Average**	**Maximum**	**Minimum**
Foreign currency risk	**12.04**	**10.04**	**15.06**	**7.97**
Interest rate risk	**27.41**	**22.05**	**39.48**	**17.53**
Credit spread risk	**9.07**	**6.97**	**9.52**	**5.66**
Other price risk	**3.28**	**3.01**	**4.02**	**2.42**
Covariance	**(2.76)**	**(3.08)**	**-**	**-**
Overall	**49.04**	**38.99**	**62.53**	**34.01**
2013				
Foreign currency risk	9.28	8.40	12.05	4.64
Interest rate risk	20.43	18.05	26.52	13.72
Credit spread risk	6.08	5.11	8.83	3.50
Other price risk	3.32	2.89	4.56	2.07
Covariance	(2.24)	(2.08)	-	-
Overall	36.87	32.37	47.64	26.68

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Notes to the consolidated financial statements (continued)

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5. Financial risk review (continued)

IFRS 7.33

C. Market risk (continued)

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

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

IFRS 7.34(a)

31 December 2014 *In millions of euro*	*Note*	**Carrying amount**	**Less than 3 months**	**3–6 months**	**6–12 months**	**1–5 years**	**More than 5 years**
Cash and cash equivalents	*18*	**2,907**	**2,907**	**-**	**-**	**-**	**-**
Loans and advances to banks	*21*	**5,572**	**4,903**	**669**	**-**	**-**	**-**
Loans and advances to customers	*22*	**59,084**	**22,162**	**7,760**	**3,259**	**22,256**	**3,647**
Investment securities	*23*	**1,882**	**177**	**442**	**720**	**442**	**101**
		69,445	**30,149**	**8,871**	**3,979**	**22,698**	**3,748**
Deposits from banks	*27*	**(11,678)**	**(11,202)**	**(476)**	**-**	**-**	**-**
Deposits from customers	*28*	**(53,646)**	**(39,715)**	**(1,584)**	**(1,636)**	**(10,711)**	**-**
Debt securities issued	*29*	**(8,818)**	**(5,143)**	**-**	**(184)**	**(3,491)**	**-**
Subordinated liabilities	*30*	**(5,642)**	**-**	**(4,782)**	**-**	**-**	**(860)**
		(79,784)	**(56,060)**	**(6,842)**	**(1,820)**	**(14,202)**	**(860)**
Effect of derivatives held for risk management	*20*	**-**	**3,620**	**1,576**	**-**	**(5,196)**	**-**
		(10,339)	**(22,291)**	**3,605**	**2,159**	**3,300**	**2,888**

IFRS 7.34(a)

31 December 2013							
Cash and cash equivalents	*18*	2,992	2,992	-	-	-	-
Loans and advances to banks	*21*	4,707	4,142	565	-	-	-
Loans and advances to customers	*22*	53,660	20,381	7,227	2,913	19,867	3,272
Investment securities	*23*	1,741	162	406	666	406	101
		63,100	27,677	8,198	3,579	20,273	3,373
Deposits from banks	*27*	(10,230)	(9,778)	(452)	-	-	-
Deposits from customers	*28*	(48,904)	(38,735)	(1,493)	(1,065)	(7,611)	-
Debt securities issued	*29*	(8,040)	(4,473)	-	(178)	(3,389)	-
Subordinated liabilities	*30*	(4,985)	-	(4,158)	-	-	(827)
		(72,159)	(52,986)	(6,103)	(1,243)	(11,000)	(827)
Effect of derivatives held for risk management	*20*	-	3,225	1,240	-	(4,465)	-
		(9,059)	(22,084)	3,335	2,436	4,808	2,546

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Notes to the consolidated financial statements (continued)

IFRS 7.31

5. Financial risk review (continued)

IFRS 7.33

C. Market risk (continued)

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

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and financial liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide and a 50bp rise or fall in the greater than 12-month portion of all yield curves. The following is an analysis of the Group's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position.

IFRS 7.40(a)

In millions of euro	100bp parallel increase	100bp parallel decrease	50bp increase after 1 year	50bp decrease after 1 year
Sensitivity of projected net interest income				
2014				
At 31 December	**(43)**	**46**	**(22)**	**23**
Average for the period	**(42)**	**45**	**(22)**	**22**
Maximum for the period	**(44)**	**48**	**(23)**	**24**
Minimum for the period	**(39)**	**41**	**(20)**	**20**
2013				
At 31 December	(39)	41	(20)	20
Average for the period	(38)	41	(19)	20
Maximum for the period	(40)	42	(20)	21
Minimum for the period	(37)	40	(19)	20
Sensitivity of reported equity to interest rate movements				
2014				
At 31 December	**(77)**	**78**	**(39)**	**39**
Average for the period	**(76)**	**78**	**(37)**	**38**
Maximum for the period	**(79)**	**80**	**(39)**	**40**
Minimum for the period	**(75)**	**77**	**(36)**	**36**
2013				
At 31 December	(69)	69	(37)	38
Average for the period	(68)	69	(36)	37
Maximum for the period	(70)	71	(38)	39
Minimum for the period	(67)	68	(36)	36

Interest rate movements affect reported equity in the following ways:

- retained earnings – increases or decreases in net interest income and in fair values of derivatives reported in profit or loss;
- fair value reserve – increases or decreases in fair values of available-for-sale financial instruments reported directly in equity; and
- hedging reserve – increases or decreases in fair values of hedging instruments designated in qualifying cash flow hedge relationships.

Aggregate non-trading interest rate risk positions are managed by Central Treasury, which uses investment securities, advances to banks, deposits from banks and derivative instruments to manage the positions. The use of derivatives to manage interest rate risk is described in Note 20.

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Notes to the consolidated financial statements (continued)

IFRS 7.31

5. Financial risk review (continued)

IFRS 7.33

C. Market risk (continued)

iii. Exposure to currency risks – Non-trading portfolios

As at the reporting date, net currency exposures representing more than 10% of the Group's equity were as follows.

IFRS 7.34(c)

Foreign currency exposures other than in respect of foreign operations

	Functional currency of Group entities			
In millions	**2014 EUR**	**2014 USD**	**2013 EUR**	**2013 USD**
Net foreign currency exposure:				
GBP	**(715)**	**-**	-	-
USD	**684**	**-**	650	-
EUR	**-**	**703**	-	-

Foreign operations

	Net investments	
In millions	**2014**	**2013**
Functional currency of foreign operation:		
GBP	**984**	782
USD	**680**	-

D. Capital management[a]

i. Regulatory capital

IAS 1.135(a)(ii)

The Group's lead regulator [*Name of regulator*], sets and monitors capital requirements for the Group as a whole and for the parent company. The individual banking operations are directly supervised by their local regulators.

IAS 1.135(c)

[*The lead regulator*] adopted the Basel III capital requirements with effect from 1 January 2014. As a result, the Group's regulatory capital requirements were based on Basel II in 2013 and on Basel III in 2014. The Group has been granted approval by [*its lead regulator*] to adopt the internal rating-based advanced approach (IRB) for credit risk on the majority of its portfolios. The other portfolios are either on an IRB foundation or standardised approaches.

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

IAS 1.134–136

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

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

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Notes to the consolidated financial statements (continued)

IFRS 7.31

5. Financial risk review (continued)

D. Capital management (continued)

i. Regulatory capital (continued)

IAS 1.135(a)(i)

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

- Tier 1 capital (all qualifies as Common Equity Tier 1 (CET1) capital), which includes ordinary share capital, related share premiums, retained earnings, reserves and NCI after adjustment for foreseeable dividends[a] and deductions for goodwill, intangible assets and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities and certain provisions for loans losses that are presently unidentified on an individual basis.

There are differences between the definition of capital between Basel II and Basel III. The impact of significant differences is set out in the table below. The Group has obtained permission from the competent authority to include current year profit in CET1.

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

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Notes to the consolidated financial statements (continued)

IFRS 7.31

5. Financial risk review (continued)

D. Capital management (continued)

i. Regulatory capital (continued)

In millions of euro	*Note*	Basel III 2014	Basel III Estimated 2013	Basel II As Reported 2013
Tier 1 capital – CET1				
Ordinary share capital	*33*	**1,759**	1,756	1,756
Share premium	*33*	**466**	439	439
Retained earnings	*33*	**3,350**	2,944	2,944
Foreseeable dividends		**(284)**	(284)	-
Translation reserve	*33*	**62**	77	77
NCI	*33*	**155**	128	128
Deductions:				
– Intangible assets	*25*	**(275)**	(259)	(259)
– Deferred tax other than temporary differences	*16*	**(25)**	(31)	-
– 100% of expected losses over impairment allowance		**(816)**	(704)	-
– 50% of excess of expected losses over impairment allowance		**-**	-	(352)
– 50% of securitisation positions not included in risk-weighted assets		**-**	-	(12)
– Fair value losses, net of deferred tax, arising from own credit spreads		**(5)**	(4)	(4)
Other regulatory adjustments under Basel III		**(7)**	(6)	
Other regulatory adjustments under Basel II		**-**	-	6
		4,380	4,056	4,723
Tier 2 capital				
Perpetual bonds	*33*	**500**	500	500
Fair value reserve for available-for-sale equity securities		**-**	-	73
Provision against losses presently unidentified on an individual basis	*22*	**123**	115	24
Qualifying subordinated liabilities	*30*	**300**	300	2,079
Deductions:				
– 50% of excess of expected losses over impairment allowance		**-**	-	(352)
– 50% of securitisation positions not included in risk-weighted assets		**-**	-	(12)
		923	915	2,312
Total regulatory capital		**5,303**	4,971	7,035

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Notes to the consolidated financial statements (continued)

IFRS 7.31

5. Financial risk review (continued)

D. Capital management (continued)

i. Regulatory capital (continued)

IAS 1.135(a)(iii)

The Group's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

IAS 1.135(d)

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

The lead regulator's approach to the measurement of capital adequacy is primarily based on monitoring the relationship of the capital resources requirement to available capital resources. The lead regulator sets individual capital guidance (ICG) for each bank and banking group in excess of the minimum capital resources requirement of 8%. A key input to the ICG-setting process is the Group's internal capital assessment process (ICAP).

IAS 1.135(a)

ii. Capital allocation

Management uses regulatory capital ratios to monitor its capital base. The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily on regulatory capital requirements, but in some cases the regulatory requirements do not fully reflect the varying degree of risk associated with different activities. In such cases, the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation by Group Risk and Group Credit, and is subject to review by the Group Asset and Liability Management Committee (ALCO).

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision making. Account is also taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group's longer-term strategic objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by the board of directors.

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Notes to the consolidated financial statements (continued)

6. Fair values of financial instruments

See accounting policy in Note 44(J)(vi).

A. Valuation models

IFRS 13.72

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- *Level 1*: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- *Level 2:* Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- *Level 3:* Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

IFRS 13.93(d)

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognised valuation models for determining the fair value of common and simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple OTC derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

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Notes to the consolidated financial statements (continued)

6. Fair values of financial instruments (continued)

A. Valuation models (continued)

For more complex instruments, the Group uses proprietary valuation models, which are usually developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Examples of instruments involving significant unobservable inputs include certain OTC structured derivatives, certain loans, securities for which there is no active market and retained interests in securitisations (as discussed below). Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments, determination of expected volatilities and correlations and selection of appropriate discount rates.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate. For measuring derivatives that might change classification from being an asset to a liability or vice versa such as interest rate swaps, fair values take into account both credit valuation adjustment (CVA) and debit valuation adjustment (DVA) when market participants take this into consideration in pricing the derivatives.

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

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

IFRS 13.93(d)

The Group's methodology for valuing these asset-backed securities uses a discounted cash flow technique that takes into account the probability of default and loss severity by considering the original underwriting criteria, vintage borrower attributes, LTV ratios, expected house price movements and expected prepayment rates. These features are used to estimate expected cash flows, which are then allocated using the 'waterfall' applicable to the security and discounted at a risk-adjusted rate. The discounted cash flow technique is often used by market participants to price asset-backed securities. However, this technique is subject to inherent limitations, such as estimation of the appropriate risk-adjusted discount rate, and different assumptions and inputs would yield different results.

As part of its trading activities, the Group enters into OTC structured derivatives – primarily options indexed to credit spreads, equity prices, foreign exchange rates and interest rates – with customers and other banks. Some of these instruments are valued using models with significant unobservable inputs, principally expected long-term volatilities and expected correlations between different underlyings.

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Notes to the consolidated financial statements (continued)

6. Fair values of financial instruments (continued)

A. Valuation models (continued)

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

B. Valuation framework

IFRS 13.93(g), IE65

The Group has an established control framework with respect to the measurement of fair values. This framework includes a Product Control function, which is independent of front office management and reports to the Chief Financial Officer, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing;
- re-performance of model valuations;
- a review and approval process for new models and changes to models involving both Product Control and Group Market Risk;
- quarterly calibration and back-testing of models against observed market transactions;
- analysis and investigation of significant daily valuation movements; and
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared with the previous month, by a committee of senior Product Control and Group Market Risk personnel.

When third party information, such as broker quotes or pricing services, is used to measure fair value, Product Control assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- verifying that the broker or pricing service is approved by the Group for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at, the extent to which it represents actual market transactions and whether it represents a quoted price in an active market for an identical instrument;
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and
- if a number of quotes for the same financial instrument have been obtained, then how fair value has been determined using those quotes.

Significant valuation issues are reported to the Group Audit Committee.

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

IFRS 13.93(b)

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position. The fair values include any deferred differences between the transaction price and the fair value on initial recognition when the fair value is based on a valuation technique that uses unobservable inputs.

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Notes to the consolidated financial statements (continued)

6. Fair values of financial instruments (continued)

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

IFRS 13.93(b)

31 December 2014 *In millions of euro*	*Note*	Level 1	Level 2	Level 3	Total
Pledged trading assets	*19*				
Government bonds		332	-	-	332
Other securities		200	8	-	208
Total		532	8	-	540
Non-pledged trading assets	*19*				
Government bonds		5,809	201	-	6,010
Treasury bills		3,777	102	-	3,879
Corporate bonds		3,898	450	-	4,348
Equities		391	-	-	391
Asset-backed securities		150	44	322	516
Derivative assets:					
Credit		120	212	-	332
Foreign exchange		74	76	-	150
OTC structured derivatives		-	76	258	334
Other		41	121	-	162
Total		14,260	1,282	580	16,122
Derivative assets held for risk management	*20*				
Interest rate		12	392	-	404
Foreign exchange		10	290	-	300
Other		4	150	-	154
Total		26	832	-	858
Loans and advances to customers	*22*	-	369	3,617	3,986
Investment securities	*23*				
Government bonds		731	37	-	768
Corporate bonds		2,937	923	-	3,860
Asset-backed securities		301	141	538	980
Equities		471	-	-	471
Retained interests in securitisations		-	-	98	98
Total		4,440	1,101	636	6,177
Trading liabilities	*19*				
Short sold positions – debt		5,423	932	-	6,355
Short sold positions – equity		201	62	-	263
Derivative liabilities:					
Credit		45	100	-	145
Foreign exchange		39	83	-	122
OTC structured derivatives		-	6	70	76
Other		11	54	-	65
Total		5,719	1,237	70	7,026
Derivative liabilities held for risk management	*20*				
Interest rate		10	215	-	225
Foreign exchange		23	422	-	445
Other		8	150	-	158
Total		41	787	-	828
Debt securities issued	*29*	1,928	481	-	2,409

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Notes to the consolidated financial statements (continued)

6. Fair values of financial instruments (continued)

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

IFRS 13.93(b)

31 December 2013

In millions of euro	*Note*	Level 1	Level 2	Level 3	Total
Pledged trading assets	*19*				
Government bonds		317	-	-	317
Other securities		200	2	-	202
Total		517	2	-	519
Non-pledged trading assets	*19*				
Government bonds		5,275	506	-	5,781
Treasury bills		3,544	200	-	3,744
Corporate bonds		3,800	125	-	3,925
Equities		379	-	-	379
Asset-backed securities		65	12	386	463
Derivative assets:					
Credit		130	239	-	369
Foreign exchange		70	71	-	141
OTC structured derivatives		-	20	257	277
Other		45	125	-	170
Total		13,308	1,298	643	15,249
Derivative assets held for risk management	*20*				
Interest rate		14	295	-	309
Foreign exchange		17	260	-	277
Other		5	135	-	140
Total		36	690	-	726
Loans and advances to customers	*22*	-	283	2,862	3,145
Investment securities	*23*				
Government bonds		574	79	-	653
Corporate bonds		2,655	489	-	3,144
Asset-backed securities		63	88	707	858
Equities		402	-	-	402
Retained interests in securitisations		-	-	87	87
Total		3,694	656	794	5,144
Trading liabilities	*19*				
Short sold positions – debt		4,854	599	-	5,453
Short sold positions – equity		178	49	-	227
Derivative liabilities:					
Credit		35	98	-	133
Foreign exchange		35	73	-	108
OTC structured derivatives		-	5	69	74
Other		10	47	-	57
Total		5,112	871	69	6,052
Derivative liabilities held for risk management	*20*				
Interest rate		10	182	-	192
Foreign exchange		15	435	-	450
Other		7	140	-	147
Total		32	757	-	789
Debt securities issued	*29*	1,486	722	-	2,208

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Notes to the consolidated financial statements (continued)

6. Fair values of financial instruments (continued)

IFRS 13.93(c)

During the current year, due to changes in market conditions for certain investment securities, quoted prices in active markets were no longer available for these securities. However, there was sufficient information available to measure the fair values of these securities based on observable market inputs. Therefore, these securities, with a carrying amount of €369 million, were transferred from Level 1 to Level 2 of the fair value hierarchy.

D. Level 3 fair value measurements

i. Reconciliation

IFRS 13.93(e)

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

Reference		Trading assets		Loans and advances to customers	Investment securities		Trading liabilities	
	2014 *In millions of euro*	Asset-backed securities	OTC structured derivatives		Asset-backed securities	Retained interests in securitisations	OTC structured derivatives	Total
IFRS 13.93(e)	Balance at 1 January	392	251	119	707	87	(69)	1,487
	Total gains or losses:							
IFRS 13.93(e)(i)	in profit or loss	10	2	(4)	(75)	4	5	(58)
IFRS 13.93(e)(ii)	in OCI	-	-	-	(82)	1	-	(81)
IFRS 13.93(e)(iii)	Purchases	21	20	51	-	95	-	187
IFRS 13.93(e)(iii)	Issues	-	-	-	-	-	(16)	(16)
IFRS 13.93(e)(iii)	Settlements	(36)	(15)	(7)	(6)	(89)	10	(143)
IFRS 13.93(e)(iv)	Transfers into Level 3	-	-	-	-	-	-	-
IFRS 13.93(e)(iv)	Transfers out of Level 3	(65)	-	-	(6)	-	-	(71)
IFRS 13.93(e)	Balance at 31 December	322	258	159	538	98	(70)	1,305

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

Reference		Trading assets		Loans and advances to customers	Investment securities		Trading liabilities	
	2014 *In millions of euro*	Asset-backed securities	OTC structured derivatives		Asset-backed securities	Retained interests in securitisations	OTC structured derivatives	Total
IFRS 13.93(e)(i)	Total gains and losses recognised in profit or loss:							
	Net trading income	10	2	-	-	-	5	17
	Net income from other financial instruments carried at fair value	-	-	(4)	(75)	-	-	(79)
	Interest income	-	-	-	-	4	-	4
IFRS 13.93(e)(ii)	OCI – net change in fair value of available-for-sale financial assets	-	-	-	(82)	1	-	(81)
IFRS 13.93(f)	Profit or loss – attributable to the change in unrealised gains and losses relating to assets and liabilities held at the end of the year:							
	Net trading income	5	1	-	-	-	6	12
	Net income from other financial instruments carried at fair value	-	-	(2)	(67)	-	-	(69)
	Interest income	-	-	-	-	2	-	2

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Notes to the consolidated financial statements (continued)

6. Fair values of financial instruments (continued)

D. Level 3 fair value measurements (continued)

i. Reconciliation (continued)

		Trading assets		Loans and advances to customers	Investment securities		Trading liabilities	
	2013 *In millions of euro*	**Asset-backed securities**	**OTC structured derivatives**		**Asset-backed securities**	**Retained interests in securitisa-tions**	**OTC structured derivatives**	**Total**
IFRS 13.93(e)	Balance at 1 January	333	260	3,617	727	97	(60)	4,974
	Total gains or losses:							
IFRS 13.93(e)(i)	in profit or loss	30	5	(120)	6	-	(4)	(83)
IFRS 13.93(e)(ii)	in OCI	-	-	-	(10)	-	-	(10)
IFRS 13.93(e)(iii)	Purchases	80	6	100	10	5	-	101
IFRS 13.93(e)(iii)	Issues	-	-	-	-	-	(7)	(7)
IFRS 13.93(e)(iii)	Settlements	(1)	(14)	(735)	(17)	(15)	2	(780)
IFRS 13.93(e)(iv)	Transfers into Level 3	-	-	-	-	-	-	-
IFRS 13.93(e)(iv)	Transfers out of Level 3	(56)	-	-	(9)	-	-	(65)
IFRS 13.93(e)	Balance at 31 December	386	257	2,862	707	87	(69)	4,230

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

		Trading assets		Loans and advances to customers	Investment securities		Trading liabilities	
	2013 *In millions of euro*	**Asset-backed securities**	**OTC structured derivatives**		**Asset-backed securities**	**Retained interests in securitisa-tions**	**OTC structured derivatives**	**Total**
IFRS 13.93(e)(i)	Total gains and losses recognised in profit or loss:							
	Net trading income	30	5	-	-	-	(4)	31
	Net income from other financial instruments carried at fair value	-	-	(120)	3	-	-	(117)
	Interest income	-	-	-	3	-	-	3
IFRS 13.93(e)(ii)	OCI – net change in fair value of available-for-sale financial assets	-	-	-	(10)	-	-	(10)
IFRS 13.93(f)	Profit or loss – attributable to the change in unrealised gains and losses relating to assets and liabilities held at the end of the year:							
	Net trading income	25	3	-	-	-	(2)	26
	Net income from other financial instruments carried at fair value	-	-	1	2	-	-	3
	Interest income	-	-	-	1	-	-	1

IFRS 13.93(e)(iv)

During 2014 and 2013, certain trading assets and investment securities were transferred out of Level 3 of the fair value hierarchy when significant inputs used in their fair value measurements, such as certain credit spreads and long-dated option volatilities, that were previously unobservable became observable.

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6. Fair values of financial instruments (continued)

D. Level 3 fair value measurements (continued)

ii. Unobservable inputs used in measuring fair value

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

The table below sets out information about significant unobservable inputs used at 31 December 2014 and 2013 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.[a]

Type of financial instrument	Fair values at 31 December 2014	Valuation technique	Significant unobservable input	Range of estimates (weighted-average) for unobservable input	Fair value measurement sensitivity to unobservable inputs
Residential mortgage-backed securities	**860** (2013: 1,093)	Discounted cash flow	Probability of default	8–12% (10%) (2013: 10–14% (12%))	Significant increases in any of these inputs in isolation would result in lower fair values.
			Loss severity	40–60% (50%) (2013: 50–60% (55%))	Significant reduction would result in higher fair values. Generally, a change in assumption used for the probability of default is accompanied by a directionally similar change in assumptions used for the loss severity and a directionally opposite change in assumptions used for prepayment rates.
			Expected prepayment rate	3–6% (4.8%) (2013: 3–8% (5.8%))	
OTC option-based structured credit derivatives	**100** (2013: 90)	Option model	Correlations between credit spreads	0.35–0.55 (0.47) (2013: 0.25–0.45 (0.37))	A significant increase in volatility would result in a higher fair value.
			Annualised volatility of credit spreads	5–60% (20%) (2013 5–70% (25%))	
OTC option-based structured non-credit derivatives	**88** (2013: 98)	Option model	Correlations between different underlyings	0.3–0.6 (0.45) (2013 0.4–0.7 (0.55))	Significant increases in volatilities would result in a higher fair value.
			Volatility of interest rate	5–30% (15%) (2013: 4–30% (15%))	
			Volatility of FX rates	10–40% (20%) (2013: 4–30% (15%))	
			Volatilities of equity indices	10–90% (40%) (2013: 10–90% (40%))	
Loans and advances and retained interests in securitisations	**3,595** (2013: 2,795)	Discounted cash flow	Risk-adjusted discount rate	Spread of 5–7% (6%) (2013: 3–6% (5%)) above risk-free interest rate	A significant increase in the spread above the risk-free rate would result in a lower fair value.

IFRS 13.93(d), IE63, Insights 2.4.530.50

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

Notes to the consolidated financial statements (continued)

6. Fair values of financial instruments (continued)

D. Level 3 fair value measurements (continued)

ii. Unobservable inputs used in measuring fair value (continued)

IFRS 13.IE65(e)

Significant unobservable inputs are developed as follows.

- Expected prepayment rates are derived from historical prepayment trends, adjusted to reflect current conditions.
- The probabilities of defaults and loss severities for commercial assets are derived from the credit default swap (CDS) market. When this information is not available, the inputs are obtained from historical default and recovery information and adjusted for current conditions.
- The probabilities of default and loss severities for retail assets are derived from historical default and recovery information and adjusted for current conditions.
- Correlations between and volatilities of the underlying are derived through extrapolation of observable volatilities, recent transaction prices, quotes from other market participants, data from consensus pricing services and historical data adjusted for current conditions.
- Risk-adjusted spreads are derived from the CDS market (when this information is available) and from historical defaults and prepayment trends adjusted for current conditions.

iii. The effect of unobservable inputs on fair value measurement

IFRS 13.93(h)(ii)

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects.

31 December 2014	**Effect on profit or loss**		**Effect on OCI**	
In millions of euro	**Favourable**	**(Unfavourable)**	**Favourable**	**(Unfavourable)**
Asset-backed securities – trading	**38**	**(41)**	**-**	**-**
Asset-backed securities – investment	**28**	**(42)**	**44**	**(53)**
OTC structured derivatives – trading assets and liabilities	**36**	**(16)**	**-**	**-**
Other	**12**	**(13)**	**-**	**-**
Total	**114**	**(112)**	**44**	**(53)**
31 December 2013				
Asset-backed securities – trading	23	(25)	-	-
Asset-backed securities – investment	17	(22)	25	(33)
OTC structured derivatives – trading assets and liabilities	30	(12)	-	-
Other	8	(8)	-	-
Total	78	(67)	25	(33)

IFRS 13.93(h)(ii)

The favourable and unfavourable effects of using reasonably possible alternative assumptions for the valuation of residential asset-backed securities have been calculated by recalibrating the model values using unobservable inputs based on averages of the upper and lower quartiles respectively of the Group's ranges of possible estimates. Key inputs and assumptions used in the models at 31 December 2014 included a weighted-average probability of default of 10% (with reasonably possible alternative assumptions of 8 and 12%) (2013: 12, 10 and 14% respectively), a loss severity of 50% (with reasonably possible alternative assumptions of 40 and 60%) (2013: 55, 50 and 60% respectively) and an expected prepayment rate of 4.8% (with reasonably possible alternative assumptions of 3 and 6%) (2013: 5.8, 3 and 8%).

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Notes to the consolidated financial statements (continued)

6. Fair values of financial instruments (continued)

D. Level 3 fair value measurements (continued)

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

IFRS 13.93(h)(ii)

The favourable and unfavourable effects of using reasonably possible alternative assumptions for the valuation of OTC structured derivatives have been calculated by adjusting unobservable model inputs to the averages of the upper and lower quartile of consensus pricing data (based on the past two years' historical daily data). The most significant unobservable inputs relate to correlations of changes in prices between different underlyings and the volatilities of the underlyings. The weighted average of correlations used in the models at 31 December 2014 was 0.46 (with reasonably possible alternative assumptions of 0.26 and 0.61) (2013: 0.40, 0.28 and 0.49 respectively). The weighted average of the credit spread volatilities used in the models at 31 December 2014 was 20% (with reasonably possible alternative assumptions of 10 and 40%) (2013: 15, 8 and 35% respectively); interest rate volatilities: 15, 10 and 30% respectively (2013: 13, 9 and 25% respectively); FX volatilities: 20, 5 and 50% respectively (2013: 18, 5 and 45% respectively); and equity indices volatilities: 40, 10 and 70% respectively (2013: 35, 8 and 60% respectively).

IFRS 13.93(h)(ii)

The favourable and unfavourable effects of using reasonably possible alternative assumptions for the valuation of loans and advances and retained interests in securitisations have been calculated by recalibrating the model values using unobservable inputs based on averages of the upper and lower quartiles respectively of the Group's ranges of possible estimates. The most significant unobservable inputs relate to risk-adjusted discount rates. The weighted average of the risk-adjusted discount rates used in the model at 31 December 2014 was 6% above the risk-free interest rate (with reasonably possible alternative assumptions of 4 and 8%) (2013: 5, 3 and 7% respectively).

IFRS 13.93(d)

The Group's reporting systems and the nature of the instruments and the valuation models do not allow it accurately to analyse the total annual amounts of gains/losses reported above that are attributable to observable and unobservable inputs. However, the losses on asset-backed securities in 2014 are principally dependent on the unobservable inputs described above.[a]

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

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Notes to the consolidated financial statements (continued)

6. Fair values of financial instruments (continued)

E. Financial instruments not measured at fair value

IFRS 7.25, 13.97

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

31 December 2014 *In millions of euro*	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Assets					
Cash and cash equivalents	**-**	**2,907**	**-**	**2,907**	**2,907**
Loans and advances to banks	**-**	**5,602**	**-**	**5,602**	**5,572**
Loans and advances to customers	**-**	**435**	**61,943**	**62,378**	**59,084**
Held-to-maturity investment securities	**106**	**-**	**-**	**106**	**101**
Liabilities					
Deposits from banks	**-**	**12,301**	**-**	**12,301**	**11,678**
Deposits from customers	**-**	**55,696**	**-**	**55,696**	**53,646**
Debt securities issued	**-**	**9,885**	**-**	**9,885**	**8,818**
Subordinated liabilities	**-**	**5,763**	**-**	**5,763**	**5,642**

31 December 2013 *In millions of euro*	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Assets					
Cash and cash equivalents	-	2,992	-	2,992	2,992
Loans and advances to banks	-	4,824	-	4,824	4,707
Loans and advances to customers	-	385	56,266	56,651	53,660
Held-to-maturity investment securities	105	-	-	105	101
Liabilities					
Deposits from banks	-	11,523	-	11,523	10,230
Deposits from customers	-	50,672	-	50,672	48,904
Debt securities issued	-	8,934	-	8,934	8,040
Subordinated liabilities	-	5,051	-	5,051	4,985

IFRS 13.97

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

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

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

IFRS 7.29(b), 30

No fair value disclosures are provided for equity investment securities of €24 million (2013: €24 million) that are measured at cost because their fair value cannot be measured reliably. These are investments in mutual entities that provide transaction processing and settlement services to members on a pricing basis intended to recover the entities' operating costs. The investments are neither redeemable nor transferable and there is no market for them. The Group does not intend to dispose of these investments.

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Notes to the consolidated financial statements (continued)

7. Operating segments[a]

See accounting policy in Note 44(Z).

A. Basis for segmentation

IFRS 8.20–22, A

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

Reportable segments	Operations
Investment Banking	Trading and corporate finance activities
Corporate Banking	Loans, deposits and other transactions and balances with corporate customers
Retail Banking	Loans, deposits and other transactions and balances with retail customers
Asset Management	Fund management activities
Central Treasury	Funding and centralised risk management activities through borrowings, issues of debt securities, use of derivatives for risk management purposes and investing in liquid assets such as short-term placements and corporate and government debt securities

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

IFRS 8.IN13, 27–28

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

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

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

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Notes to the consolidated financial statements (continued)

7. Operating segments (continued)

B. Information about reportable segments

IFRS 8.20, 27(a)

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

	2014 *In millions of euro*	**Investment Banking**	**Corporate Banking**	**Retail Banking**	**Asset Manage-ment**	**Central Treasury**	**Total**
IFRS 8.23(a)	External revenue:[a]						
IFRS 8.23(c)–(d)	Net interest income[a]	**-**	**1,819**	**612**	**-**	**(496)**	**1,935**
IFRS 8.23(f)	Net fee and commission income[a]	**169**	**234**	**202**	**70**	**-**	**675**
IFRS 8.23(f)	Net trading income[a]	**1,491**	**-**	**-**	**-**	**(57)**	**1,434**
IFRS 8.23(f)	Net income from other financial instruments at fair value through profit or loss[a]	**399**	**-**	**-**	**-**	**(378)**	**21**
IFRS 8.23(f)	Other revenue[a]	**30**	**25**	**55**	**-**	**(1)**	**109**
IFRS 8.23(b)	Inter-segment revenue[a]	**(705)**	**(1,101)**	**699**	**-**	**1,184**	**77**
IFRS 8.32	Total segment revenue	**1,384**	**977**	**1,568**	**70**	**252**	**4,251**
IFRS 8.23(i)	Other material non-cash items[a]:						
	Impairment losses on financial assets	**-**	**314**	**22**	**-**	**-**	**336**
IFRS 8.21(b)	Segment profit before tax	**47**	**223**	**448**	**20**	**81**	**819**
IFRS 8.21(b)	Segment assets[a]	**24,968**	**39,248**	**20,908**	**362**	**10,342**	**95,828**
IFRS 8.21(b)	Segment liabilities[a]	**7,026**	**11,270**	**38,382**	**206**	**32,980**	**89,864**
	2013						
IFRS 8.23(a)	External revenue:						
IFRS 8.23(c)–(d)	Net interest income	-	1,679	587	-	(424)	1,842
IFRS 8.23(f)	Net fee and commission income	156	227	176	65	-	624
IFRS 8.23(f)	Net trading income	1,094	-	-	-	(7)	1,087
IFRS 8.23(f)	Net income from other financial instruments at fair value through profit or loss	240	-	-	-	(159)	81
IFRS 8.23(f)	Other revenue	28	21	45	-	84	178
IFRS 8.23(b)	Inter-segment revenue	(520)	(924)	608	-	906	70
IFRS 8.32	Total segment revenue	998	1,003	1,416	65	400	3,882
IFRS 8.23(i)	Other material non-cash items:						
	Impairment losses on financial assets	-	209	24	-	-	233
IFRS 8.21(b)	Segment profit before tax	(241)	332	282	22	277	672
IFRS 8.21(b)	Segment assets	22,641	35,558	19,049	332	9,165	86,745
IFRS 8.21(b)	Segment liabilities	6,052	10,533	34,256	204	29,993	81,038

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

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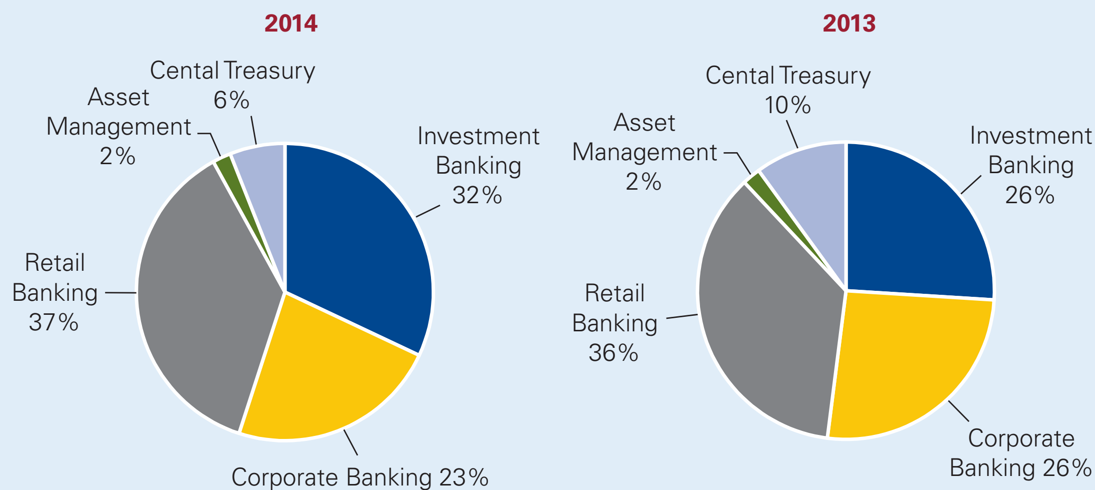
Notes to the consolidated financial statements (continued)

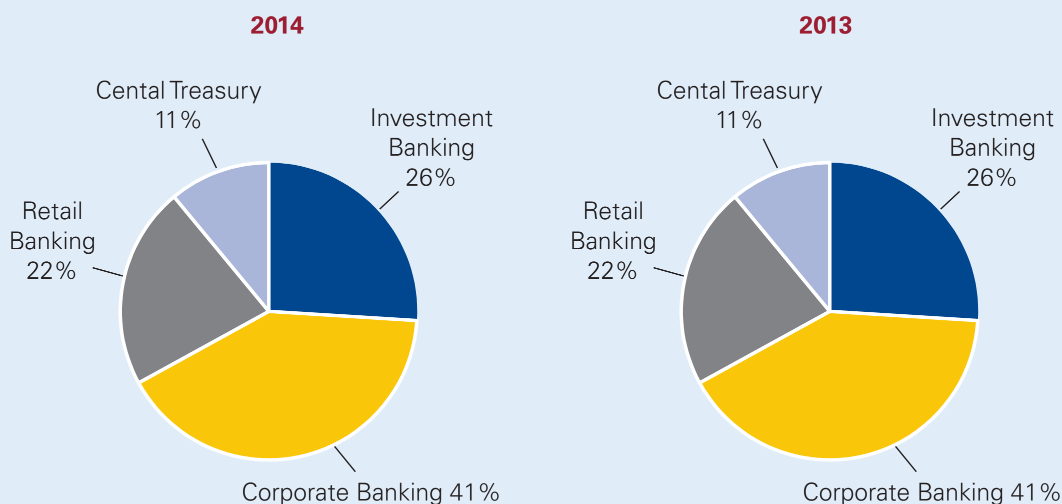
7. Operating segments (continued)

B. Information about reportable segments (continued)

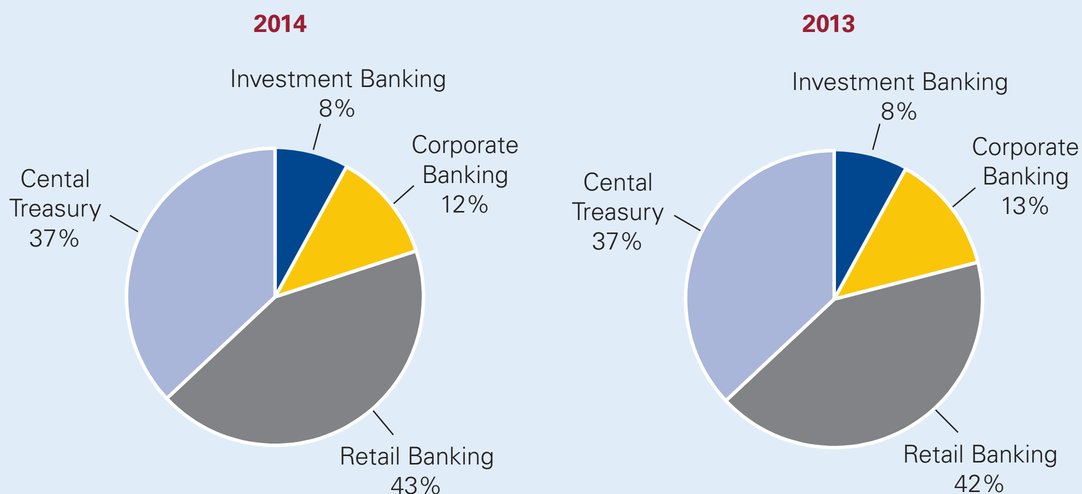
Revenue



Assets



Liabilities



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Notes to the consolidated financial statements (continued)

7. Operating segments (continued)

C. Reconciliations of information on reportable segment to IFRS measures[a] on page 62

In millions of euro	2014	2013
IFRS 8.28(a) **i. Revenues**		
Total revenue for reportable segments	**4,251**	3,882
Unallocated amounts	**14**	8
Elimination of inter-segment revenue	**(77)**	(70)
Consolidated revenue	**4,188**	3,820
IFRS 8.28(b) **ii. Profit before tax**		
Total profit or loss for reportable segments	**819**	672
Unallocated amounts	**5**	-
Consolidated profit before tax	**824**	672
IFRS 8.28(c) **iii. Assets**		
Total assets for reportable segments	**95,828**	86,745
Other unallocated amounts	**1,281**	1,071
Consolidated total assets	**97,109**	87,816
IFRS 8.28(d) **iv. Liabilities**		
Total liabilities for reportable segments	**89,864**	81,038
Other unallocated amounts	**855**	808
Consolidated total liabilities	**90,719**	81,846

D. Geographic information[a, b]

In presenting the geographic information below, segment revenue is based on the geographic location of customers and segment assets are based on the geographic location of the assets.

2014 *In millions of euro*	*[Country of domicile]*	US	UK	Australia	Middle East and Africa	Other countries	Total
IFRS 8.33(a) External revenues	**569**	**1,046**	**1,170**	**715**	**473**	**215**	**4,188**
IFRS 8.33(b) Non-current assets*	**258**	**141**	**136**	**113**	**32**	**63**	**743**
2013							
IFRS 8.33(a) External revenues	488	1,038	1,013	619	456	206	3,820
IFRS 8.33(b) Non-current assets*	236	128	127	121	29	67	708

* Includes property and equipment, intangible assets and investment property.

IFRS 8.32, IG5 **a.** As part of the required 'entity-wide disclosures', an entity discloses revenue from external customers for each product and service, or each group of similar products and services, regardless of whether the information is used by the CODM in assessing segment performance. This disclosure is based on the financial information used to produce the entity's financial statements. The Group has not provided additional disclosures in this regard, because the revenue information provided in the overall table of information about reportable segments has already been prepared in accordance with IFRS.

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

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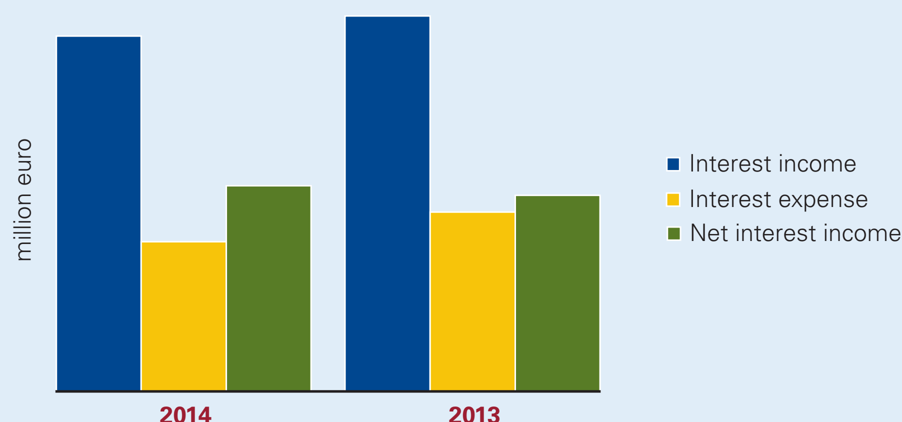
Notes to the consolidated financial statements (continued)

IAS 18.35(b)(iii)

8. Net interest income[a]

See accounting policy in Note 44(C).



In millions of euro	2014	2013
Interest income		
Cash and cash equivalents	**86**	86
Derivative assets held for risk management	**56**	64
Loans and advances to banks	**282**	247
Loans and advances to customers	**2,772**	3,023
Investment securities	**139**	105
Other	**6**	3
Total interest income	**3,341**	3,528
Interest expense		
Derivative liabilities held for risk management	**120**	60
Deposits from banks (IFRS 7.20(a)(v))	**54**	48
Deposits from customers (IFRS 7.20(a)(v))	**469**	897
Debt securities issued (IFRS 7.20(a)(v))	**343**	316
Subordinated liabilities (IFRS 7.20(a)(v))	**410**	353
Other	**10**	12
Total interest expense	**1,406**	1,686
Net interest income	**1,935**	1,842

IFRS 7.20(d)

Included within various line items under interest income for the year ended 31 December 2014 is a total of €14 million (2013: €8 million) relating to impaired financial assets.

IFRS 7.24(a)

Included within interest income (or expense) are fair value gains of €34 million (2013: €27 million) on derivatives held in qualifying fair value hedging relationships, and €30 million (2013: €26 million) representing net decreases in the fair value of the hedged item attributable to the hedged risk. These gains and losses are included in the line item corresponding to where the interest income (or expense) on the hedged item is recognised.

IFRS 7.20(b)

Total interest income and expense calculated using the effective interest method reported above that relate to financial assets or financial liabilities not carried at fair value through profit or loss are €3,283 million (2013: €3,463 million) and €1,788 million (2013: €1,626 million) respectively.

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

During 2014, gains of €10 million (2013: gains of €10 million) and losses of €20 million (2013: losses of €18 million) relating to cash flow hedges were transferred from equity to profit or loss and are reflected in interest income or expense. Net ineffectiveness recognised on cash flow hedges during 2014 was a gain of €4 million (2013: a loss of €4 million).

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

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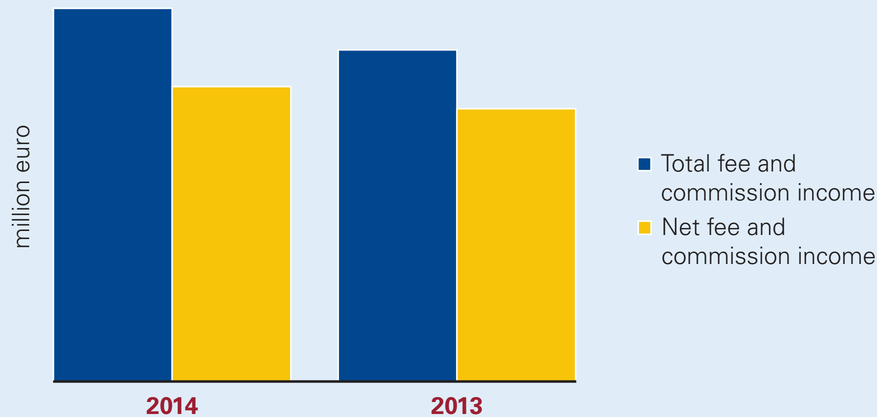
9. Net fee and commission income

See accounting policy in Note 44(D).



IFRS 7.20(c)

In millions of euro	2014	2013
Fee and commission income		
Retail banking customer fees	**240**	203
Corporate banking credit-related fees	**199**	177
Investment banking fees	**133**	123
Brokerage	**130**	120
Asset management fees	**106**	96
Financial guarantee contracts issued	**34**	30
Other	**12**	10
Total fee and commission income	**854**	759
Fee and commission expense		
Brokerage	**94**	87
Inter-bank transaction fees	**38**	27
Other	**47**	21
Total fee and commission expense	**179**	135
Net fee and commission income	**675**	624

IFRS 7.20(c)(ii)

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

IFRS 7.20(c)(i)

The net fee and commission income above excludes amounts included in determining the effective interest rate on financial assets and financial liabilities that are not at fair value through profit or loss but includes income of €651 million (2013: €523 million) and expense of €71 million (2013: €52 million) relating to such financial assets and financial liabilities.

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10. Net trading income[a]

See accounting policy in Note 44(E).

In millions of euro	2014	2013
Fixed income	**1,261**	1,081
Equities	**70**	17
Foreign exchange	**90**	16
Other	**13**	(27)
Net trading income	**1,434**	1,087

IFRS 7.20(a)(i)

a. In this guide, net trading income:

- includes the entire profit or loss impact (gains and losses) for trading assets and liabilities, including derivatives held for trading; and
- does not include the profit or loss impact of derivatives that are held for risk management purposes.

However, other presentations are possible.

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Notes to the consolidated financial statements (continued)

11. Net income from other financial instruments at fair value through profit or loss[a]

See accounting policy in Note 44(F).

In millions of euro		**2014**	2013
Derivatives held for risk management purposes:			
Interest rate		**(76)**	(48)
Credit		**44**	(21)
Equity		**(54)**	42
Foreign exchange		**(10)**	5
Investment securities:	IFRS 7.20(a)(i)		
Corporate bonds	IFRS 7.20(a)(i)	**221**	210
Equities	IFRS 7.20(a)(i)	**68**	(13)
Asset-backed securities	IFRS 7.20(a)(i)	**(131)**	(151)
Loans and advances at fair value through profit or loss	IFRS 7.20(a)(i)	**153**	194
Debt securities issued at fair value through profit or loss	IFRS 7.20(a)(i)	**(194)**	(137)
		21	81

IFRS 7.10(a)

The amount of the change in fair value attributable to changes in credit risk on financial liabilities designated at fair value through profit or loss was as follows.

In millions of euro	**2014**	2013
Change in fair value during the year (gain)	**5**	2
Accumulated amount at 31 December (gain)	**9**	4

IFRS 7.11(a)

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

For the amount of change, during the period and cumulatively, in the fair value of the loans and advances at fair value through profit or loss that is attributable to changes in credit risk and the method of calculation, see Note 5(A)(ii).

a. In this guide, net income from other financial instruments at fair value through profit or loss includes:

- the entire profit or loss impact of financial assets and financial liabilities designated as at fair value through profit or loss on initial recognition; and
- the realised and unrealised gains and losses on derivatives held for risk management purposes but not forming part of a qualifying hedging relationship.

However, other presentations are possible.

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Notes to the consolidated financial statements (continued)

12. Other revenue[a]

See accounting policies in Notes 44(B)(i), (J)(iii) and (O)(iii).

Reference	In millions of euro	2014	2013
IFRS 7.20(a)(ii), IAS 1.98(d)	Net loss on sale of available-for-sale securities:		
	Government bonds	**(12)**	(9)
	Corporate bonds	**(60)**	(43)
	Equities	**(20)**	(17)
IFRS 7.20(a)(ii)	Dividends on available-for-sale equity securities	**13**	8
IFRS 7.20(a)(iv)	Gain on securitisation of loans and receivables	**26**	19
IAS 21.52(a)	Foreign exchange gain	**170**	188
	Other	**6**	40
		123	186

IFRS 7.24(c)

The net ineffectiveness recognised in profit or loss for net investment hedges during 2014 was a gain of €12 million (2013: a gain of €9 million).

IFRS 7.20(a)(ii), 20(a)(iv)

a. In this guide, dividends on available-for-sale equity securities and gains on sales/transfers of available-for-sale financial assets and loans and receivables have been included in other revenue. However, other presentations are possible.

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Notes to the consolidated financial statements (continued)

13. Personnel expenses

See accounting policy in Note 44(W).

In millions of euro	Sub-note	2014	2013
Wages and salaries		**1,617**	1,428
Social security contributions		**215**	194
IAS 19.53 Contributions to defined contribution plans		**265**	243
IFRS 2.51(a) Equity-settled share-based payments	A	**75**	25
IFRS 2.51(a) Cash-settled share-based payments	A	**44**	35
Expenses related to post-employment defined benefit plans	B	**40**	41
Expenses related to long-service leave		**8**	8
		2,264	1,974

A. Share-based payment transactions

i. Description of share-based payment arrangements

At 31 December 2014, the Group had the following share-based payment arrangements.

Share option programmes (equity-settled)

IFRS 2.44–45(a)

On 1 January 2012, the Group established a share option programme that entitles key management personnel and senior employees to purchase shares in the Bank. On 1 January 2014, a further grant on similar terms (except for exercise price) was offered to these employee groups. In accordance with these programmes, holders of vested options are entitled to purchase shares at the market price of the shares at grant date.

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

Grant date/employees entitled	Number of instruments in millions	Vesting conditions	Contractual life of options
Option grant to senior employees at 1 January 2012	10	3 years' service and 10% increase in operating income in each of the 3 years	10 years
Option grant to key management personnel at 1 January 2012	10	3 years' service	10 years
Option grant to senior employees at 1 January 2014	25	3 years' service and 10% increase in operating income in each of the 3 years	10 years
Option grant to key management personnel at 1 January 2014	10	3 years' service	10 years
Total share options	55		

Share appreciation rights (cash-settled)

IFRS 2.44–45(a)

On 1 January 2011 and 1 January 2014, the Group granted share appreciation rights (SARs) to other employees that entitle the employees to a cash payment. The amount of the cash payment is determined based on the increase in the share price of the Bank between grant date and the time of exercise.

The terms and conditions of the grants are as follows.

Grant date/employees entitled	Number of instruments in millions	Vesting conditions	Contractual life of options
SARs granted to other employees at 1 January 2011	10	3 years' service	5 years
SARs granted to other employees at 1 January 2014	30	3 years' service	5 years
Total SARs	40		

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Notes to the consolidated financial statements (continued)

13. Personnel expenses (continued)

A. Share-based payment transactions (continued)

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

Details of the liabilities arising from SARs were as follows.

	In millions of euro	*Note*	2014	2013
IFRS 2.51(b)(i)	Total carrying amount of liabilities for cash-settled arrangements	*32*	**44**	38
IFRS 2.51(b)(ii)	Total intrinsic value of liability for vested benefits		**-**	38

The carrying amount of the liability at 31 December 2013 was settled in 2014.

ii. Measurement of fair values – Share options

IFRS 2.46–47(a)(i)

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using the Black-Scholes formula. The service and non-market performance conditions attached to the arrangements were not taken into account in measuring fair value. The inputs used in the measurement of the fair values at grant date of the equity-settled share-based payment plans were as follows.

	Fair value of share options and assumptions	Key management personnel 2014	Key management personnel 2013	Senior employees 2014	Senior employees 2013
IFRS 2.47(a)	Fair value at grant date	**€4.5**	€4.0	**€3.9**	€3.5
IFRS 2.47(a)(i)	Share price at grant date	**€12.0**	€10.5	**€12.0**	€10.5
IFRS 2.47(a)(i)	Exercise price	**€12.0**	€10.5	**€12.0**	€10.5
IFRS 2.47(a)(i)	Expected volatility*	**42.5%**	40.9%	**40.3%**	39.5%
IFRS 2.47(a)(i)	Expected life (weighted-average)	**8.6 years**	8.8 years	**5.4 years**	5.5 years
IFRS 2.47(a)(i)	Expected dividends*	**3.2%**	3.2%	**3.2%**	3.2%
IFRS 2.47(a)(i)	Risk-free interest rate (based on government bonds)*	**1.7%**	1.7%	**2.1%**	2.1%

* Annual rates

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

iii. Measurement of fair values – Share appreciation rights

IFRS 2.52

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

		Grant date 1 January 2014	Measurement date 31 December 2014
IFRS 2.52	Fair value	**€4.2**	**€6**
	Share price	**€12.0**	**€14.0**
	Exercise price	**€12.0**	**€12.0**
	Expected volatility*	**41.5%**	**43.1%**
	Expected life (weighted-average)	**3.5 years**	**2.6 years**
	Expected dividends*	**3.2%**	**3.2%**
	Risk-free interest rate (based on government bonds)*	**2.7%**	**2.6%**

* Annual rates

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

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Notes to the consolidated financial statements (continued)

13. Personnel expenses (continued)

A. Share-based payment transactions (continued)

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

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

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

iv. Reconciliation of outstanding share options

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

	In millions of options	Number of options 2014	Weighted-average exercise price 2014	Number of options 2013	Weighted-average exercise price 2013
IFRS 2.45(b)(i)	Outstanding at 1 January	**13.0**	**€9.9**	18.0	€9.5
IFRS 2.45(b)(iii)	Forfeited during the period	**(2.5)**	**€9.5**	(5.0)	€9.5
IFRS 2.45(b)(iv)	Exercised during the period	**(3.0)**	**€10.0**	-	-
IFRS 2.45(b)(ii)	Granted during the period	**35.0**	**€12.0**	-	€10.5
IFRS 2.45(b)(vi)	Outstanding at 31 December	**42.5**	**€10.8**	13.0	€9.9
IFRS 2.45(b)(vii)	Exercisable at 31 December	**7.5**	**€10.1**	-	€9.8

IFRS 2.45(d) The options outstanding at 31 December 2014 had an exercise price in the range of €9.0 to €12.0 (2013: €9.5 to €11.0) and a weighted-average contractual life of 8.3 years (2013: 8.0 years).

IFRS 2.45(c) The weighted-average share price at the date of exercise for share options exercised in 2014 was €11.5 (2013: no options exercised).

B. Other employee benefits

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

- Plan A entitles a retired employee to receive an annual pension payment. Directors and executive officers (see Note 38(B)) retire at age 60 and are entitled to receive annual payments equal to 70% of their final salary until the age of 65, at which time their entitlement falls to 50% of their final salary. Other retired employees are entitled to receive annual payments equal to 1/60 of final salary for each year of service provided.
- Plan B reimburses certain medical costs for retired employees.

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

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

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Notes to the consolidated financial statements (continued)

13. Personnel expenses (continued)

B. Other employee benefits (continued)

i. Funding

IAS 19.147(a)

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

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

IAS 19.147(b)

The Group expects to pay €35 million in contributions to its defined benefit plans in 2015.

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Notes to the consolidated financial statements (continued)

13. Personnel expenses (continued)

B. Other employee benefits (continued)

ii. Movement in net defined benefit (asset) liability

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

		Defined benefit obligations		Fair value of plan assets		Net defined benefit liability (asset)	
	In millions of euro	2014	2013	2014	2013	2014	2013
IAS 19.140	Balance at 1 January	**207**	189	**(49)**	(47)	**158**	142
	Included in profit or loss[b]						
IAS 19.141(a)	Current service cost	**32**	33	**-**	-	**32**	33
IAS 19.141(d)	Past service credit	**(1)**	-	**-**	-	**(1)**	-
IAS 19.141(b)	Interest cost (income)	**12**	11	**(3)**	(3)	**9**	8
		43	44	**(3)**	(3)	**40**	41
	Included in OCI[b]						
IAS 19.141(c)	Remeasurements loss (gain):						
	– Actuarial gain arising from:						
IAS 19.141(c)(ii)	- demographic assumptions	**(3)**	(2)	**-**	-	**(3)**	(2)
IAS 19.141(c)(iii)	- financial assumptions	**(3)**	(4)	**-**	-	**(3)**	(4)
	- experience adjustment	**(2)**	(2)	**-**	-	**(2)**	(2)
IAS 19.141(c)(i)	– Return on plan assets excluding interest income	**-**	-	**1**	(1)	**1**	(1)
IAS 19.141(e)	Effect of movements in exchange rates[c]	**1**	1	**(1)**	(1)	**-**	-
		(7)	(7)	**-**	(2)	**(7)**	(9)
	Other						
IAS 19.141(f)	Contributions paid by the employer	**-**	-	**(15)**	(14)	**(15)**	(14)
IAS 19.141(g)	Benefits paid	**(24)**	(19)	**22**	17	**(2)**	(2)
		(24)	(19)	**7**	3	**(17)**	(16)
IAS 19.140	Balance at 31 December	**219**	207	**(45)**	(49)	**174**	158

Represented by:

In millions of euro	2014	2013
Net defined benefit liability (Plan A)	**76**	61
Net defined benefit liability (Plan B)	**98**	97
	174	158

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

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

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

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Notes to the consolidated financial statements (continued)

13. Personnel expenses (continued)

B. Other employee benefits (continued)

iii. Plan assets

IAS 19.140(a)(i), 142

Plan assets comprise[a] the following.

In millions of euro		**2014**	2013
IAS 19.142(b)	Equity securities		
	– Consumer markets	**8**	9
	– Pharmaceuticals	**6**	6
IAS 19.142(c)	Government bonds	**16**	16
IAS 19.142(e)	Derivatives		
	– Interest rate swaps	**3**	3
	– Forward foreign currency contracts	**2**	3
IAS 19.143	Property occupied by the Group	**5**	6
IAS 19.143	Bank's own ordinary shares	**5**	6
		45	49

IAS 19.142

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

IAS 19.146

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

- a strategic asset mix comprising 40–50% equity securities, 40–50% government bonds and 0–10% other investments;
- interest rate risk is managed with the objective of reducing the cash flow interest rate risk by 40% through the use of debt instruments (government bonds) and interest rate swaps;
- currency risk is managed with the objective of reducing the risk by 30% through the use of forward foreign currency contracts; and
- longevity risk is managed with the objective of reducing the risk by 25% through the use of longevity swaps.

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

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Notes to the consolidated financial statements (continued)

13. Personnel expenses (continued)

B. Other employee benefits (continued)

iv. Defined benefit obligation

IAS 1.125

Actuarial assumptions

IAS 19.144

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

	2014	2013
Discount rate	**6.1%**	5.8%
Future salary growth	**2.5%**	2.5%
Future pension growth	**3.0%**	2.0%
Medical cost trend rate	**4.5%**	4.0%

IAS 19.144

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

	2014		2013	
	Plan A	Plan B	Plan A	Plan B
Longevity at age 65 for current pensioners				
Males	**18.5**	**18.2**	18.3	18.0
Females	**21.0**	**19.0**	21.0	18.8
Longevity at age 65 for current members aged 45				
Males	**19.2**	**19.0**	19.0	18.7
Females	**22.9**	**20.5**	22.9	20.0

IAS 19.147(c)

At 31 December 2014, the weighted-average duration of the defined benefit obligation is 17.1 years (2013: 17.5 years).

Sensitivity analysis

IAS 1.125, 129, 19.145

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

	31 December 2014		31 December 2013	
Effect in millions of euro	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	**(20)**	**21**	**(20)**	**21**
Future salary growth (1% movement)	**11**	**(10)**	**11**	**(10)**
Future pension growth (1% movement)	**13**	**(12)**	**13**	**(12)**
Medical cost trend rate (1% movement)	**22**	**(19)**	**22**	**(19)**
Future mortality (1% movement)	**(7)**	**7**	**(7)**	**7**

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

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Notes to the consolidated financial statements (continued)

IAS 1.97

14. Other expenses

See accounting policy in Note 44(U).

In millions of euro	*Note*	2014	2013
Software licensing and other IT costs		**47**	58
Direct operating expenses for investment property that generated rental income (IAS 40.75(f)(ii))		**1**	1
Branch closure cost provisions (IAS 1.98(b))	*31*	**5**	67
Redundancy provisions (IAS 1.98(b))	*31*	**2**	33
Onerous lease provisions (IAS 1.98(g))	*31*	**(1)**	2
Bank levy (IAS 1.97)	*31*	**12**	10
Other		**331**	414
		397	585

The amount of levy payable for each year is based on [*X%*] of elements of the Group's consolidated liabilities and equity held at the reporting date. The levy amounts to €12 million (2013: €10 million) and is presented in other expenses in the statement of profit or loss and OCI. At 31 December 2014, a payable of €2 million was included in provisions (2013: €2 million).

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Notes to the consolidated financial statements (continued)

15. Earnings per share

See accounting policy in Note 44(Y).

A. Basic earnings per share

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

IAS 33.70(a)

i. Profit attributable to ordinary shareholders (basic)

In millions of euro	*Note*	2014	2013
Profit for the year attributable to equity holders of the Bank		**610**	528
Dividends on perpetual bonds classified as equity	*33*	**(20)**	(20)
Net profit attributable to ordinary shareholders		**590**	508

IAS 33.70(b)

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

In millions of shares	*Note*	2014	2013
Issued ordinary shares at 1 January	*33*	**1,756.0**	1,756.0
Effect of share options exercised	*33*	**1.5**	-
Weighted-average number of ordinary shares at 31 December		**1,757.5**	1,756.0

B. Diluted earnings per share

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

IAS 33.70(a)

i. Profit attributable to ordinary shareholders (diluted)

In millions of euro	2014	2013
Profit for the period attributable to ordinary shareholders (diluted)	**590**	508

IAS 33.70(b)

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

In millions of shares	*Note*	2014	2013
Weighted-average number of ordinary shares (basic)	*33*	**1,757.5**	1,756.0
Effect of share options in issue		**12.5**	8.0
Weighted-average number of ordinary shares (diluted) at 31 December		**1,770.0**	1,764.0

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

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

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Notes to the consolidated financial statements (continued)

16. Income taxes

See accounting policy in Note 44(I).

A. Amounts recognised in profit or loss

	In millions of euro	2014	2013
	Current tax expense		
IAS 12.80(a)	Current year	**193**	132
IAS 12.80(b)	Change to estimates for prior years	**(5)**	(6)
		188	126
	Deferred tax expense		
IAS 12.80(c)	Origination and reversal of temporary differences	**7**	(1)
IAS 12.80(d)	Reduction in tax rate	**(2)**	-
IAS 12.80(f)	Recognition of previously unrecognised tax losses	**(6)**	(7)
		(1)	(8)
	Total income tax expense	**187**	118

IAS 12.81(ab)

B. Amounts recognised in OCI

		2014			2013		
	In millions of euro	Before tax	Tax (expense) benefit	Net of tax	Before tax	Tax (expense) benefit	Net of tax
IAS 1.90, 12.81(ab)	Cash flow hedges	**(10)**	**3**	**(7)**	(9)	3	(6)
IAS 1.90, 12.81(ab)	Available-for-sale investment securities	**(32)**	**11**	**(21)**	(35)	12	(23)
IAS 1.90, 12.81(ab)	Remeasurements of defined benefit liability (asset)	**7**	**(2)**	**5**	9	(3)	6
		(35)	**12**	**(23)**	(35)	12	(23)

IAS 12.81(c)

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

	In millions of euro	2014	2014	2013	2013
	Profit before tax		**824**		672
	Tax using the Company's domestic tax rate	**33.0%**	**272**	33.0%	222
	Effect of tax rates in foreign jurisdictions*	**-13.7%**	**(113)**	-13.1%	(88)
	Non-deductible expenses	**6.0%**	**50**	3.9%	26
	Tax-exempt income	**-0.7%**	**(6)**	-3.1%	(21)
	Tax incentives	**-0.6%**	**(5)**	-1.2%	(8)
	Recognition of tax effect of previously unrecognised tax losses	**-0.7%**	**(6)**	-1.0%	(7)
	Change in estimates relating to prior years	**-0.6%**	**(5)**	-0.9%	(6)
	Total income tax expense	**22.7%**	**187**	17.6%	118

IAS 12.81(d) * Tax rates in several foreign jurisdictions decreased in 2014.

IAS 12.85 a. The Group's reconciliation of the effective tax rate is based on its domestic tax rate, with a reconciling item in respect of tax rates applied by Group companies in other jurisdictions. The reconciliation of the effective tax rate is based on an applicable tax rate that provides the most meaningful information to users. In some cases, it might be more meaningful to aggregate separate reconciliations prepared using the domestic tax rate in each individual jurisdiction.

IAS 12.81(c) b. Rather than presenting either a numerical reconciliation between total tax expense and the product of accounting profit multiplied by the applicable tax rates, or a numerical reconciliation between the average effective tax rate and the applicable tax rate, the Group has elected to present both.

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Notes to the consolidated financial statements (continued)

16. Income taxes (continued)

IAS 12.81(g)(i)–(ii)

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

2014 *In millions of euro*	**Net balance at 1 January**	**Recognised in profit or loss (see (a))**	**Recognised in OCI (see (b))**	**Balance at 31 December** **Net**	**Deferred tax assets**	**Deferred tax liabilities**
Property and equipment, and software	**(21)**	**(12)**	**-**	**(33)**	**-**	**(33)**
Available-for-sale securities	**(70)**	**-**	**11**	**(59)**	**-**	**(59)**
Cash flow hedges	**28**	**-**	**3**	**31**	**31**	**-**
Allowance for loan losses	**68**	**4**	**-**	**72**	**72**	**-**
Tax loss carry-forwards	**31**	**(6)**	**-**	**25**	**25**	**-**
Share-based payment transactions	**125**	**25**	**-**	**150**	**150**	**-**
Other	**12**	**(12)**	**(2)**	**(2)**	**38**	**(40)**
Tax assets (liabilities)	**173**	**(1)**	**12**	**184**	**316**	**(132)**

2013 *In millions of euro*	**Net balance at 1 January**	**Recognised in profit or loss (see (a))**	**Recognised in OCI (see (b))**	**Balance at 31 December** **Net**	**Deferred tax assets**	**Deferred tax liabilities**
Property and equipment, and software	(7)	(14)	-	(21)	-	(21)
Available-for-sale securities	(82)	-	12	(70)	-	(70)
Cash flow hedges	25	-	3	28	28	-
Allowance for loan losses	62	6	-	68	68	-
Tax loss carry-forwards	38	(7)	-	31	31	-
Share-based payment transactions	117	8	-	125	125	-
Other	16	(1)	(3)	12	44	(32)
Tax assets (liabilities)	169	(8)	12	173	296	(123)

IAS 12.81(g), Insights 3.13.640.60

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

Insights 3.13.640.70

b. In our view, it is not appropriate to disclose gross deductible temporary differences because, under IFRS, it is recognised temporary differences that are required to be disclosed.

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Notes to the consolidated financial statements (continued)

16. Income taxes (continued)

E. Unrecognised deferred tax liabilities[a]

IAS 12.81(f), 87

At 31 December 2014, there was a deferred tax liability of €7.7 million (2013: €6.6 million) for temporary differences of €25.3 million (2013: €22.0 million) related to an investment in a subsidiary. However, this liability was not recognised because the Bank controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

IAS 12.82A

In some of the countries where the Group operates, local tax laws provide that gains on the disposal of certain assets are tax-exempt, provided that the gains are not distributed. At 31 December 2014, the total tax-exempt reserves amounted to €0.6 million, which would result in a tax liability of €0.2 million (2013: €0.2 million) should the subsidiary pay dividends from these reserves.

F. Recognised and unrecognised deferred tax assets

IAS 12.82

Recognition of deferred tax assets of €316 million (2013: €296 million) is based on management's profit forecasts (which are based on the available evidence, including historical levels of profitability), which indicates that it is probable that the Group's entities will have future taxable profits against which these assets can be used.

IAS 12.81(e)

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

In millions of euro	**2014**	**2013**
Tax losses (expiring in 2015)	**10**	16
	10	16

IAS 12.81(f), 87

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

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17. Classification of financial assets and financial liabilities

See accounting policies in Notes 44(J)(ii) and (J)(viii).

IFRS 7.6, 8

The table below provides reconciliation between line items in the statement of financial position and categories of financial instruments.

31 December 2014 *In millions of euro*	*Note*	Trading	Designated at fair value	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount
Cash and cash equivalents	*18*	-	-	-	2,907	-	-	2,907
Pledged trading assets	*19*	540	-	-	-	-	-	540
Non-pledged trading assets	*19*	16,122	-	-	-	-	-	16,122
Derivative assets held for risk management	*20*	858	-	-	-	-	-	858
Loans and advances to banks	*21*	-	-	-	5,572	-	-	5,572
Loans and advances to customers:								
Measured at fair value	*22*	-	3,986	-	-	-	-	3,986
Measured at amortised cost	*22*	-	-	-	59,084	-	-	59,084
Investment securities:								
Measured at fair value	*23*	-	4,091	-	-	2,110	-	6,201
Measured at amortised cost	*23*	-	-	101	-	-	-	101
Total assets		17,520	8,077	101	67,563	2,110	-	95,371
Trading liabilities	*19*	7,026	-	-	-	-	-	7,026
Derivative liabilities held for risk management	*20*	828	-	-	-	-	-	828
Deposits from banks	*27*	-	-	-	-	-	11,678	11,678
Deposits from customers	*28*	-	-	-	-	-	53,646	53,646
Debt securities issued:								
Measured at fair value	*29*	-	2,409	-	-	-	-	2,409
Measured at amortised cost	*29*	-	-	-	-	-	8,818	8,818
Subordinated liabilities	*30*	-	-	-	-	-	5,642	5,642
Total liabilities		7,854	2,409	-	-	-	79,784	90,047

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

IFRS 7.6, 8

31 December 2013 *In millions of euro*	***Note***	**Trading**	**Designated at fair value**	**Held-to-maturity**	**Loans and receivables**	**Available-for-sale**	**Other amortised cost**	**Total carrying amount**
Cash and cash equivalents	*18*	-	-	-	2,992	-	-	2,992
Pledged trading assets	*19*	519	-	-	-	-	-	519
Non-pledged trading assets	*19*	15,249	-	-	-	-	-	15,249
Derivative assets held for risk management	*20*	726	-	-	-	-	-	726
Loans and advances to banks	*21*	-	-	-	4,707	-	-	4,707
Loans and advances to customers:								
Measured at fair value	*22*	-	3,145	-	-	-	-	3,145
Measured at amortised cost	*22*	-	-	-	53,660	-	-	53,660
Investment securities:								
Measured at fair value	*23*	-	3,239	-	-	1,929	-	5,168
Measured at amortised cost	*23*	-	-	101	-	-	-	101
Total assets		16,494	6,384	101	61,359	1,929	-	86,267
Trading liabilities	*19*	6,052	-	-	-	-	-	6,052
Derivative liabilities held for risk management	*20*	789	-	-	-	-	-	789
Deposits from banks	*27*	-	-	-	-	-	10,230	10,230
Deposits from customers	*28*	-	-	-	-	-	48,904	48,904
Debt securities issued:								
Measured at fair value	*29*	-	2,208	-	-	-	-	2,208
Measured at amortised cost	*29*	-	-	-	-	-	8,040	8,040
Subordinated liabilities	*30*	-	-	-	-	-	4,985	4,985
Total liabilities		6,841	2,208	-	-	-	72,159	81,208

IAS 7.45

Notes to the consolidated financial statements (continued)

18. Cash and cash equivalents[a]

See accounting policy in Note 44(K).

In millions of euro	2014	2013
Unrestricted balances with central banks	**118**	128
Cash and balances with other banks	**256**	184
Money market placements	**2,533**	2,680
	2,907	2,992

IAS 7.48

a. In this guide:

- cash balances with central banks that are subject to withdrawal restrictions are disclosed as a component of other assets (see Note 26); and
- cash and cash equivalents exclude cash collateral pledged as part of securities borrowing and securitisation transactions. These are included under loans and advances.

These balances do not form part of the Group's cash management activities and therefore are not disclosed as part of cash and cash equivalents.

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Notes to the consolidated financial statements (continued)

19. Trading assets and liabilities

See accounting policy in Note 44(L).

Summary

	Trading assets		Trading liabilities	
In millions of euro	**2014**	**2013**	**2014**	**2013**
Non-derivatives	**15,684**	14,811	**(6,618)**	(5,680)
Derivatives	**978**	957	**(408)**	(372)
	16,662	15,768	**(7,026)**	(6,052)

A. Trading assets

i. Analysis

In millions of euro	Pledged trading assets 2014	Non-pledged trading assets 2014	Total trading assets 2014	Pledged trading assets 2013	Non-pledged trading assets 2013	Total trading assets 2013
Government bonds	**332**	**6,010**	**6,342**	317	5,781	6,098
Corporate bonds	**143**	**4,348**	**4,491**	145	3,925	4,070
Treasury bills	**-**	**3,879**	**3,879**	-	3,744	3,744
Equities	**65**	**391**	**456**	57	379	436
Asset-backed securities	**-**	**516**	**516**	-	463	463
	540	**15,144**	**15,684**	519	14,292	14,811
Derivative assets:						
Interest rate	**-**	**78**	**78**	-	91	91
Credit	**-**	**332**	**332**	-	369	369
Equity	**-**	**84**	**84**	-	79	79
Foreign exchange	**-**	**150**	**150**	-	141	141
OTC structured derivatives	**-**	**334**	**334**	-	277	277
	-	**978**	**978**	-	957	957
	540	**16,122**	**16,662**	519	15,249	15,768

IFRS 7.14(a), IAS 39.37(a)

The pledged trading assets presented in the table above are those financial assets that may be repledged or resold by counterparties (see Note 5(B)).

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Notes to the consolidated financial statements (continued)

19. Trading assets and liabilities (continued)

A. Trading assets (continued)

ii. Reclassifications out of trading assets

IFRS 7.12A(c)

With effect from 15 September 2008 and 31 March 2009, the Group reclassified certain trading assets, for which it had changed its intent such that it no longer holds these financial assets for the purpose of selling in the short term, to loans and advances to customers and to available-for-sale investment securities. For reclassified trading assets that would have met the definition of loans and receivables, the Group has the intention and ability to hold them for the foreseeable future or until maturity. For other trading assets that were reclassified in 2008, the Group determined that the bankruptcy of [*Bank X*] on 15 September 2008 in the context of the deterioration of the financial markets during the third quarter of 2008 constituted rare circumstances that permit reclassification out of the trading category.

IFRS 7.12A(a)–(b)

The table below sets out the financial assets reclassified and their carrying and fair values.

		2014		2013	
In millions of euro	**Amounts reclassified**	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Assets reclassified in 2009:					
Trading assets reclassified to loans and advances to customers	**1,296**	**166**	**156**	210	197
	1,296	**166**	**156**	210	197
Assets reclassified in 2008:					
Trading assets reclassified to loans and advances to customers	**2,130**	**300**	**284**	458	439
Trading assets reclassified to available-for-sale investment securities	**539**	**82**	**82**	126	126
	2,669	**382**	**366**	584	565

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Notes to the consolidated financial statements (continued)

19. Trading assets and liabilities (continued)

A. Trading assets (continued)

ii. Reclassifications out of trading assets (continued)

IFRS 7.12A(e)

The table below sets out the amounts actually recognised in profit or loss and OCI in 2014 and 2013 in respect of financial assets reclassified out of the trading category.

	Reclassifications in 2009				Reclassifications in 2008			
In millions of euro	Profit or loss 2014	OCI 2014	Profit or loss 2013	OCI 2013	Profit or loss 2014	OCI 2014	Profit or loss 2013	OCI 2013
Trading assets reclassified to loans and advances to customers:								
Interest income	**15**	**-**	25	-	**30**	**-**	47	-
Net impairment loss on financial assets	**-**	**-**	(5)	-	**-**	**-**	(5)	-
Trading assets reclassified to available-for-sale investment securities:								
Interest income	**-**	**-**	-	-	**7**	**-**	12	-
Net change in fair value	**-**	**-**	-	-	**-**	**(5)**	-	(5)
	15	**-**	20	-	**37**	**(5)**	54	(5)

IFRS 7.12A(e)

The table below sets out the amounts that would have been recognised in profit or loss if the financial assets had not been reclassified.

	Reclassifications in 2009		Reclassifications in 2008	
In millions of euro	Profit or loss 2014	Profit or loss 2013	Profit or loss 2014	Profit or loss 2013
Trading assets reclassified to loans and advances to customers:				
Net trading income	**12**	15	**28**	37
Trading assets reclassified to available-for-sale investment securities:				
Net trading income	**-**	-	**2**	7
	12	15	**30**	44

IFRS 7.12A(f)

The effective interest rates on trading assets reclassified to loans and advances to customers at 31 March 2009 and still held at the reporting date ranged from 6 to 10%, with expected recoverable cash flows of €171 million.

The effective interest rates on trading assets reclassified to loans and advances to customers at 15 September 2008 and still held at the reporting date ranged from 8 to 12%, with expected recoverable cash flows of €332 million.

IFRS 7.12A(f)

The effective interest rates on trading assets reclassified to available-for-sale investment securities at 15 September 2008 and still held at the reporting date ranged from 7 to 11%, with expected recoverable cash flows of €88 million.

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Notes to the consolidated financial statements (continued)

19. Trading assets and liabilities (continued)

IFRS 7.8(e)(ii)

B. Trading liabilities

In millions of euro	2014	2013
Short sold positions – debt	**6,355**	5,453
Short sold positions – equity	**263**	227
	6,618	5,680
Derivative liabilities:		
Interest rate	**23**	25
Credit	**145**	133
Equity	**42**	32
Foreign exchange	**122**	108
OTC structured derivatives	**76**	74
	408	372
	7,026	6,052

C. Unobservable valuation differences on initial recognition

IFRS 7.28

The Group enters into derivative transactions with corporate clients. The transaction price in the market in which these transactions are undertaken may be different from the fair value in the Group's principal market for those instruments, which is the wholesale dealer market. On initial recognition, the Group estimates the fair values of derivatives transacted with corporate clients using valuation techniques. In many cases, all significant inputs into the valuation techniques are wholly observable – e.g. with reference to information from similar transactions in the wholesale dealer market. If not all of the inputs are observable – e.g. because there are no observable trades in a similar risk at the trade date – then the Group uses valuation techniques that include unobservable inputs.

If fair value on initial recognition is not evidenced by a quoted price in an active market or based on a valuation technique that uses data only from observable markets, then any difference between the fair value at initial recognition and the transaction price is not recognised in profit or loss immediately but is deferred (see Note 44(J)(vi)).

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

In millions of euro	2014	2013
Balance at 1 January (unrecognised gains)	**22**	16
Increase due to new trades	**24**	14
Reduction due to passage of time	**(8)**	(4)
Reduction due to redemption/sales/transfers/improved observability	**(12)**	(4)
Balance at 31 December (unrecognised gains)	**26**	22

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Notes to the consolidated financial statements (continued)

20. Derivatives held for risk management

See accounting policy in Note 44(M).

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

IFRS 7.22(b)

	2014		2013	
In millions of euro	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Instrument type:				
Interest rate	**404**	**225**	309	192
Credit	**74**	**64**	67	55
Equity	**80**	**94**	73	92
Foreign exchange	**300**	**445**	277	450
	858	**828**	726	789

IFRS 7.22(a)

A. Fair value hedges of interest rate risk

The Group uses interest rate swaps to hedge its exposure to changes in the fair values of its fixed-rate euro notes issued and of its exposure to market interest rates on certain loans and advances. Interest rate swaps are matched to specific issuances of fixed-rate notes or loans.

IFRS 7.22(b)

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

	2014		2013	
In millions of euro	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Instrument type:				
Interest rate	**175**	**99**	101	89
	175	**99**	101	89

IFRS 7.22(a)

B. Cash flow hedges of foreign currency debt securities issued

The Group uses interest rate and cross-currency swaps to hedge the foreign currency and interest rate risks arising from its issuance of floating-rate notes denominated in foreign currencies.

IFRS 7.22(b)

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

	2014		2013	
In millions of euro	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Instrument type:				
Interest rate	**210**	**117**	151	95
Foreign exchange	**133**	**288**	99	269
	343	**405**	250	364

IFRS 7.23(a)

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

In millions of euro	**Within 1 year**	**1–5 years**	**Over 5 years**
31 December 2014	**674**	**1,980**	**187**
31 December 2013	525	2,085	12

IFRS 7.23(c)

During 2014, net losses of €17 million (2013: net losses of €14 million) relating to the effective portion of cash flow hedges were recognised in OCI.

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Notes to the consolidated financial statements (continued)

20. Derivatives held for risk management (continued)

IFRS 7.22(a)

C. Net investment hedges

The Group uses a mixture of forward foreign exchange contracts and foreign currency-denominated debt to hedge the foreign currency translation risk on its net investment in foreign subsidiaries.

IFRS 7.22(b)

The fair value of derivatives designated as net investment hedges is as follows.

	2014		2013	
In millions of euro	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Instrument type:				
Foreign exchange	**85**	**93**	77	78
	85	**93**	77	78

US dollar-denominated debt, which is included within debt securities issued (see Note 29), is used to hedge the net investment in the Group's subsidiaries in the Americas with a US dollar functional currency and had a fair value of €965 million (2013: €831 million) at the reporting date.

D. Other derivatives held for risk management

The Group uses other derivatives, not designated in a qualifying hedge relationship, to manage its exposure to foreign currency, interest rate, equity market and credit risks. The instruments used include interest rate swaps, cross-currency swaps, forward contracts, futures, options, credit swaps and equity swaps.

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21. Loans and advances to banks

See accounting policy in Note 44(N).

In millions of euro	**2014**	**2013**
Reverse sale and repurchase agreements	**1,500**	1,278
Other	**4,084**	3,434
Less individual allowance for impairment	**(12)**	(5)
	5,572	4,707

IFRS 7.16

Individual allowance for impairment

IFRS 7.20(e)

	2014	**2013**
Balance at 1 January	**5**	-
Charge for the year	**7**	5
Effect of foreign currency movements	**1**	-
Unwind of discount	**(1)**	-
Balance at 31 December	**12**	5

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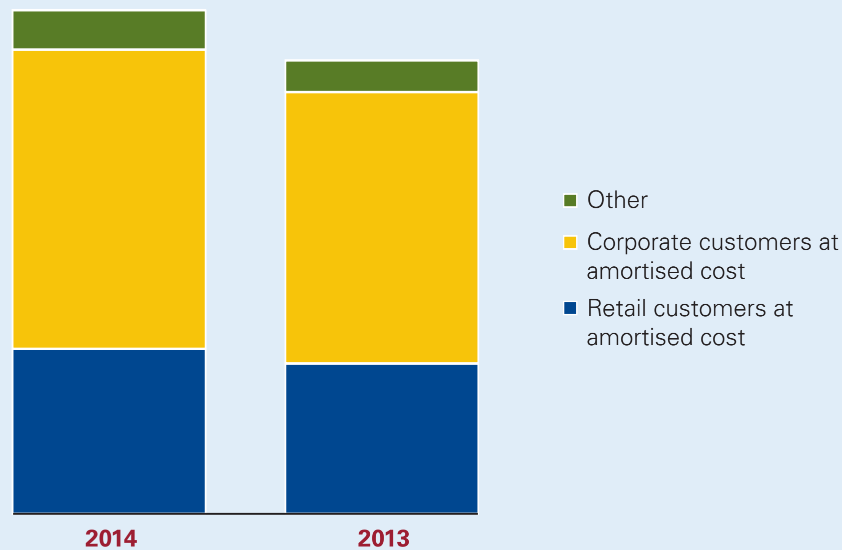
Notes to the consolidated financial statements (continued)

22. Loans and advances to customers[a]

See accounting policy in Note 44(N).



In millions of euro		**2014**	2013
IFRS 7.8(c)	Loans and advances to customers at amortised cost	**59,818**	54,321
	Finance leases	**939**	861
	Less allowance for impairment	**(1,673)**	(1,522)
		59,084	53,660
IFRS 7.8(a)(i)	Loans and advances to customers at fair value through profit or loss	**3,986**	3,145
		63,070	56,805

A. Loans and advances to customers at amortised cost

	2014			2013		
In millions of euro	**Gross amount**	**Impairment allowance**	**Carrying amount**	Gross amount	Impairment allowance	Carrying amount
Retail customers:						
Mortgage lending	**14,856**	**(309)**	**14,547**	13,629	(268)	13,361
Personal loans	**4,164**	**(225)**	**3,939**	3,621	(207)	3,414
Credit cards	**2,421**	**(251)**	**2,170**	2,284	(241)	2,043
Corporate customers:						
Reverse sale and repurchase agreements	**6,318**	**-**	**6,318**	6,134	-	6,134
Other	**32,059**	**(871)**	**31,188**	28,653	(790)	27,863
	59,818	**(1,656)**	**58,162**	54,321	(1,506)	52,815

a. Loans and advances as presented in the statement of financial position include loans and advances that are carried at amortised cost and those that have been designated on initial recognition as at fair value through profit or loss. However, other presentations are possible.

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Notes to the consolidated financial statements (continued)

22. Loans and advances to customers (continued)

IAS 17.47

B. Finance lease receivables

IAS 17.47(f)

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

Reference	*In millions of euro*	2014	2013
IAS 17.47(a)	Gross investment in finance leases, receivable:		
IAS 17.47(a)(i)	Less than one year	**251**	203
IAS 17.47(a)(ii)	Between one and five years	**805**	741
IAS 17.47(a)(iii)	More than five years	**104**	106
		1,160	1,050
IAS 17.47(b)	Unearned finance income	**(221)**	(189)
	Net investment in finance leases	**939**	861
	Less impairment allowance	**(17)**	(16)
		922	845
IAS 17.47(a)	Net investment in finance leases, receivable:		
IAS 17.47(a)(i)	Less than one year	**205**	181
IAS 17.47(a)(ii)	Between one and five years	**650**	597
IAS 17.47(a)(iii)	More than five years	**84**	83
		939	861

C. Allowance for impairment

Reference	*In millions of euro*	2014	2013
IFRS 7.16	**Individual allowance for impairment**		
	Balance at 1 January	**791**	600
IFRS 7.20(e)	Charge for the year	**197**	191
IFRS 7.20(e)	Recoveries	**(18)**	(3)
	Effect of foreign currency movements	**7**	9
	Unwind of discounting	**(10)**	(6)
	Write-offs	**(47)**	-
	Balance at 31 December	**920**	791
IFRS 7.16	**Collective allowance for impairment**		
	Balance at 1 January	**731**	706
IFRS 7.20(e)	Charge for the year	**31**	34
IFRS 7.20(e)	Recoveries	**(9)**	(10)
	Other movements	**-**	1
	Balance at 31 December	**753**	731
	Total allowance for impairment	**1,673**	1,522

D. Loans and advances to customers at fair value through profit or loss

Loans and advances to customers held by the investment banking business have been designated as at fair value through profit or loss because the Group manages these loans and advances on a fair value basis in accordance with its documented investment strategy. Internal reporting and performance measurement of these loans and advances are on a fair value basis.

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Notes to the consolidated financial statements (continued)

23. Investment securities[a]

See accounting policy in Note 44(O).

IFRS 7.8(b)
IFRS 7.8(d)
IFRS 7.8(a)(i)

In millions of euro	2014	2013
Held-to-maturity	**101**	101
Available-for-sale	**2,110**	1,929
At fair value through profit or loss	**4,091**	3,239
	6,302	5,269

A. Held-to-maturity investment securities

In millions of euro	2014	2013
Government bonds	**56**	56
Corporate bonds	**45**	45
Less individual allowance for impairment	**-**	-
Debt securities	**101**	101

B. Available-for-sale investment securities

IFRS 7.20(e)

In millions of euro	Note	2014	2013
Government bonds		**768**	653
Asset-backed securities		**333**	358
Corporate bonds		**582**	542
Retained interests in securitisations	36	**98**	87
		1,781	1,640
Equity securities measured at fair value		**305**	265
Unquoted equity securities measured at cost		**24**	24
		2,110	1,929
Impairment loss on available-for-sale investment securities			
Balance at 1 January		**35**	21
Charge for the year		**128**	16
Unwind of discount		**(3)**	(2)
Balance at 31 December		**160**	35

C. Reclassifications out of available-for-sale investment securities

IFRS 7.12A

On 15 September 2008, the Group reclassified certain available-for-sale investment securities to loans and advances to customers. The Group identified financial assets that would have met the definition of loans and receivables (if they had not been designated as available-for-sale) for which at the date of reclassification it had the intention and ability to hold them for the foreseeable future or until maturity.

a. In this guide, the investment securities caption in the statement of financial position includes available-for-sale securities, held-to-maturity securities and securities that have been designated on initial recognition as at fair value through profit or loss. However, other presentations are possible.

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Notes to the consolidated financial statements (continued)

23. Investment securities (continued)

C. Reclassifications out of available-for-sale investment securities (continued)

IFRS 7.12A(a)–(b)

The reclassifications were made with effect from 15 September 2008 at fair value at that date. The table below sets out the financial assets reclassified and their carrying and fair values.

In millions of euro	Amounts reclassified	2014 Carrying value	2014 Fair value	2013 Carrying value	2013 Fair value
Available-for-sale investment securities reclassified to loans and advances to customers	**425**	**180**	**141**	210	191

IFRS 7.12A(e)

The table below sets out the amounts actually recognised in profit or loss and OCI in respect of the financial assets reclassified out of available-for-sale investment securities.

In millions of euro	2014 Profit or loss	2014 OCI	2013 Profit or loss	2013 OCI
Available-for-sale investment securities reclassified to loans and advances to customers:				
Interest income	**5**	**-**	13	-
Net impairment loss on financial assets	**(2)**	**-**	(24)	-
Net change in fair value	**-**	**-**	-	-
Amount transferred from fair value reserve to profit or loss	**-**	**2**	-	3
	3	**2**	(11)	3

IFRS 7.12A(e)

The table below sets out the amounts that would have been recognised if the reclassifications had not been made.

In millions of euro	2014 Profit or loss	2014 OCI	2013 Profit or loss	2013 OCI
Available-for-sale investment securities reclassified to loans and advances:				
Interest income	**5**	**-**	13	-
Net impairment loss on financial assets	**(25)**	**-**	(6)	-
Net change in fair value	**-**	**(1)**	-	(1)
	(20)	**(1)**	7	(1)

IFRS 7.12A(f)

The effective interest rates on reclassified available-for-sale investment securities at 15 September 2008 that were held at the reporting date ranged from 8 to 11%, with expected recoverable cash flows of €205 million.

D. Investment securities measured as at fair value through profit or loss

In millions of euro	2014	2013
Corporate bonds	**3,278**	2,602
Asset-backed securities	**647**	500
Debt securities	**3,925**	3,102
Equities	**166**	137
	4,091	3,239

IFRS 7.21, B5(a)

Investment securities have been designated as at fair value through profit or loss on initial recognition when the Group holds related derivatives at fair value through profit or loss, and designation therefore eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Also included in investment securities that are measured as at fair value through profit or loss are the Group's equity investments in certain entities held by its venture capital subsidiary. These investments (2014: €101 million; 2013: €82 million) represent equity holdings in investee companies that give the Group between 20 and 45% of the voting rights of these venture capital investees. The venture capital subsidiary is managed on a fair value basis by the Group.

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Notes to the consolidated financial statements (continued)

24. Property and equipment[a]

See accounting policy in Note 44(P).

	In millions of euro	Land and buildings	IT equipment	Fixtures and fittings	Total
IAS 16.73(d)–(e)	**Cost**				
IAS 16.73(d)	Balance at 1 January 2013	234	154	78	466
IAS 16.73(e)(i)	Additions	24	21	18	63
IAS 16.73(e)(ii)	Disposals	(14)	(5)	(5)	(24)
IAS 16.73(d)	Balance at 31 December 2013	244	170	91	505
IAS 16.73(d)	Balance at 1 January 2014	**244**	**170**	**91**	**505**
IAS 16.73(e)(i)	Additions	**34**	**32**	**22**	**88**
IAS 16.73(e)(ii)	Disposals	**(26)**	**(15)**	**(6)**	**(47)**
IAS 16.73(d)	Balance at 31 December 2014	**252**	**187**	**107**	**546**
	Accumulated depreciation and impairment losses				
IAS 16.73(d)	Balance at 1 January 2013	37	53	24	114
IAS 16.73(e)(vii)	Depreciation for the year	6	9	4	19
IAS 16.73(e)(vi)	Impairment loss	-	-	-	-
IAS 16.73(e)(ii)	Disposals	(4)	(1)	(1)	(6)
IAS 16.73(d)	Balance at 31 December 2013	39	61	27	127
IAS 16.73(d)	Balance at 1 January 2014	**39**	**61**	**27**	**127**
IAS 16.73(e)(vii)	Depreciation for the year	**7**	**10**	**4**	**21**
IAS 16.73(e)(vi)	Impairment loss	**-**	**-**	**-**	**-**
IAS 16.73(e)(ii)	Disposals	**(7)**	**(3)**	**(1)**	**(11)**
IAS 16.73(d)	Balance at 31 December 2014	**39**	**68**	**30**	**137**
IAS 16.73(e), 1.78(a)	**Carrying amounts**				
	Balance at 1 January 2013	197	101	54	352
	Balance at 31 December 2013	205	109	64	378
	Balance at 31 December 2014	**213**	**119**	**77**	**409**

IAS 23.26 There were no capitalised borrowing costs related to the acquisition of plant and equipment during the year (2013: nil).

IAS 16.73(d)–(e), 38.118(c), (e)

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

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Notes to the consolidated financial statements (continued)

25. Intangible assets and goodwill

See accounting policies in Notes 44(R) and (S).

A. Reconciliation of carrying amount[a] on page 97

Reference	*In millions of euro*	Goodwill	Purchased software	Developed software	Total
IFRS 3.61, IAS 38.118(c), (e)	**Cost**				
IFRS 3.B67(d)(i), IAS 38.118(c)	Balance at 1 January 2013	78	94	116	288
IAS 38.118(e)(i)	Acquisitions	-	20	-	20
IAS 38.118(e)(i)	Internal development	-	-	14	14
IFRS 3.B67(d)(viii), IAS 38.118(c)	Balance at 31 December 2013	78	114	130	322
IFRS 3.B67(d)(i), IAS 38.118(c)	Balance at 1 January 2014	**78**	**114**	**130**	**322**
IAS 38.118(e)(i)	Acquisitions	**-**	**26**	**-**	**26**
IAS 38.118(e)(i)	Internal development	**-**	**-**	**16**	**16**
IFRS 3.B67(d)(viii), IAS 38.118(c)	Balance at 31 December 2014	**78**	**140**	**146**	**364**
	Accumulated amortisation and impairment losses				
IFRS 3.B67(d)(i), IAS 38.118(c)	Balance at 1 January 2013	5	20	18	43
IAS 38.118(e)(vi)	Amortisation for the year	-	10	10	20
IAS 38.118(e)(iv)	Impairment loss	-	-	-	-
IFRS 3.B67(d)(viii), IAS 38.118(c)	Balance at 31 December 2013	5	30	28	63
IFRS 3.B67(d)(i), IAS 38.118(c)	Balance at 1 January 2014	**5**	**30**	**28**	**63**
IAS 38.118(e)(iv)	Amortisation for the year	**-**	**16**	**10**	**26**
IFRS 3.B67(d)(v)	Impairment loss	**-**	**-**	**-**	**-**
IFRS 3.B67(d)(viii), IAS 38.118(c)	Balance at 31 December 2014	**5**	**46**	**38**	**89**
IAS 38.118(c)	**Carrying amounts**				
	Balance at 1 January 2013	73	74	98	245
	Balance at 31 December 2013	73	84	102	259
	Balance at 31 December 2014	**73**	**94**	**108**	**275**

IAS 23.26

There were no capitalised borrowing costs related to the internal development of software during the year (2013: nil).

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Notes to the consolidated financial statements (continued)

25. Intangible assets and goodwill (continued)

B. Impairment testing for CGUs containing goodwill[a]

IAS 36.134(a)

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

In millions of euro	2014	2013
European investment banking	**48**	48
European retail banking	**25**	25
	73	73

IAS 36.126(a)–(b)

No impairment losses on goodwill were recognised during 2014 (2013: nil).[b]

IAS 1.125, 36.134(c)–(d)

The recoverable amounts for the European investment banking and retail banking CGUs have been calculated based on their value in use, determined by discounting the future cash flows expected to be generated from the continuing use of the CGU. No impairment losses were recognised during 2014 (2013: nil) because the recoverable amounts of these CGUs were determined to be higher than their carrying amounts.

IAS 36.134(d)(i)

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

		European investment banking		European retail banking	
	In percent	2014	2013	2014	2013
IAS 36.134(d)(v)	Discount rate	**10.0**	8.0	**6.0**	5.0
IAS 36.134(d)(iv)	Terminal value growth rate	**2.0**	2.8	**2.0**	2.8
IAS 36.134(d)(i)	Budgeted profit before taxes, depreciation and amortisation growth rate (average of next five years)	**5.0**	4.0	**4.5**	4.0

IAS 36.134(d)(ii)

The discount rate was a pre-tax measure[d] based on the rate of 10-year government bonds issued by the government in the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systematic risk of the specific CGU.

IAS 36.134(d)(ii)–(iii)

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

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

IAS 36.134(f)

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

IAS 36.134

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

b. For an example when goodwill is impaired, see our publication Guide to annual financial statements – Illustrative disclosures, September 2014.

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

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

IAS 36.55, A20, Insights 3.10.310.10–20

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

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Notes to the consolidated financial statements (continued)

IAS 1.77

26. Other assets[a]

See accounting policy in Note 44(Q).

A. Summary

In millions of euro		2014	2013
IAS 1.54	Assets held for sale	**10**	16
IAS 1.54(b)	Investment property	**59**	71
IAS 1.54(h)	Accounts receivable and prepayments	**160**	115
IAS 1.54(h)	Accrued income	**177**	114
IAS 7.48	Restricted deposits with central banks	**56**	56
	Other	**227**	191
		689	563

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

B. Investment property

i. Reconciliation of carrying amount

In millions of euro		2014	2013
IAS 40.76, IFRS 13.93(e)	Balance at 1 January	**71**	62
IAS 40.76(a), IFRS 13.93(e)(iii)	Acquisitions	**6**	3
IAS 40.76(c), IFRS 13.93(e)(iii)	Disposals	**(8)**	(2)
IAS 40.76(d), IFRS 13.93€(i); (f)	Changes in fair value (unrealised) included in other income	**(10)**	8
IAS 40.76, IFRS 13.93(e)	Balance at 31 December	**59**	71

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

Investment property comprises a number of commercial properties that are leased to third parties. Each lease contains an initial non-cancellable period of 10 years, with annual increases in rents indexed to consumer prices. Subsequent renewals are negotiated with the lessee and historically the average renewal period is four years. Some new leases are subject to a one-year rent-free period. No other contingent rents are charged.

IAS 40.75(f)(i)

Rental income from investment property of €3 million (2013: €2 million) has been recognised in other income.

IAS 1.54

a. In this guide, immaterial assets held for sale, investment property and trade receivables have not been disclosed separately in the statement of financial position, but are shown separately as a component of other assets. The disclosures in respect of assets held for sale that may be required by IFRS 5 are not included. For a more comprehensive illustration of the presentation and disclosures that may apply when such items are material, see our publication Guide to annual financial statements – Illustrative disclosures, September 2014.

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Notes to the consolidated financial statements (continued)

IAS 1.77

26. Other assets (continued)

B. Investment property (continued)

ii. Measurement of fair value

Fair value hierarchy

IAS 40.75(e)

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

IFRS 13.93(b)

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

Valuation techniques and significant unobservable inputs

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

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

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Discounted cash flows: The valuation model considers the present value of net cash flows to be generated from the property, taking into account expected rental growth rate, void periods, occupancy rate, lease incentive costs such as rent-free periods and other costs not paid by tenants. The expected net cash flows are discounted using risk-adjusted discount rates. Among other factors, the discount rate estimation considers the quality of a building and its location (prime vs secondary), tenant credit quality and lease terms.	• Expected market rental growth (2014: 2–3%, weighted average 2.6%; 2013: 2–3%, weighted average 2.5%). • Void periods (2014 and 2013: average 6 months after the end of each lease). • Occupancy rate (2014: 90–95%, weighted average 92.5%; 2013: 91–95%, weighted average 92.8%). • Rent-free periods (2014 and 2013: 1-year period on new leases). • Risk-adjusted discount rates (2014 5–6.3%, weighted average 5.8%; 2013: 5.7–6.8%, weighted average 6.1%).	The estimated fair value would increase (decrease) if: • expected market rental growth were higher (lower); • void periods were shorter (longer); • the occupancy rate were higher (lower); • rent-free periods were shorter (longer); or • the risk-adjusted discount rate were lower (higher).

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Notes to the consolidated financial statements (continued)

27. Deposits from banks

In millions of euro	2014	2013
Money market deposits	**10,569**	8,819
Sale and repurchase, securities lending and similar agreements	**387**	412
Other deposits from banks	**478**	762
Items in the course of collection	**244**	237
	11,678	10,230

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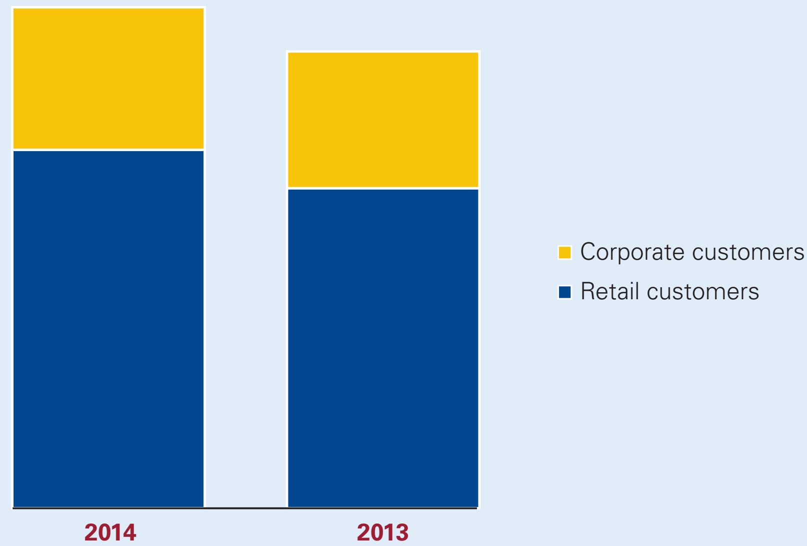
Notes to the consolidated financial statements (continued)

28. Deposits from customers

See accounting policy in Note 44(T).



In millions of euro	2014	2013
Retail customers:		
Term deposits	**12,209**	10,120
Current deposits	**26,173**	24,136
Corporate customers:		
Term deposits	**1,412**	1,319
Current deposits	**10,041**	9,384
Other	**3,811**	3,945
	53,646	48,904

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Notes to the consolidated financial statements (continued)

29. Debt securities issued

See accounting policy in Note 44(T).

In millions of euro		2014	2013
IFRS 7.8(f)	At amortised cost	**8,818**	8,040
IFRS 7.8(e)(i)	Designated as at fair value through profit or loss (at initial recognition)	**2,409**	2,208
		11,227	10,248

IFRS 7.21, B5(a)

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

IFRS 7.10(b)

The carrying amount of financial liabilities designated at fair value through profit or loss at 31 December 2014 was €59 million lower than the contractual amount due at maturity (2013: €43 million).

In millions of euro	2014	2013
Debt securities at amortised cost:		
Floating-rate	**5,143**	4,473
Fixed-rate	**3,675**	3,567
	8,818	8,040

IFRS 7.18–19

The Group has not had any defaults of principal or interest or other breaches with respect to its debt securities during the years ended 31 December 2014 and 2013.

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Notes to the consolidated financial statements (continued)

30. Subordinated liabilities

See accounting policy in Note 44(T).

In millions of euro	2014	2013
Redeemable preference shares	**860**	827
Subordinated notes issued	**4,782**	4,158
	5,642	4,985

IFRS 7.7

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

In millions of euro	Year of maturity	2014	2013
EUR 880 million redeemable preference shares with a mandatory fixed dividend payment of X%	2021	**860**	827
EUR 1,500 million undated floating-rate primary capital notes	N/A	**1,315**	1,494
EUR 750 million callable subordinated floating-rate notes	2026	**725**	743
EUR 500 million callable subordinated notes	2014–2015	**-**	178
EUR 300 million callable subordinated floating-rate notes	2021	**300**	300
USD 1,200 million undated floating-rate primary capital notes	N/A	**744**	888
USD 750 million callable subordinated floating-rate notes	2015	**567**	555
GBP 1,000 million callable subordinated variable coupon notes	2018	**1,131**	-
		5,642	4,985

The above liabilities would, in the event of the winding-up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer.

IFRS 7.18–19

The Group has not had any defaults of principal or interest or other breaches with respect to its subordinated liabilities during the years ended 31 December 2014 and 2013.

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Notes to the consolidated financial statements (continued)

31. Provisions

See accounting policy in Note 44(U).

	In millions of euro	Note	Redundancy	Branch closures	Onerous contracts	Other	Total
IAS 37.84(a)	Balance at 1 January 2014		30	28	23	3	84
IAS 37.84(b)	Provisions made during the year	14	2	5	-	15	22
IAS 37.84(c)	Provisions used during the year		(5)	(2)	-	(10)	(17)
IAS 37.84(d)	Provisions reversed during the year[a]	14	-	-	(1)	-	(1)
IAS 37.84(e)	Unwind of discount		1	1	-	-	2
IAS 37.84(a)	Balance at 31 December 2014		28	32	22	8	90
	Non-current		28	28	22	-	78
	Current		-	4	-	8	12
			28	32	22	8	90

IAS 37.85(a)–(b), 1.98(b)

i. Redundancy

In accordance with the *Delivery Channel Optimisation Plan* announced by the Group in November 2012, the Group is in the process of rationalising its retail branch network and related processing functions. The remaining provision relates to the Asia Pacific and American regions and is expected to be used during 2015.

IAS 37.85(a)–(b), 1.98(b)

ii. Branch closures

In accordance with the plans announced by the Group in November 2012, the Group is in the process of rationalising the branch network to optimise its efficiency and improve overall services to customers. The plan involves the closure of some branches. Twenty-three of the branches outlined in the Group's *Delivery Channel Optimisation Plan* were closed during 2013 and 2014. The remaining provision relates to the balance of the branches' closures set out in the plan, which will be completed during 2015.

IAS 37.85(a)–(b)

iii. Onerous contracts

As a result of the Group's restructuring of its retail branch network, the Group is a lessee in a number of non-cancellable leases over properties that it no longer occupies. In some cases, the rental income from sub-leasing these properties is lower than the rental expense. The obligation for the discounted future lease payments, net of expected rental income, has been provided for.

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

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Notes to the consolidated financial statements (continued)

32. Other liabilities

See accounting policies in Notes 44(V) and (W).

	In millions of euro	*Note*	2014	2013
IAS 1.78(d)	Recognised liability for defined benefit obligations	*13*	**174**	158
IAS 1.78(d)	Liability for long-service leave		**51**	44
IAS 1.78(d)	Cash-settled share-based payment liability	*13*	**44**	38
IAS 1.78(d)	Short-term employee benefits		**62**	57
IAS 1.77	Financial guarantee contracts issued		**32**	28
	Creditors and accruals		**51**	68
	Other		**36**	38
			450	431

The amounts above for financial guarantee contracts represent the amounts initially recognised less cumulative amortisation.

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Notes to the consolidated financial statements (continued)

33. Capital and reserves

See accounting policy in Note 44(X).

IAS 1.79(a)(iv)

A. Share capital and share premium

In millions of shares	Ordinary shares 2014	Ordinary shares 2013	Perpetual bonds 2014	Perpetual bonds 2013	Redeemable preference shares 2014	Redeemable preference shares 2013
In issue at 1 January	**1,756**	1,756	**500**	500	**880**	880
Exercise of share options	**3**	-	**-**	-	**-**	-
In issue at 31 December – fully paid (IAS 1.79(a)(ii))	**1,759**	1,756	**500**	500	**880**	880
Authorised – par value €1 (IAS 1.79(a)(i), (iii))	**2,000**	2,000	**500**	500	**880**	880

The Group has also issued employee share options (see Note 13(A)).

IAS 1.79(a)(v)

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Bank. Holders of perpetual bonds receive a non-cumulative discretionary coupon of 4.2%. Perpetual bonds and preference shares do not carry the right to vote. All shares rank equally with regard to the Bank's residual assets, except that perpetual bondholders and preference shareholders have priority over ordinary shareholders but participate only to the extent of the face value of the bonds/shares plus any accrued coupon/dividends.

B. Nature and purpose of reserves

i. Translation reserve

IAS 1.79(b)

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as the effective portion of any foreign currency differences arising from hedges of a net investment in a foreign operation (see Note 44(B)(ii)).

ii. Hedging reserve

IAS 1.79(b)

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows affect profit or loss (see Note 44(M)).

iii. Fair value reserve

IAS 1.79(b)

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets, until the assets are derecognised or impaired (see Note 44(O)(iii)).

C. Dividends

IAS 1.107

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

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

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

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

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

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Notes to the consolidated financial statements (continued)

34. Group subsidiaries

See accounting policy in Note 44(A).

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

A. List of significant subsidiaries

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

	Principal place of business	Ownership interest	
		2014	**2013**
Blue Banking Plc	UK	**100%**	100%
Blue Banking (North America)	US	**100%**	100%
Blue Banking Pty Limited	Australia	**80%**	80%
Bleu Banking S.A.	France	**100%**	100%
Blue Banking (Africa) Limited	South Africa	**100%**	100%

B. Financial support given to structured entities

IFRS 12.14

During the year, the Group has issued guarantees of €80 million (2013: nil) to holders of notes issued by certain structured entities that the Group consolidates (for information on judgements made to conclude that the Group controls these entities, see Note 4(A)). These guarantees would require the Group to reimburse the note holders for losses that they incur if the underlying assets do not perform at the specified amount of their contractual cash flows. For information on the accounting for these guarantees, see Note 44(V).

C. Significant restrictions

IFRS 12.13

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate. The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios. The carrying amounts of banking subsidiaries' assets and liabilities are €9,680 million and €8,150 million respectively (2013: €9,083 million and €7,705 million respectively).

D. NCI in subsidiaries

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

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

IFRS 12.12(a)

Blue Banking Pty Limited

IFRS 12.12(c)

NCI percentage	**20%**	**20%**
In millions of euro	**2014**	**2013**
Loans and advances	**2,015**	1,770
Other assets	**120**	230
Liabilities	**1,360**	1,360
Net assets	**775**	640
Carrying amount of NCI (*IFRS 12.12(f)*)	**155**	128
Revenue	**750**	717
Profit	**135**	130
Total comprehensive income	**135**	130
Profit allocated to NCI (*IFRS 12.12(e)*)	**27**	26
Cash flows from operating activities	**126**	211
Cash flows from investing activities	**(50)**	(23)
Cash flows from financing activities, before dividends to NCI	**12**	(15)
Cash flows from financing activities – cash dividends to NCI (*IFRS 12.B10(a)*)	**-**	-
Net increase in cash and cash equivalents	**88**	173

IFRS 12.12(b)

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

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Notes to the consolidated financial statements (continued)

35. Involvement with unconsolidated structured entities

IFRS 12.26

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

Type of structured entity	Nature and purpose	Interest held by the Group	Total assets
Securitisation vehicles for loans and advances (see Note 36)	To generate: • funding for the Group's lending activities; • margin through sale of assets to investors; and • fees for loan servicing. These vehicles are financed through the issue of notes to investors.	• Investments in notes issued by the vehicles • Fees for loan servicing	**2,730**
Investment funds	To generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.	• Investments in units issued by the fund • Management fees	**2,450**

IFRS 12.29

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

Carrying amount

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

IFRS 12.30

During the year, the Group provided financial support of €10 million to an unconsolidated securitisation vehicle to enable it to make payments to the holders of the notes issued by the vehicle. Although it is under no contractual obligation to do so, the Group decided to provide such support after careful consideration of its role in the set-up of the vehicle and its reputation in providing such services. The support was provided to assist the entity in managing its short-term liquidity.

IFRS 12.27

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

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

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Notes to the consolidated financial statements (continued)

36. Transfers of financial assets

See accounting policy in Note 44(J)(iii).

IFRS 7.42A, 42D(a), IAS 39.17–20

In the ordinary course of business, the Group enters into transactions that result in the transfer of financial assets, primarily debt and equity securities, and loans and advances to customers. In accordance with the accounting policy set out in Note 44(J)(iii), the transferred financial assets continue to be recognised in their entirety or to the extent of the Group's continuing involvement, or are derecognised in their entirety.

The Group transfers financial assets that are not derecognised in their entirety or for which the Group has continuing involvement primarily through the following transactions:

- sale and repurchase of securities;
- securities lending;
- sale of securities with a concurrent total return swap; and
- securitisation activities in which loans and advances to customers or investment securities are transferred to unconsolidated securitisation vehicles or to investors in the notes issued by consolidated securitisation vehicles.

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

i. Sale and repurchase agreements

IAS 39.29, AG51(a)–(c), IFRS 7.42D(a)–(c)

'Sale and repurchase agreements' are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. The Group continues to recognise the securities in their entirety in the statement of financial position because it retains substantially all of the risks and rewards of ownership. The cash consideration received is recognised as a financial asset and a financial liability is recognised for the obligation to pay the repurchase price. Because the Group sells the contractual rights to the cash flows of the securities, it does not have the ability to use the transferred assets during the term of the arrangement.

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Notes to the consolidated financial statements (continued)

36. Transfers of financial assets (continued)

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

ii. Securities lending

IAS 39.29, AG51(a)–(c), IFRS 7.42D(a)–(c)

'Securities lending agreements' are transactions in which the Group lends securities for a fee and receives cash as collateral. The Group continues to recognise the securities in their entirety in the statement of financial position because it retains substantially all of the risks and rewards of ownership. The cash received is recognised as a financial asset and a financial liability is recognised for the obligation to repay it. Because as part of the lending arrangement the Group sells the contractual rights to the cash flows of the securities, it does not have the ability to use the transferred assets during the term of the arrangement.

iii. Sale of a security with a total return swap

IAS 39.16, 29, AG49, AG51(o), IFRS 7.42D(a)–(c)

The Group sells debt securities that are subject to a concurrent total return swap. In all cases, the Group retains substantially all of the risks and rewards of ownership. Therefore, the Group continues to recognise the transferred securities in its statement of financial position. The cash received is recognised as a financial asset and a corresponding liability is recognised. The Group does not separately recognise the total return swap that prevents derecognition of the security as a derivative because doing so would result in recognising the same rights and obligations twice. Because the Group sells the contractual rights to the cash flows of the securities, it does not have the ability to use the transferred assets during the term of the arrangement.

iv. Securitisations

IAS 39.15, 17–20,

Loans and advances to customers and investment securities are sold by the Group to securitisation vehicles that in turn issue notes to investors collateralised by the purchased assets. For the purposes of disclosure in this note, a transfer of such financial assets may arise in one of two ways.

- If the Group sells assets to a consolidated securitisation vehicle, then the transfer is from the Group (which includes the consolidated securitisation vehicle) to investors in the notes. The transfer is in the form of the Group assuming an obligation to pass cash flows from the underlying assets to investors in the notes.
- If the Group sells assets to an unconsolidated securitisation vehicle, then the transfer is from the Group (which excludes the securitisation vehicle) to the securitisation vehicle. The transfer is in the form of a sale of the underlying assets to the securitisation vehicle.

IAS 39.19(c), 29

In the first case, the securitisation vehicles that are part of the Group generally transfer substantially all of the risks and rewards of ownership of the transferred assets to investors in the notes, but derecognition of the transferred assets is prohibited because the cash flows that the securitisation vehicles collect from the transferred assets on behalf of the investors are not passed through to them without material delay. In these cases, the consideration received from the investors in the notes in the form of cash is recognised as a financial asset and a corresponding financial liability is recognised. The investors in the notes have recourse only to the cash flows from the transferred financial assets.

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Notes to the consolidated financial statements (continued)

36. Transfers of financial assets (continued)

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

iv. Securitisations (continued)

IAS 39.19(c), 29, 31, IFRS 7.42D(a)–(c)

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

IFRS 7.42D(c)

If the Group transfers assets as part of securitisation transactions, then it does not have the ability to use the transferred assets during the term of the arrangement.

IFRS 7.42D(d)–(e)

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

		Financial assets at fair value through profit or loss		Loans and receivables
	31 December 2014 *In millions of euro*	**Loans and advances to customers**	**Pledged trading assets**	**Loans and advances to customers**
IFRS 7.42D(e)	Carrying amount of assets	**781**	**540**	**1,234**
IFRS 7.42D(e)	Carrying amount of associated liabilities	**799**	**542**	**1,236**
	For those liabilities that have recourse only to the transferred financial assets			
IFRS 7.42D(d)	Fair value of assets	**781**	**-**	**1,240**
IFRS 7.42D(d)	Fair value of associated liabilities	**781**	**-**	**1,240**
	Net position	**-**	**-**	**-**

		Financial assets at fair value through profit or loss		Loans and receivables
	31 December 2013 *In millions of euro*	**Loans and advances to customers**	**Pledged trading assets**	**Loans and advances to customers**
IFRS 7.42D(e)	Carrying amount of assets	633	519	1,123
IFRS 7.42D(e)	Carrying amount of associated liabilities	650	520	1,125
	For those liabilities that have recourse only to the transferred financial assets			
IFRS 7.42D(d)	Fair value of assets	633	-	1,120
IFRS 7.42D(d)	Fair value of associated liabilities	633	-	1,120
	Net position	-	-	-

IFRS 7.42D(f)

In 2014, the total carrying amount before the transfer of loans and advances transferred to unconsolidated securitisation vehicles in which the Group does not retain or transfer substantially all of the risks and rewards was €74 million (2013: €54 million). On 31 December 2014, the carrying amount of the assets that the entity continues to recognise in respect of its continuing involvement was €31 million and the carrying amount of the associated liabilities was €30 million (2013: €21 million and €19 million respectively).

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Notes to the consolidated financial statements (continued)

36. Transfers of financial assets (continued)

B. Transferred financial assets that are derecognised in their entirety

i. Securitisations

IFRS 7.42C, 42E(a)–(f), IAS 39.15, 17–20,

Certain securitisation transactions undertaken by the Group result in the Group derecognising transferred assets in their entirety. This is the case when the Group transfers substantially all of the risks and rewards of ownership of financial assets to an unconsolidated securitisation vehicle and retains a relatively small interest in the vehicle or a servicing arrangement in respect of the transferred financial assets. If the financial assets are derecognised in their entirety, then the interest in unconsolidated securitisation vehicles that the Group receives as part of the transfer and the servicing arrangement represent continuing involvement with those assets.

IFRS 7.42E(f), 42G

In June 2014 and May 2013, the Group sold certain investment securities to an unconsolidated securitisation vehicle and, as part of the consideration, received notes issued by the securitisation vehicle. In both transactions, the notes represented 5% of the total issue. The Group classified the notes as available-for-sale financial assets. In 2014, the Group realised a gain of €8 million on the sale of the investment securities to the unconsolidated securitisation vehicle (2013: €5 million). During 2014, it recognised interest income of €4 million in profit or loss and a fair value gain of €1 million in OCI on the notes (2013: €3 million and €1 million respectively). Servicing contracts are discussed below.

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

	Carrying amount	Fair value	
In millions of euro	Investment securities	Assets	Liabilities
Type of continuing involvement:			
Notes issued by unconsolidated securitisation vehicle			
31 December 2014	**98**	**98**	**-**
31 December 2013	87	87	-

IFRS 7.42E(c)

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

IAS 39.24, IFRS 7.42C, 42E, 42H

As part of certain securitisation transactions that result in the Group derecognising the transferred financial assets in their entirety, the Group retains servicing rights in respect of the transferred financial assets. Under the servicing arrangements, the Group collects the cash flows on the transferred mortgages on behalf of the unconsolidated securitisation vehicle. In return, the Group receives a fee that is expected to compensate the Group adequately for servicing the related assets. Consequently, the Group accounts for the servicing arrangements as executory contracts and has not recognised a servicing asset/liability. The servicing fees are based on a fixed percentage of the cash flows that the Group collects as an agent on the transferred residential mortgages. Potentially, a loss from servicing activities may occur if the costs that the Group incurs in performing the servicing activity exceed the fees receivable or if the Group does not perform in accordance with the servicing agreements.

In 2014 and 2013, the Group transferred prime residential mortgage loans (while retaining the servicing rights) to an unconsolidated securitisation vehicle. The loans were classified as loans and advances to customers and measured at amortised cost. Their total carrying amount at the time of transfer was €281 million in 2014 (€148 million in May and €133 million in November) (2013: €199 million in July).

IFRS 7.42G

In 2014, the Group realised a gain of €26 million (€14 million in May and €12 million in November) on such transfers of residential mortgage loans (2013: €19 million in July). The gain is presented within other revenue. The Group recognised income of €2 million in 2014 in respect of servicing the residential mortgage loans (2013: €1 million). On 31 December 2014, the fair value of the loans and advances to customers that the Group still services amounted to €262 million (2013: €170 million). The fair value of servicing assets and liabilities on 31 December 2014 and 31 December 2013 is not material.

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Notes to the consolidated financial statements (continued)

37. Contingencies

See accounting policy in Note 44(U).

IAS 1.125, 37.86

A subsidiary is defending an action brought by a consumer rights organisation in Europe in relation to the marketing of specific pension and investment products from 2003 to 2006. Although liability is not admitted, if defence against the action is unsuccessful, then fines and legal costs could amount to €3 million, of which €250 thousand would be reimbursable under an insurance policy. Based on legal advice, management believes that its defence of the action will be successful.

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Notes to the consolidated financial statements (continued)

38. Related parties

A. Parent and ultimate controlling party

IAS 1.138(c), 24.13

During 2014, a majority of the Bank's shares were acquired by [*name of new parent*] from [*name of old parent*]. As a result, the new ultimate controlling party of the Group is [*name*].

B. Transactions with key management personnel

i. Key management personnel compensation

IAS 24.17

Key management personnel compensation comprised the following.

In millions of euro	IAS reference	2014	2013
Short-term employee benefits	IAS 24.17(a)	**12**	10
Post-employment benefits	IAS 24.17(b)	**4**	4
Other long-term benefits	IAS 24.17(c)	**1**	1
Share-based payments	IAS 24.17(e)	**4**	2
		21	17

Compensation of the Group's key management personnel includes salaries, non-cash benefits and contributions to the post-employment defined benefit plans (see Note 13(B)). Executive officers also participate in the Group's share option programme (see Note 13(A)).

ii. Key management personnel transactions

IAS 24.18

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

IAS 24.18(a)–(b)

	Transaction values for the year ended 31 December		Maximum balance for the year ended 31 December		Balance outstanding as at 31 December	
In millions of euro	2014	2013	2014	2013	2014	2013
Mortgage lending and other secured loans	**7**	6	**10**	8	**6**	6
Credit card	**1**	1	**2**	1	**1**	1
Other loans	**2**	5	**4**	6	**2**	2
Deposits received	**(3)**	(3)	**(4)**	(4)	**(2)**	(2)
	7	9	**12**	11	**7**	7

IAS 24.18(b)

Interest rates charged on balances outstanding from related parties are a quarter of the rates that would be charged in an arm's length transaction. The interest charged on balances outstanding from related parties amounted to €1 million (2013: €1 million). The interest paid on balances outstanding to related parties amounted to €400 thousand (2013: €300 thousand). The mortgages and secured loans granted are secured over property of the respective borrowers. Other balances are not secured and no guarantees have been obtained.

IAS 24.18(c)–(d)

No impairment losses have been recorded against balances outstanding during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relatives at the reporting date.

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Notes to the consolidated financial statements (continued)

39. Operating leases

See accounting policy in Note 44(H).

IAS 17.35(d)(i)–(ii)

The Group leases a number of branch and office premises under operating leases. The leases typically run for a period of 20 years, with an option to renew the lease after that date. Lease payments are increased every three to five years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in a local price index.

IAS 17.35(a)

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

In millions of euro	**2014**	**2013**
Less than one year	**352**	322
Between one and five years	**1,408**	1,288
More than five years	**5,914**	5,152
	7,674	6,762

IAS 17.35(c)

The amount of operating lease expenses recognised in profit or loss includes €6 million of contingent rent expense (2013: €5 million).

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Notes to the consolidated financial statements (continued)

40. Subsequent events

Acquisition of ABC Bank

IAS 10.21–22(a)

On 22 February 2015, the Group announced its offer to acquire all of the shares of ABC Bank for €5.0 billion. The transaction still has to be approved by the Group's shareholders and by regulatory authorities. Approvals are not expected until late in 2015. Due to the early stage of the transaction, an estimate of the financial effect of this proposed acquisition cannot be made reliably.

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Notes to the consolidated financial statements (continued)

IFRS 7.31

41. Financial risk management

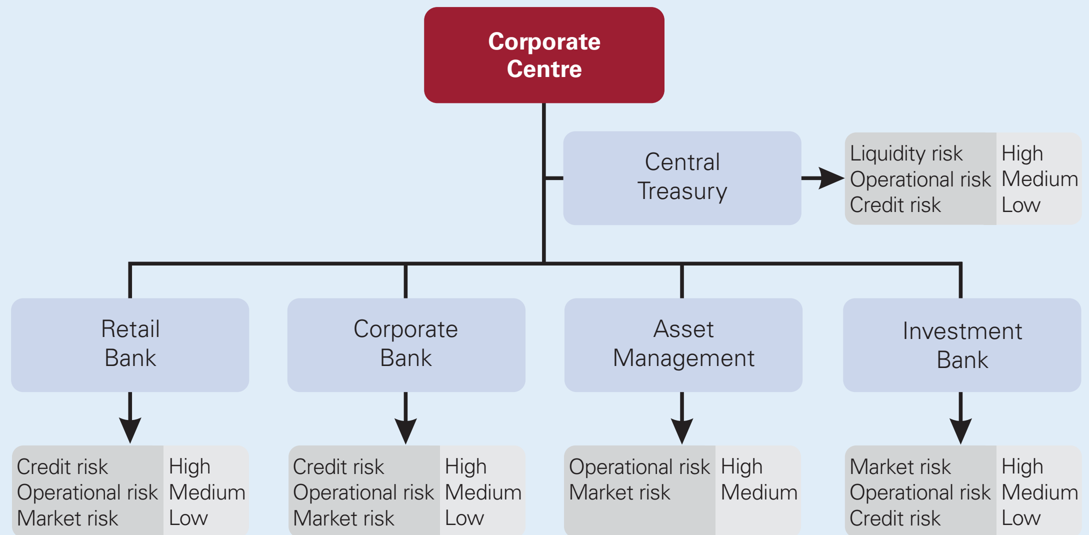
A. Introduction and overview

IFRS 7.31–32

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

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

The chart below provides a link between the Group's business units and the principal risks that they are exposed to. The significance of risk is assessed within the context of the Group as a whole and is measured based on allocation of the regulatory capital within the Group.[a]



IFRS 7.33

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

i. Risk management framework

The Company's board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The board of directors has established the Group Asset and Liability Management Committee (ALCO), which is responsible for developing and monitoring Group risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Group Audit Committee.

a. *The EDTF report recommends that a bank describe the key risks that arise from the bank's business models and activities, the bank's risk appetite in the context of its business models and how the bank manages such risks. This is to enable users to understand how business activities are reflected in the bank's risk measures and how those risk measures relate to line items in the balance sheet and income statement. It also notes that investors have suggested that consistent tabular presentation is particularly important to improving their understanding of the disclosed information and facilitating comparability among banks. For the purposes of this guide, we have assumed that including a chart that sets out a link between the Group's business units and the principal risks that they are exposed to would facilitate users' understanding of the remaining risk disclosures.*

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Notes to the consolidated financial statements (continued)

IFRS 7.31

41. Financial risk management (continued)

IFRS 7.33

B. Credit risk

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

The market risk in respect of changes in value in trading assets arising from changes in market credit spreads applied to debt securities and derivatives included in trading assets is managed as a component of market risk; for further details, see (D) below.

i. Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. 'Settlement risk' is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

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

ii. Management of credit risk

The board of directors has delegated responsibility for the oversight of credit risk to its Group Credit Committee. A separate Group Credit department, reporting to the Group Credit Committee, is responsible for managing the Group's credit risk, including the following.

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Establishing the authorisation structure* for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Group Credit, the Head of Group Credit, the Group Credit Committee or the board of directors as appropriate.
- *Reviewing and assessing credit risk:* Group Credit assesses all credit exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and advances, financial guarantees and similar exposures), and by issuer, credit rating band, market liquidity and country (for investment securities).
- *Developing and maintaining the Group's risk gradings* to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive or committee, as appropriate. Risk grades are subject to regular reviews by Group Risk.
- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to Group Credit, which may require appropriate corrective action to be taken.
- *Providing advice, guidance and specialist skills* to business units to promote best practice throughout the Group in the management of credit risk.

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Notes to the consolidated financial statements (continued)

IFRS 7.31

41. Financial risk management (continued)

IFRS 7.33

B. Credit risk (continued)

ii. Management of credit risk (continued)

Each business unit is required to implement Group credit policies and procedures, with credit approval authorities delegated from the Group Credit Committee. Each business unit has a Chief Credit Risk officer who reports on all credit-related matters to local management and the Group Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of business units and Group Credit processes are undertaken by Internal Audit.

IFRS 7.33

C. Liquidity risk

'Liquidity risk' is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

i. Management of liquidity risk

The Group's board of directors sets the Group's strategy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to ALCO. ALCO approves the Group's liquidity policies and procedures. Central Treasury manages the Group's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of both the Group and operating subsidiaries and foreign branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

IFRS 7.39(b)

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The key elements of the Group's liquidity strategy are as follows.

- Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and wholesale market deposits and maintaining contingency facilities.
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity.
- Monitoring liquidity ratios, maturity mismatches, behavioural characteristics of the Group's financial assets and financial liabilities, and the extent to which the Group's assets are encumbered and so not available as potential collateral for obtaining funding.
- Carrying out stress testing of the Group's liquidity position.

Central Treasury receives information from other business units regarding the liquidity profile of their financial assets and financial liabilities and details of other projected cash flows arising from projected future business. Central Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business units and subsidiaries are met through loans from Central Treasury to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements.

If an operating subsidiary or branch is subject to a liquidity limit imposed by its local regulator, then the subsidiary or branch is responsible for managing its overall liquidity within the regulatory limit in co-ordination with Central Treasury. Central Treasury monitors compliance of all operating subsidiaries and foreign branches with local regulatory limits on a daily basis.

Regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. The scenarios are developed taking into account both Group-specific events (e.g. a rating downgrade) and market-related events (e.g. prolonged market illiquidity, reduced fungibility of currencies, natural disasters or other catastrophes).

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Notes to the consolidated financial statements (continued)

41. Financial risk management (continued)

IFRS 7.31

D. Market risks

IFRS 7.33

'Market risk' is the risk that changes in market prices – such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) – will affect the Group's income or the value of its holdings of financial instruments. The objective of the Group's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Group's solvency while optimising the return on risk.

i. Management of market risks

The Group separates its exposure to market risks between trading and non-trading portfolios. Trading portfolios are mainly held by the Investment Banking unit, and include positions arising from market making and proprietary position taking, together with financial assets and financial liabilities that are managed on a fair value basis.

With the exception of translation risk arising on the Group's net investments in its foreign operations, all foreign exchange positions within the Group are transferred by Central Treasury to the Investment Banking unit. Accordingly, the foreign exchange positions are treated as part of the Group's trading portfolios for risk management purposes.

Overall authority for market risk is vested in ALCO. ALCO sets up limits for each type of risk in aggregate and for portfolios, with market liquidity being a primary factor in determining the level of limits set for trading portfolios. The Group Market Risk Committee is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

The Group employs a range of tools to monitor and limit market risk exposures. These are discussed below, separately for trading and non-trading portfolios.

ii. Exposure to market risks – Trading portfolios

IFRS 7.41(a)

The principal tool used to measure and control market risk exposure within the Group's trading portfolios is VaR. The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based on a 99% confidence level and assumes a 10-day holding period. The VaR model used is based mainly on historical simulation. Taking account of market data from the previous two years, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements.

IFRS 7.41(b)

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

- A 10-day holding period assumes that it is possible to hedge or dispose of positions within that period. This may not be the case for illiquid assets or in situations in which there is severe market illiquidity.
- A 99% confidence level does not reflect losses that may occur beyond this level. Even within the model used, there is a 1% probability that losses could exceed the VaR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- The use of historical data as a basis for determining the possible range of future outcomes does not cover all possible scenarios, especially those of an exceptional nature.
- The VaR measure is dependent on the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if market price volatility declines and vice versa.

The Group uses VaR limits for total market risk and specific foreign exchange, interest rate, equity, credit spread and other price risks. The overall structure of VaR limits is subject to review and approval by ALCO. VaR limits are allocated to trading portfolios. VaR is measured at least daily and more regularly for more actively traded portfolios. Daily reports of utilisation of VaR limits are submitted to Group Market Risk and regular summaries are submitted to ALCO.

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Notes to the consolidated financial statements (continued)

IFRS 7.31

IFRS 7.33

41. Financial risk management (continued)

D. Market risks (continued)

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

The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Group's overall position. The Group determines the scenarios as follows:

- sensitivity scenarios consider the impact of any single risk factor or set of factors that are unlikely to be captured within the VaR models;
- technical scenarios consider the largest move in each risk factor without consideration of any underlying market correlation; and
- hypothetical scenarios consider potential macro economic events – e.g. periods of prolonged market illiquidity, reduced fungibility of currencies, natural disasters or other catastrophes, health pandemics etc.

The analysis of scenarios and stress tests is reviewed by ALCO.

The Group VaR models are subject to regular validation by Group Market Risk to ensure that they continue to perform as expected, and that assumptions used in model development are still appropriate. As part of the validation process, the potential weaknesses of the models are analysed using statistical techniques, such as back-testing.

iii. Exposure to market risk – Non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Central Treasury in its day-to-day monitoring activities.

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

The effect of structural foreign exchange positions on the Group's net investments in foreign subsidiaries and branches, together with any related net investment hedges (see Note 19), is recognised in OCI. The Group's policy is only to hedge such exposures when not doing so would have a significant impact on the regulatory capital ratios of the Group and its banking subsidiaries. The result of this policy is that hedging generally only becomes necessary when the ratio of structural exposures in a particular currency to risk-weighted assets denominated in that currency diverges significantly from the capital ratio of the entity being considered. In addition to monitoring VaR in respect of foreign currency, the Group monitors any concentration risk in relation to any individual currency in regard to the translation of foreign currency transactions and monetary assets and liabilities into the functional currency of Group entities, and with regard to the translation of foreign operations into the presentation currency of the Group (after taking account of the impact of any qualifying net investment hedges).

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Notes to the consolidated financial statements (continued)

IFRS 7.31

41. Financial risk management (continued)

E. Operational risks[a]

'Operational risk' is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and innovation. In all cases, Group policy requires compliance with all applicable legal and regulatory requirements.

The board of directors has delegated responsibility for operational risk to its Group Operational Risk Committee, which is responsible for the development and implementation of controls to address operational risk. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is cost effective.

Compliance with Group standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the Group Operational Risk Committee, with summaries submitted to the Audit Committee and senior management of the Group.

a. Operational risk is not a financial risk, and is not specifically required to be disclosed by IFRS 7. However, operational risk in a financial institution is commonly managed and reported internally in a formal framework similar to financial risks, and may be a factor in capital allocation and regulation.

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Notes to the consolidated financial statements (continued)

IAS 1.112(a), 117(a)

42. Basis of measurement

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

Items	Measurement basis
Derivative financial instruments	Fair value
Non-derivative financial instruments at fair value through profit or loss	Fair value
Available-for-sale financial assets	Fair value
Investment property	Fair value
Liabilities for cash-settled share-based payment arrangements	Fair value
Recognised financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships	Amortised cost adjusted for changes in fair value attributable to the risk being hedged
Net defined benefit (asset) liability	Fair value of plan assets less the present value of the defined benefit obligation, limited as explained in Note 44(W)(ii)

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Notes to the consolidated financial statements (continued)

43. Changes in accounting policies[a]

Except for the changes below, the Group has consistently applied the accounting policies as set out in Note 44 to all periods presented in these consolidated financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2014.

A. *Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32).*

B. IFRIC 21 *Levies*.

IAS 8.28(b)–(d)

The nature and the effects of the changes are explained below.

IAS 32.42

A. *Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)*

As a result of the amendments to IAS 32, the Group has changed its accounting policy for offsetting financial assets and financial liabilities. The amendments clarify when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement.

The change did not have a material impact on the Group's financial statements.

B. IFRIC 21 *Levies*

As a result of IFRIC 21 *Levies*, the Group has changed its accounting policy on accounting for a liability to pay a levy that is a liability in the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

The change did not have a material impact on the Group's financial statements.

IAS 8.28–29

a. The description of the nature and effect of the changes in accounting policies presented is only an example, and may not be representative of the nature and effect of the changes for specific entities.

The changes as a result of the new standards and amendments to standards with a date of initial application of 1 January 2014 are assumed to be immaterial for the Group. For guidance on disclosures where such changes are material, see our publication Guide to annual financial statements – Illustrative disclosures, September 2014.

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Notes to the consolidated financial statements (continued)

IAS 1.112(a), 117(b), 119–121

44. Significant accounting policies[a]

Except for the changes explained in Note 43, the Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

Set out below is an index of the significant accounting policies, the details of which are available on the pages that follow.

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a. The example accounting policies illustrated reflect the circumstances of the Group on which these financial statements are based, by describing only the specific policies that are relevant to an understanding of the Group's financial statements. For example, the accounting policy for provisions is not intended to be a complete description of all types of provisions available in general but only of those that are relevant for the Group. These example accounting policies should not be relied on for a complete understanding of IFRS and should not be used as a substitute for referring to the standards and interpretations themselves. To help you identify the underlying requirements in IFRS, references to the recognition and measurement requirements in the IFRSs that are relevant for a particular accounting policy have been included and indicated by square brackets – e.g. *[IFRS 3.19]*.

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Notes to the consolidated financial statements (continued)

44. Significant accounting policies (continued)

A. Basis of consolidation

i. Business combinations

[IFRS 3.4, 32, 34, 53]

Business combinations are accounted for using the acquisition method when control is transferred to the Group (see A(iii)). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see (R)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities (see (J)(i) and (X)(ii)).

[IFRS 3.B52]

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

[IFRS 3.58]

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

[IFRS 3.30, B57–B61]

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

ii. Non-controlling interests

[IFRS 3.19]

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition[a].

[IFRS 10.23, B96]

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

iii. Subsidiaries

[IFRS 10.6, 20]

'Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

iv. Loss of control

[IFRS 10.25, B98–B99]

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

v. Transactions eliminated on consolidation

[IFRS 10.B86(c), IAS 28.28]

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

[IFRS 3.19] a. An entity has a choice on a combination-by-combination basis to measure any NCI in the acquiree at either the proportionate share of the acquiree's identifiable net assets or fair value. The Group has elected the former approach.

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Notes to the consolidated financial statements (continued)

44. Significant accounting policies (continued)

B. Foreign currency

i. Foreign currency transactions

[IAS 21.21]

Transactions in foreign currencies are translated into the respective functional currency of Group entities at the spot exchange rates at the date of the transactions.

[IAS 21.23(a)]

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

[IAS 21.23(b)–(c)]

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

[IAS 39.95(a), 102(a), AG83]

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of the following items are recognised in OCI:

- available-for-sale equity instruments;
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective (see (B)(ii)); and
- qualifying cash flow hedges to the extent that the hedge is effective.

ii. Foreign operations

[IAS 21.39]

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into euro at the spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into euro at the spot exchange rates at the dates of the transactions.

[IFRS 10.B94, IAS 21.41]

Foreign currency differences are recognised in OCI, and accumulated in the foreign currency translation reserve (translation reserve), except to the extent that the translation difference is allocated to NCI.

[IAS 21.48–48D]

When a foreign operation is disposed of such that control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, then the relevant proportion of the cumulative amount is reattributed to NCI.

[IAS 21.15]

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, then foreign currency differences arising on the item form part of the net investment in the foreign operation and are recognised in OCI, and accumulated in the translation reserve within equity.

iii. Hedge of a net investment in foreign operation

See (M)(iii).

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Notes to the consolidated financial statements (continued)

44. Significant accounting policies (continued)

IFRS 7.21, B5(e), IAS 18.35(a)

C. Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income and expense presented in the statement of profit or loss and OCI include:[a]

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on available-for-sale investment securities calculated on an effective interest basis;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income (see (E)).

Fair value changes on other derivatives held for risk management purposes, and other financial assets and financial liabilities carried at fair value through profit or loss, are presented in net income from other financial instruments at fair value through profit or loss in the statement of profit or loss and OCI (see (F)).

IFRS 7.21, IAS 18.35(a)

D. Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate (see (C)).

Other fees and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

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

Insights 7.8.80.20

a. IFRS allows significant scope for an entity to select its presentation of items of income and expense relating to financial assets and financial liabilities as either interest or other line items. The manner of presentation of components of interest income and expense in this guide is not mandatory – other presentations are possible.

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Notes to the consolidated financial statements (continued)

44. Significant accounting policies (continued)

IFRS 7.21, B5(e)

E. Net trading income[a]

'Net trading income' comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

IFRS 7.21, B5(e)

F. Net income from other financial instruments at fair value through profit or loss[a]

Net income from other financial instruments at fair value through profit or loss relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships and financial assets and financial liabilities designated at fair value through profit or loss. It includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

IFRS 7.21

G. Dividend income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in net trading income, net income from other financial instruments at fair value through profit or loss or other revenue based on the underlying classification of the equity investment.

H. Leases

i. Lease payments – Lessee

[IAS 17.33, SIC-15.3]

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

[IAS 17.25]

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments[b] are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

ii. Lease assets – Lessee

[IAS 17.8, 20, 27]

Assets held by the Group under leases that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased asset is initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

[IAS 17.8]

Assets held under other leases are classified as operating leases and are not recognised in the Group's statement of financial position.

iii. Lease assets – Lessor

[IAS 17.8]

If the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, then the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances (see (N)).

Insights 7.8.80.20 — a. In this guide, net trading income is presented separately from net income from other financial instruments at fair value through profit or loss based on the distinction described in the notes. However, other presentations are possible.

Insights 5.1.390.30 — b. IFRS does not contain specific guidance on how to account for rent that was considered contingent at inception of the lease but is confirmed subsequently. Therefore, other policies are possible.

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Notes to the consolidated financial statements (continued)

44. Significant accounting policies (continued)

I. Income tax

[IAS 12.58] Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in OCI.

i. Current tax

[IAS 12.2, 12, 46] 'Current tax' comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

ii. Deferred tax

[IAS 12.15, 24, 39, 44] Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

[IAS 12.56] Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

[IAS 12.37] Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

[IAS 12.47] Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

[IAS 12.51, 51C] The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Group has not rebutted this presumption.

[IAS 12.52B] Additional taxes that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised. These amounts are generally recognised in profit or loss because they generally relate to income arising from transactions that were originally recognised in profit or loss.

iii. Tax exposures

In determining the amount of current and deferred tax, the Group considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

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Notes to the consolidated financial statements (continued)

44. Significant accounting policies (continued)

IFRS 7.21

J. Financial assets and financial liabilities

i. Recognition

[IAS 39.14, AG53–AG56]

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

[IAS 39.43]

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

ii. Classification

[IAS 39.9]

Financial assets

The Group classifies its financial assets into one of the following categories:

- loans and receivables;
- held to maturity;
- available-for-sale; and
- at fair value through profit or loss, and within this category as:
  – held for trading; or
  – designated at fair value through profit or loss.

See (K), (L), (N) and (O).

[IAS 39.9]

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through profit or loss. See (L), (M), (T) and (V).

iii. Derecognition

[IAS 39.17–20]

Financial assets[a]

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

[IAS 39.26]

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

[IAS 39.20]

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale and repurchase transactions.

Insights 7.8.420.10–20

a. The definition of 'transfer' in IAS 39 *Financial Instruments: Recognition and Measurement* for the purpose of determining whether a financial asset should be derecognised is different from the one in IFRS 7 for the purposes of transfers of financial assets disclosures.

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Notes to the consolidated financial statements (continued)

44. Significant accounting policies (continued)

IFRS 7.21

J. Financial assets and financial liabilities (continued)

iii. Derecognition (continued)

Financial assets (continued)

[IAS 39.AG40(c)]

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale and repurchase transactions because the Group retains all or substantially all of the risks and rewards of ownership of such assets.

[IAS 39.20]

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

[IAS 39.24]

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

[IAS 39.39]

The Group securitises various loans and advances to customers and investment securities, which generally result in the sale of these assets to unconsolidated securitisation vehicles and in the Group transferring substantially all of the risks and rewards of ownership. The securitisation vehicles in turn issue securities to investors. Interests in the securitised financial assets may be retained in the form of senior or subordinated tranches, interest-only strips or other residual interests (retained interests). Retained interests are primarily recorded in available-for-sale investment securities and carried at fair value. Gains or losses on securitisation depend in part on the carrying amount of the transferred financial assets, allocated between the financial assets derecognised and the retained interests based on their relative fair values at the date of the transfer. Gains or losses on securitisation are recorded in other revenue.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

[IAS 32.42]

iv. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

[IAS 1.32–35]

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

v. Amortised cost measurement

[IAS 39.9]

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

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Notes to the consolidated financial statements (continued)

44. Significant accounting policies (continued)

IFRS 7.21

J. Financial assets and financial liabilities (continued)

vi. Fair value measurement

[IFRS 13.9, 24, 42]

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

[IFRS 13.79, A]

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

[IFRS 13.61–62]

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

[IFRS 7.28(a)]

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

[IFRS 13.70–71]

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

[IFRS 13.48]

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

[IFRS 13.47]

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

[IFRS 13.95]

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

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44. Significant accounting policies (continued)

IFRS 7.21

J. Financial assets and financial liabilities (continued)

vii. Identification and measurement of impairment

IFRS 7.B5(f), [IAS 39.58]

At each reporting date, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is 'impaired' when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

IFRS 7.B5(d), [IAS 39.59]

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

[IAS 39.61]

In addition, for an investment in an equity security, a significant or prolonged decline[a] in its fair value below its cost is objective evidence of impairment. In general, the Group considers a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'. However, in specific circumstances a smaller decline or a shorter period may be appropriate.

[IAS 39.63–64]

The Group considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and a collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

Insights 7.6.430.40

a. IFRS does not contain specific quantitative thresholds for 'significant' or 'prolonged'. The Group has established and disclosed the criteria that it applies to determine whether a decline in a quoted market price is 'significant' or 'prolonged'.

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Notes to the consolidated financial statements (continued)

44. Significant accounting policies (continued)

IFRS 7.21

J. Financial assets and financial liabilities (continued)

vii. Identification and measurement of impairment (continued)

In assessing collective impairment, the Group uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

[IAS 39.63]

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss before an expected restructuring is measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

IFRS 7.B5(d), [IAS 39.65]

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

[IAS 39.67–68]

Impairment losses on available-for-sale investment securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment attributable to application of the effective interest method are reflected as a component of interest income.

[IAS 39.69–70]

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss; otherwise, any increase in fair value is recognised through OCI. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is always recognised in OCI.

[IAS 39.63]

The Group writes off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when Group Credit determines that there is no realistic prospect of recovery.

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Notes to the consolidated financial statements (continued)

44. Significant accounting policies (continued)

J. Financial assets and financial liabilities (continued)

IFRS 7.21

viii. Designation at fair value through profit or loss

IFRS 7.21, B5(a)

The Group has designated financial assets and financial liabilities at fair value through profit or loss in either of the following circumstances.

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis.
- The designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Note 17 sets out the amount of each class of financial asset or financial liability that has been designated at fair value through profit or loss. A description of the basis for each designation is set out in the note for the relevant asset or liability class.

K. Cash and cash equivalents

[IAS 7.46]

'Cash and cash equivalents' include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

L. Trading assets and liabilities

IFRS 7.21

'Trading assets and liabilities' are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

[IAS 39.43, 46–47, 50, 50B, 50D]

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition, except that non-derivative trading assets, other than those designated at fair value through profit or loss on initial recognition, may be reclassified out of the fair value through profit or loss – i.e. trading – category if they are no longer held for the purpose of being sold or repurchased in the near term and the following conditions are met.

- If the financial asset would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held-for-trading on initial recognition), then it may be reclassified if the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in rare circumstances.

M. Derivatives held for risk management purposes[a] and hedge accounting

IFRS 7.21

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

a. In this guide, the classes of financial instruments reflect the Group's activities. Accordingly, derivatives are presented either as trading assets or liabilities or as derivative assets or liabilities held for risk management purposes to reflect the Group's two uses of derivatives. Derivatives held for risk management purposes include qualifying hedge instruments and non-qualifying hedge instruments held for risk management purposes rather than for trading. However, other presentations are possible.

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Notes to the consolidated financial statements (continued)

44. Significant accounting policies (continued)

IFRS 7.21

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

The Group designates certain derivatives held for risk management as well as certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument(s) is(are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125%. The Group makes an assessment for a cash flow hedge of a forecast transaction, of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

These hedging relationships are discussed below.

i. Fair value hedges

[IAS 39.89, 91–92]

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the statement of profit or loss and OCI as the hedged item).

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered as expired or terminated.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

ii. Cash flow hedges

[IAS 39.95, 97]

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of profit or loss and OCI.

[IAS 39.101]

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered as expired or terminated.

iii. Net investment hedges

[IAS 39.102]

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised in OCI and presented in the translation reserve within equity. Any ineffective portion of the changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment on disposal of the foreign operation.

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Notes to the consolidated financial statements (continued)

44. Significant accounting policies (continued)

IFRS 7.21

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

iv. Other non-trading derivatives

If a derivative is not held for trading, and is not designated in a qualifying hedge relationship, then all changes in its fair value are recognised immediately in profit or loss as a component of net income from other financial instruments at fair value through profit or loss.

v. Embedded derivatives[a]

[IAS 39.10–11]

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- the host contract is not itself carried at fair value through profit or loss;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

IFRS 7.21

N. Loans and advances

[IAS 39.9]

'Loans and advances' are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

Loans and advances to banks are classified as loans and receivables. Loans and advances to customers include:

- those classified as loans and receivables;
- those designated as at fair value through profit or loss; and
- finance lease receivables.

[IAS 39.43, 46]

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. When the Group chooses to designate the loans and advances as measured at fair value through profit or loss as described in (J)(viii), they are measured at fair value with face value changes recognised immediately in profit or loss.

Loans and advances also include finance lease receivables in which the Group is the lessor (see (H)).

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Group's financial statements.

IFRS 7.21

O. Investment securities

[IAS 39.9, 43, 45–46]

Investment securities are initially measured at fair value plus, in the case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held to maturity, fair value through profit or loss or available-for-sale.

IAS 39.11, Insights 7.8.200, 7.2.410.10

a. IAS 39 does not specify where a separated embedded derivative component is presented in the statement of financial position. In this guide, an embedded derivative component that is separated from the host contract is presented in the same line item in the statement of financial position as the related host contract. However, other presentations are possible.

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Notes to the consolidated financial statements (continued)

44. Significant accounting policies (continued)

IFRS 7.21

O. Investment securities (continued)

i. Held-to-maturity

[IAS 39.9, 46]

'Held-to-maturity investments' are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses (see (J)(vii)). A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- sales or reclassifications that are attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

ii. Fair value through profit or loss

[IAS 39.9]

The Group designates some investment securities as at fair value, with fair value changes recognised immediately in profit or loss as described in (J)(viii).

iii. Available-for-sale

[IAS 39.9, 46]

'Available-for-sale investments' are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

[IAS 39.55]

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend (see (G)). Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss (see (B)(i)). Impairment losses are recognised in profit or loss (see (J)(vii)).

[IAS 39.55]

Other fair value changes, other than impairment losses (see (J)(vii)), are recognised in OCI and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

[IAS 39.50E]

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it would otherwise have met the definition of loans and receivables and if the Group has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

P. Property and equipment

IAS 16.73(a)

i. Recognition and measurement

[IAS 16.30]

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

[IAS 16.45]

If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

[IAS 16.41, 71]

Any gain or loss on disposal of an item of property and equipment is recognised within other income in profit or loss.

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Notes to the consolidated financial statements (continued)

44. Significant accounting policies (continued)

P. Property and equipment (continued)

ii. Subsequent costs

[IAS 16.13]

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

iii. Depreciation

[IAS 16.53, 58, 60], IAS 16.73(b)

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

IAS 16.73(c)

The estimated useful lives of significant items of property and equipment are as follows:

- buildings 40 years;
- IT equipment 3–5 years; and
- fixtures and fittings 5–10 years.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

[IAS 40.7, 33, 35]

Q. Investment property

IAS 40.75(a)

Investment property is initially measured at cost and subsequently at fair value, with any change therein recognised in profit or loss within other income.

[IAS 40.60]

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

R. Intangible assets and goodwill

i. Goodwill

[IAS 38.107–108]

Goodwill that arises on the acquisition of subsidiaries is presented with intangible assets (see (A)(i)). Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses.

ii. Software

[IAS 38.74]

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

[IAS 38.57, 66]

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

[IAS 38.18]

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

[IAS 38.118(a)–(b)]

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is three to five years.

[IAS 38.104]

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

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Notes to the consolidated financial statements (continued)

44. Significant accounting policies (continued)

S. Impairment of non-financial assets

[IAS 36.9–10]

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

[IAS 36.18, 80]

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

[IAS 36.6, 30]

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

[IAS 36.59]

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

[IAS 36.102]

The Group's corporate assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate assets are allocated.

[IAS 36.104]

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

[IAS 36.117, 122, 124]

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

IFRS 7.21

T. Deposits, debt securities issued and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are the Group's sources of debt funding.

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (sale and repurchase agreement), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Group's financial statements.

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The Group's redeemable preference shares bear non-discretionary coupons and are redeemable by the holder, and are therefore included within subordinated liabilities.

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group designates liabilities at fair value through profit or loss (see (J)(vi) and (viii)).

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Notes to the consolidated financial statements (continued)

44. Significant accounting policies (continued)

U. Provisions

[IAS 37.14, 45, 47, IFRIC 1.8]

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

i. Restructuring

[IAS 37.72]

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

ii. Onerous contracts

[IAS 37.66, 68]

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract (see (S)).

iii. Bank levies

A provision for bank levies is recognised when the condition that triggers the payment of the levy is met. If a levy obligation is subject to a minimum activity threshold so that the obligating event is reaching a minimum activity, then a provision is recognised when that minimum activity threshold is reached.

V. Financial guarantees and loan commitments

IFRS 7.21, [IAS 39.4(c), 9, BC15]

'Financial guarantees' are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

[IAS 37.36, 45, 39.47(c)–(d)]

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable. Financial guarantees and commitments to provide a loan at a below-market interest rate are included within other liabilities.

W. Employee benefits

i. Defined contribution plans

[IAS 19.28, 51]

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as personnel expenses in profit or loss. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

ii. Defined benefit plans

[IAS 19.57, 83]

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

[IAS 19.63–64, 67, IFRIC 14.23–24]

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

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Notes to the consolidated financial statements (continued)

44. Significant accounting policies (continued)

W. Employee benefits (continued)

ii. Defined benefit plans (continued)

[IAS 19.122, 127–130]

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in personnel expenses in profit or loss.

[IAS 19.103, 109–110]

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

iii. Other long-term employee benefits

[IAS 19.155–156]

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

iv. Termination benefits

[IAS 19.165]

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be wholly settled within 12 months of the reporting date, then they are discounted.

v. Short-term employee benefits

[IAS 19.11]

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

vi. Share-based payment transactions

[IFRS 2.14–15, 19–21, 21A]

The grant-date fair value of share-based payment awards – i.e. stock options – granted to employees is recognised as personnel expenses, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

[IFRS 2.30, 32]

The fair value of the amount payable to employees in respect of SARs that are settled in cash is recognised as an expense with a corresponding increase in liabilities over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of the SARs. Any changes in the liability are recognised as personnel expenses in profit or loss.

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Notes to the consolidated financial statements (continued)

44. Significant accounting policies (continued)

IFRS 7.21

X. Share capital and reserves

i. Perpetual bonds

[IAS 12.52B, 58, 32.11, 15–16, 35]

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The Group's perpetual bonds are not redeemable by holders and bear an entitlement to distributions that is non-cumulative and at the discretion of the board of directors. Accordingly, they are presented as a component of issued capital within equity. Distributions thereon are recognised in equity. Related income tax is accounted for in accordance with IAS 12.

ii. Share issue costs

[IAS 32.35]

Incremental costs that are directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

Y. Earnings per share

[IAS 33.10, 31]

The Group presents basic and diluted EPS data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Bank by the weighted-average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss that is attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

Z. Segment reporting

[IFRS 8.25]

Segment results that are reported to the Group's CEO (being the chief operating decision maker) include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Bank's headquarters), head office expenses and tax assets and liabilities.

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Notes to the consolidated financial statements (continued)

45. Standards issued but not yet adopted[a]

IAS 8.30–31

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2014; however, the Group has not applied the following new or amended standards in preparing these consolidated financial statements.

New or amended standards	Summary of the requirements	Possible impact on consolidated financial statements
IFRS 9 *Financial Instruments*	IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss basis is expected to result in an increase in the overall level of impairment allowances.
IFRS 15 *Revenue from Contracts with Customers*	IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

The following new or amended standards are not expected to have a significant impact of the Group's consolidated financial statements.

- *Defined Benefit Plans: Employee Contributions (Amendments to IAS 19).*
- *Annual Improvements to IFRSs 2010–2012 Cycle.*
- *Annual Improvements to IFRSs 2011–2013 Cycle.*
- IFRS 14 *Regulatory Deferral Accounts.*
- *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11).*
- *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).*
- *Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41).*
- *Equity Method in Separate Financial Statements (Amendments to IAS 27).*
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).*
- *Annual Improvements to IFRSs 2012–2014 Cycle – various standards*

IAS 1.31

a. Although new or amended standards that will have no material effect on the financial statements need not be provided, the Group has included them for illustrative purposes only. For a list of forthcoming requirements that are not yet mandatory for 2014 but are available for early adoption, see Appendix I.

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Appendix I

New standards or amendments for 2014 and forthcoming requirements

Since the December 2013 edition of this guide, a number of standards, amendments to or interpretations of standards have been issued. This Appendix lists these new standards, amendments to or interpretations of standards in issue at 1 December 2014, which were not yet effective for periods beginning on 1 January 2013 and therefore may need to be considered for the first time when preparing IFRS financial statements for an annual period beginning on 1 January 2014.

This Appendix contains two tables, as follows.

- **New currently effective requirements:** This table lists the recent changes to IFRS that are required to be adopted in annual periods beginning on 1 January 2014.
- **Forthcoming requirements:** This table lists the recent changes to IFRS that are available for early adoption in annual periods beginning on 1 January 2014, although they are not mandatory until a later period. These requirements are not illustrated in this guide.

The tables also include a cross-reference to the relevant sections in this guide that set out the related example disclosures and further KPMG guidance, as appropriate. All of the effective dates in the tables refer to the beginning of an annual accounting period.

New currently effective requirements

Effective date	New standards or amendments	Relevant sections in this guide
1 January 2014	*Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)*	Not illustrated[1], (*Insights into IFRS* (Chapter 5.6))
	Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)	Not illustrated (*Insights into IFRS* (Chapter 7.8))
	Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)	Note 25 (IFRS Breaking News)
	Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)	Not illustrated (In the Headlines – Issue 2013/13)
	IFRIC 21 *Levies*	Not illustrated (In the Headlines – Issue 2013/09)

1. An illustration of the disclosures for investment funds is available in Appendix I of our publication Guide to annual financial statements – Illustrative disclosures for investment funds (December 2014).

Forthcoming requirements

Effective date	New standards or amendments	KPMG guidance
1 July 2014	*Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)*	In the Headlines – Issue 2013/20
	Annual Improvements to IFRSs 2010–2012 Cycle[2]	IFRS Newsletter: The Balancing Items – Issue 6
	Annual Improvements to IFRSs 2011–2013 Cycle[2]	IFRS Newsletter: The Balancing Items – Issue 6
1 January 2016	IFRS 14 *Regulatory Deferral Accounts*	In the Headlines – Issue 2014/01
	Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	In the Headlines – Issue 2014/07
	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	In the Headlines – Issue 2014/08
	Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)	In the Headlines – Issue 2014/12
	Equity Method in Separate Financial Statements (Amendments to IAS 27)	In the Headlines – Issue 2014/14

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Forthcoming requirements (continued)

Effective date	New standards or amendments	KPMG guidance
1 January 2016 (continued)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)*	In the Headlines – Issue 2014/17
	Annual Improvements to IFRSs 2012–2014 Cycle – various standards	IFRS Newsletter: The Balancing Items – Issue 7
1 January 2017	IFRS 15 *Revenue from Contracts with Customers*	In the Headlines – Issue 2014/09
1 January 2018	IFRS 9 *Financial Instruments*	*Insights into IFRS* (Chapter 7A), In the Headlines – Issue 2014/13, In the Headlines – Issue 2013/19

2. The amendments to IFRS 2 and IFRS 3 *Business Combinations* included in *Annual Improvements to IFRSs 2010–2012 Cycle* are applied to share-based payment transactions for which the grant date is on or after 1 July 2014 and to business combinations for which the date of acquisition is on or after 1 July 2014, respectively. In this guide, the Group has no transactions that would be affected by these amendments.

   The amendment to IFRS 13 included in *Annual Improvements to IFRSs 2011–2013 Cycle* is applied from the beginning of the annual period in which IFRS 13 was initially applied. In this guide, the Group has no contracts that would be affected by the amendment.

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Appendix II

Presentation of comprehensive income – Two-statement approach

Consolidated income statement[a]

Reference	For the year ended 31 December *In millions of euro*	Note	2014	2013
IFRS 7.20(b)	Interest income	*8*	**3,341**	3,528
IFRS 7.20(b)	Interest expense	*8*	**(1,406)**	(1,686)
IAS 1.82(b)	Net interest income		**1,935**	1,842
IFRS 7.20(c)	Fee and commission income	*9*	**854**	759
IFRS 7.20(c)	Fee and commission expense	*9*	**(179)**	(135)
	Net fee and commission income		**675**	624
IFRS 7.20(a)	Net trading income	*10*	**1,434**	1,087
IFRS 7.20(a)	Net income from other financial instruments at fair value through profit or loss	*11*	**21**	81
IFRS 7.20(a)	Other revenue	*12*	**123**	186
IAS 1.85	**Revenue**		**4,188**	3,820
	Other income		**18**	10
IFRS 7.20(e)	Net impairment loss on financial assets	*21, 22, 23*	**(336)**	(233)
IAS 1.99	Personnel expenses	*13*	**(2,264)**	(1,974)
IAS 17.35(c)	Operating lease expenses		**(338)**	(327)
IAS 1.99, 38.118(d)	Depreciation and amortisation	*24, 25*	**(47)**	(39)
IAS 1.99	Other expenses	*14*	**(397)**	(585)
IAS 1.85	**Profit before tax**		**824**	672
IAS 1.82(d), 12.77	Income tax expense	*16*	**(187)**	(118)
IAS 1.81A(a)	**Profit**		**637**	554
	Attributable to:			
IAS 1.81B(a)(ii)	Equity holders of the Bank		**610**	528
IAS 1.81B(a)(i)	Non-controlling interests		**27**	26
	Profit		**637**	554
IAS 33.4	**Earnings per share**			
IAS 33.66	Basic earnings per share (euro)	*15*	**0.34**	0.29
IAS 33.66	Diluted earnings per share (euro)	*15*	**0.33**	0.29

The notes on pages 16 to 147 are an integral part of these consolidated financial statements.

IAS 1.10A a. This Appendix illustrates the two-statement approach to the presentation of comprehensive income, consisting of a separate income statement displaying profit or loss, and a second statement displaying the components of OCI.

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Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December

Reference	*In millions of euro*	2014	2013
IAS 1.10A	**Profit**	**637**	554
	Other comprehensive income		
IAS 1.82A(a)	**Items that will never be reclassified to profit or loss**		
IAS 1.85	Remeasurements of defined benefit liability (asset)	**7**	9
IAS 1.91(b)	*Related tax*	**(2)**	(3)
		5	6
IAS 1.82A(b)	**Items that are or may be reclassified to profit or loss**		
IAS 21.52(b)	Foreign currency translation differences for foreign operations	**(45)**	17
IAS 21.52(b)	Net gain (loss) on hedges of net investments in foreign operations	**30**	(15)
	Cash flow hedges:		
IFRS 7.23(c)	Effective portion of changes in fair value	**(25)**	(21)
IFRS 7.23(d), IAS 1.92	Net amount transferred to profit or loss	**15**	12
	Fair value reserve (available-for-sale financial assets):		
IFRS 7.20(a)(ii)	Net change in fair value	**(361)**	(160)
IFRS 7.20(a)(ii), IAS 1.92	Net amount transferred to profit or loss	**329**	125
IAS 1.91(b)	*Related tax*	**14**	15
		(43)	(27)
IAS 1.81A(b)	**Other comprehensive income, net of tax**	**(38)**	(21)
IAS 1.82(i)	**Total comprehensive income**	**599**	533
	Attributable to:		
IAS 1.81B(b)(ii)	Equity holders of the Bank	**572**	507
IAS 1.81B(b)(i)	Non-controlling interests	**27**	26
	Total comprehensive income	**599**	533

The notes on pages 16 to 147 are an integral part of these consolidated financial statements.

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User need	Publication series	Purpose
Briefing	In the Headlines	Provides a high-level summary of significant accounting, auditing and governance changes together with their impact on entities.
	IFRS Newsletters	Highlights recent IASB and FASB discussions on the financial instruments, insurance and leases projects. Includes an overview, analysis of the potential impact of decisions, current status and anticipated timeline for completion.
	The Balancing Items	Focuses on narrow-scope amendments to IFRS.
	New on the Horizon	Considers the requirements of consultation documents such as exposure drafts and provides KPMG's insight. Also available for specific sectors.
	First Impressions	Considers the requirements of new pronouncements and highlights the areas that may result in a change in practice. Also available for specific sectors.
Application issues	Insights into IFRS	Emphasises the application of IFRS in practice and explains the conclusions that we have reached on many interpretative issues. The overview version provides a high-level briefing for audit committees and boards.
	IFRS Practice Issues	Addresses practical application issues that an entity may encounter when applying IFRS. Also available for specific sectors.
	IFRS Handbooks	Includes extensive interpretative guidance and illustrative examples to elaborate or clarify the practical application of a standard.
Interim and annual reporting	Guide to financial statements – Illustrative disclosures	Illustrates one possible format for financial statements prepared under IFRS, based on a fictitious multinational corporation. Available for annual and interim periods, and for specific sectors. To start answering the question 'How can I improve my business reporting?', visit kpmg.com/betterbusinessreporting.
	Guide to financial statements – Disclosure checklist	Identifies the disclosures required for currently effective requirements for both annual and interim periods.
GAAP comparison	IFRS compared to US GAAP	Highlights significant differences between IFRS and US GAAP. The overview version provides a high-level briefing for audit committees and boards.
Sector-specific issues	IFRS Sector Newsletters	Provides a regular update on accounting and regulatory developments that directly impact specific sectors.
	Application of IFRS	Illustrates how entities account for and disclose sector-specific issues in their financial statements.
	Impact of IFRS	Provides a high-level introduction to the key IFRS accounting issues for specific sectors and discusses how the transition to IFRS will affect an entity operating in that sector.

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Ewa Bialkowska

Eduardo Lopez

Hiroaki Hori

Chris Spall

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