

Financial Sector –

including Banks

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Background and applicability



The level of disclosure required will depend on :

- the extent of the entity's use of FI and
- its exposure to financial risk.
- Quantitative disclosures will need to be based on information provided internally to key Management personnel



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Reasons for issuing – IFRS 7

“The IASB believes that users of financial statements need information about an entity's exposure to risks and how those risks are managed.”



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Shall be applied by



all entities to

all risks arising from

all financial instruments
(some exceptions mentioned in Para 3)



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exceptions



- Interests in **SUBSIDIARIES, ASSOCIATES** and **JOINT VENTURES** -accounted for in **IAS 27, 28, 31**.
- **EMPLOYERS' RIGHTS AND OBLIGATIONS** arising from employee benefit plans under **IAS 19**.
- **INSURANCE CONTRACTS** as defined in **IFRS 4**.
- Financial Instruments, contracts and obligations under **SHARE-BASED PAYMENT TRANSACTIONS** to which **IFRS 2** applies
- **PUTTABLE INSTRUMENTS AND INSTRUMENTS (required to be classified as equity instruments)** that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation under **IAS 32 amendments**



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IFRS 7

Financial Instruments: Disclosures



Overview



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Overview - - Main Features



Requires disclosure of:

- the **SIGNIFICANCE** of FI for an entity's P&L and BS
It incorporate many of the requirements previously in IAS 32.
- **QUALITATIVE AND**
- **QUANTITATIVE** information
about exposure to risks arising from FI



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Overview - - Main Features ----- cont

The qualitative disclosures :

Describe management's **OBJECTIVES, POLICIES AND PROCESSES** for managing those risks.

The quantitative disclosures :

Provide information about the **EXTENT TO WHICH THE ENTITY IS EXPOSED TO RISK**, based on information provided internally to the entity's **key management personnel**.



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Overview - - Main Features ----- cont

- AGs --- Appendix B - mandatory application guidance.
- IGs ---- Non-mandatory Implementation Guidance that describes how an entity might provide the disclosures required by the IFRS.
- Supersedes IAS 30 and the disclosure requirements of IAS 32.
- Presentation requirements of IAS 32 -unchanged. Effective for annual periods beginning on or after 1 January 2007. (Pakistan 1 July 2008)



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IFRS 7

Financial Instruments: Disclosures



Classes of Financial Instruments - Para 6



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IFRS 7 - 10

Classes of FI

- Para 6

- IFRS requires disclosures by class of financial instrument
- an entity shall group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the **characteristics of those financial instruments.**



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Classes Vs Categories of FI

- Para 6

- There is no specific guidance on what comprises a "class".

some examples of classes of financial instruments are :

- Cash and cash equivalents,
- unsecured bank facilities and
- convertible notes (liability).

In determining classes the entity should, at a minimum, distinguish instruments measured at **AMORTISED COST** from those measured at FAIR VALUE, and treat financial instruments outside the scope of IFRS 7 as a separate class.

An entity shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position.



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Classes Vs Categories eg- Para 6



	Designated Trading at fair value	Held-to- maturity	Loans and receivables	Available- for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	2,992	-	-	2,992	2,992
Pledged trading assets	878	-	-	-	-	878	878
Non-pledged trading assets	14,890	-	-	-	-	14,890	14,890
Derivative assets held for risk management	728	-	-	-	-	728	728
Loans and advances to banks	-	-	4,707	-	-	4,707	4,729
Loans and advances to customers:							
Measured at fair value	-	3,145	-	-	-	3,145	3,145
Measured at amortised cost	-	-	53,660	-	-	53,660	55,304
Investment securities:							
Measured at fair value	-	3,439	-	2,029	-	5,468	5,468
Measured at amortised cost	-	-	101	-	-	101	104



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IFRS 7 Financial Instruments: Disclosures



Significance of Financial Instruments

for Balance sheet



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CARRYING VALUE



CARRYING VALUE

disclosure is required for

each category of financial assets and financial liabilities (as defined in IAS 39)

Para 8



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IFRS 7 - 15

Significance of Financial Instruments for Balance sheet (Statement of Financial position)

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Para 9

LOANS OR RECEIVABLES - designated at fair value through P&L

- Maximum **exposure to credit risk** and amount mitigated by related credit derivatives
- **Change in fair value** attributable to **changes in credit risk**



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IFRS 7 - 16

Significance of Financial Instruments for Balance sheet (Statement of Financial position)

--- cont

- Para 10
- **FINANCIAL LIABILITY** designated **at fair value through P&L**
 - **CHANGE in fair value** attributable to changes in **Credit Risk**
 - Difference between **carrying amount and contractual amount** payable at maturity



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How to calculate CHANGE in fair value attributable to changes in Credit Risk IG 7 to 11



- On 1 Jan 20X1, an entity issues a 10-year bond / par value of CU150,000 / annual fixed coupon rate = 8 %

(consistent with market rates for bonds with similar characteristics).

The contractual cash flows of the instrument at the end of the period are:

- interest: CU12,000 per year for each of years 2-10.
- principal: CU150,000 in year 10.

- At the inception of the bond, LIBOR is 5 %.
(Entity uses LIBOR as its observable (benchmark) interest rate.)

- Bond's specific rate (8-5) = 3%

At the start of the period of a 10-year bond, coupon of 8 per cent, the bond's internal rate of return is 8 per cent. (i.e LIBOR 5 per cent + 3 % the instrument-specific component of the IRR)



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IFRS 7 - 18

How to calculate
CHANGE in fair value
attributable to changes in Credit Risk
IG 7 to 11



- At the end of the first year:
 - (a) LIBOR has decreased to 4.75 per cent.
 - (b) the fair value for the bond is CU153,811, consistent with an market interest rate of 7.6 per cent.



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How to calculate
CHANGE in fair value
attributable to changes in Credit Risk
IG 7 to 11



- The discount rate to calculate the present value of the bond is thus 7.75 %, (i.e period LIBOR rate 4.75 % + 3 % instrument-specific component).
 - This gives a present value of CU152,367
 - The market price of the liability at the end of the period is CU153,811.
- The diff of CU1,444 represent increase in fair value of the bond that is not attributable to changes in market conditions that give rise to market risk i.e attributable to changes in **Credit Risk***



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RECLASSIFICATION

RECLASSIFICATION

Amount and
reason

for RECLASSIFICATION from fair value to cost or amortised cost or vice versa



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IFRS 7 - 21

RECLASSIFICATION

--- cont

- if reclassifications are ***made out*** of either fair value through profit or loss or AFS categories :
 - the **amount, fair value gain or loss** recognised in that period and in previous period.
 - the **rare situation**, and the facts and circumstances indicating that the situation was rare (para 50B of IAS 39)
 - for **each reporting period until derecognition**
 - the **carrying amounts** and **fair values**
 - the **fair value gain or loss *that would have been recognised in profit or loss* or *other comprehensive income*** if the financial asset had not been reclassified
 - Effective **interest rate and estimated amounts of cash flows**



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IFRS 7 - 22

Transfers

- Para 13

Information about **transferred** financial assets that don't qualify for derecognition :

- the **nature** of the assets
- the **risks and rewards** of ownership to which the entity remains **exposed**
- the **carrying amounts** of the assets and of the associated liabilities

(when the entity continues to recognise all the assets)



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IFRS 7 - 23

Transferred financial assets that don't qualify for derecognition example



	2008	2007
Bombay mortgage trust	782	667

The Group has transferred retail mortgage loans and advances to the Bombay Mortgage Trust, but has retained substantially all of the credit risk associated with the transferred assets.

Due to retention of substantially all the risks and rewards on these assets the Group continues to recognise these assets within loans and advances to customers and the transfers are accounted for as secured financing transactions.

The associated liability of e770 million (2007: e650 million), secured by these assets, is included under debt securities and is carried at amortised cost. The Group is exposed to the majority of ownership risks and rewards of this trust and hence, this trust is consolidated.



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IFRS 7 - 24

Collateral pledged by us

Para 14

- *carrying amount*
- *the terms and conditions.*



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IFRS 7 - 25

Collateral pledged example



- ***The pledged trading assets are those financial assets that may be repledged or resold by counterparties. The total financial assets that have been pledged as collateral for liabilities, including amounts reflected above, at 31 December 2008 was €2,633 million (2007: €2,249 million).***
- ***These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the bank acts as an intermediary.***



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IFRS 7 - 26

Collateral held

Para 15

- **Collateral held** (is permitted to sell or repledge in the absence of default)
 - Fair value
 - the terms and conditions.
 - Fair value of any such collateral sold or re-pledged, and whether the entity has an obligation to return it



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IFRS 7 - 27

Collateral accepted as security for assets example



- **At 31 December 2008, the fair value of financial assets accepted as collateral that the Group is permitted to sell or repledge in the absence of default is €1,083 million (2007: €958 million).**
- **At 31 December 2008, the fair value of financial assets accepted as collateral that have been sold or repledged is €661 million (2007: €705 million). The Group is obliged to return equivalent securities.**
- **These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.**



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IFRS 7 - 28

ALLOWANCE ACCOUNT FOR CREDIT LOSSES

Para 16

ALLOWANCE ACCOUNT FOR CREDIT LOSSES - EACH CLASS OF FA

When financial assets are impaired by credit losses and the **entity records the impairment in a separate account** rather than directly reducing the carrying amount of the asset,

it shall disclose a reconciliation of changes in that account during the period for each class of financial assets.



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ALLOWANCE ACCOUNT FOR CREDIT LOSSES

eg



In millions of <u>euro</u>	Gross Impairment Carrying		Gross Impairment Carrying	
	amount	allowance	amount	allowance
	2008		2007	
Retail customers:				
Mortgage lending	14,856	(309)	14,547	13,629
Personal loans	4,164	(225)	3,939	3,621
Credit cards	2,421	(251)	2,170	2,284
Corporate customers:				
Finance leases	939	(17)	922	861
Other secured lending	32,059	(871)	31,188	28,653
Reverse repos	6,318	-	6,318	6,134
	60,757	(1,673)	59,084	55,182
			(1,522)	53,660



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ALLOWANCE ACCOUNT FOR CREDIT LOSSES

eq

Allowances for impairment

In millions of euro

	2008	2007
Specific allowances for impairment		
Balance at 1 January	1,324	1,133
Impairment loss for the year:		
Charge for the year	197	191
Recoveries	(18)	(3)
Effect of foreign currency movements	7	9
Effect of discounting	(10)	(6)
Write-offs	(47)	-
Balance at 31 December	1,453	1,324



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IFRS 7 - 31

COMPOUND FINANCIAL INSTRUMENTS

Para 17

COMPOUND FINANCIAL INSTRUMENTS - Issued

If an entity has issued an instrument that contains both a liability and an equity component and the instrument has multiple embedded derivatives whose values are interdependent (such as a callable convertible debt instrument), it shall **DISCLOSE THE EXISTENCE OF THOSE FEATURES**



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Our default

Para 18/19

Defaults and breaches - For loans PAYABLE

Our default

— recognised at the end of the reporting period, an entity shall disclose:

- details of any **defaults** during the period of principal, interest, sinking fund, or redemption terms of those loans payable;
- the **carrying amount of the loans payable in default** at the end of the reporting period; and
- whether the default **was remedied**, or the terms of the loans payable were **renegotiated**, before the financial statements were authorised for issue.



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Significance of Financial Instruments for Profit and Loss account

(Statement of comprehensive income)

- **NET GAINS OR NET LOSSES** on each category (in accordance with IAS 39) of FA/FL
- **TOTAL INTEREST INCOME AND EXPENSE** (using the effective interest method) for FA/FL not at fair value through profit or loss
- **FEE INCOME AND EXPENSE** (excluding amounts included in determining effective interest rate) arising from
 - FA / FL not at fair value through profit or loss and
 - trust and other fiduciary activities
- **INTEREST INCOME** on impaired financial assets
- Amount of **IMPAIRMENT LOSSES** for **each class** of FA



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Significance of Financial Instruments
Other Disclosures

- Accounting policies and
- Measurement basis

used in preparing financial statements as required by IAS 1



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Significance of Financial Instruments



Hedge
Accounting
Other Disclosures




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Significance of Financial Instruments
Hedge Accounting
 Other Disclosures

Description of :


- each **type** of hedge,
- **financial instruments designated** as hedging instruments and
- **nature of risks** being hedged

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Significance of Financial Instruments
cash flow hedges
 Other Disclosures



- when cash flows are expected to **occur** and when they are expected to affect profit or loss;
- description of forecast transactions **no longer expected to occur**;
- amount **recognised** in other comprehensive income ('OCI');
- amount reclassified from **OCI to profit or loss**; and
- amount removed from **OCI and included in initial cost of non-financial asset or non-financial liability**

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Significance of Financial Instruments

fair value hedges

Other Disclosures



- gains/losses on hedging instrument;
- gains/losses on hedged item attributable to hedged risk
- Ineffectiveness recognised in profit or loss that arises from cash flow hedges and net investment hedges



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Financial Instruments: Disclosures



FAIR VALUE



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Significance of Financial Instruments

FAIR VALUE

Other disclosures

For each class of financial instruments ---- Para 25

- disclose fair value so as to **enable comparison** with carrying amount
- **methods and assumptions** applied in determining fair values
- **how fair value is determined** e.g. directly by reference to quoted market prices or estimated using a valuation technique
- **assumptions used in a valuation technique** e.g. prepayment rates, rates of estimated credit losses and interest or discount rates
- Any **changes in valuation techniques** and reasons for change



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Significance of Financial Instruments

FAIR VALUE

	Trading at fair value	Designated at fair value	Held-to-maturity	Loans and receivables	Available for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	-	2,992	-	-	2,992	2,992
Pledged trading assets	878	-	-	-	-	-	878	878
Non-pledged trading assets	14,890	-	-	-	-	-	14,890	14,890
Derivative assets held for risk management	728	-	-	-	-	-	728	728
Loans and advances to banks	-	-	-	4,707	-	-	4,707	4,729
Loans and advances to customers:								
Measured at fair value	-	3,145	-	-	-	-	3,145	3,145
Measured at amortised cost	-	-	-	53,860	-	-	53,860	55,304
Investment securities:								
Measured at fair value	-	3,439	-	-	2,029	-	5,488	5,488
Measured at amortised cost	-	-	101	-	-	-	101	104



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IFRS 7 - 42

Significance of Financial Instruments
FAIR VALUE hierarchy
 Other disclosures

Level 1	<ul style="list-style-type: none"> Fair values measured using quoted prices (unadjusted) in active markets for <u>identical</u> assets or liabilities
Level 2	<ul style="list-style-type: none"> Fair values measured using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 3	<ul style="list-style-type: none"> Fair values measured using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs)

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Significance of Financial Instruments
FAIR VALUE hierarchy
 Other disclosures

- For **each class** of FI measured at fair value.
 - **level in the hierarchy** into which the fair value measurements are categorised
 - » *in their entirety*
 - » based on the *lowest level input* that is *significant* to the fair value measurement
 - significant **transfers between Level 1 and Level 2** categories
 - » **Reasons** for transfers
 - » Transfers *in* to be disclosed and discussed separately from transfers *out*
- Policy of recognising day 1 gain**

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Significance of Financial Instruments

FAIR VALUE hierarchy

Other disclosures

For each *class* of **level 3 financial instruments** measured at fair value in the statement of financial position

- **Reconciliation** from period to period disclosing
 - » Total gains or losses recognised in profit or loss
 - » Total gains or losses in OCI
 - » Purchases, sales, issues and settlements (each type of movement presented separately)
 - » Transfers into or out of Level 3 and reasons for transfers
- Total **gains or losses in profit or loss** relating to instruments still **held** at the end of the reporting period
- **Effect, if significant, of change in unobservable inputs** to reasonably possible alternative assumptions and how calculated



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Significance of Financial Instruments

FAIR VALUE hierarchy

example



The Group measures fair values using the following hierarchy of methods:

- **Quoted market price in an active market for an identical instrument.**
- **Valuation techniques based on observable inputs.** *This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.*



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Significance of Financial Instruments FAIR VALUE hierarchy example



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 recognised fair values measured using significant unobservable inputs, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects:

In millions of euro	Effect recorded in profit or loss		Effect recorded directly in equity	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
31 December 2008				
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 2007				
OTC structured derivatives – trading assets and liabilities	30	(12)	-	-
Other	8	(8)	-	-
Total	38	(20)	-	-



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Significance of Financial Instruments FAIR VALUE hierarchy example



During 2008 there was considerable dislocation in asset-backed securities markets. For many securities this has meant greatly reduced or nil trading volumes and severe falls in transaction prices and quotes.

As a result certain securities that were previously valued using a quoted market price in an active market must now be valued using a valuation technique that incorporates significant unobservable data.

These securities are backed primarily by static pools of residential mortgages and enjoy a senior claim on cash flows. The principal amounts of asset-backed securities valued using significant unobservable inputs at 31 December 2008 was €422 million for trading securities and €785 million for investment securities.

The Group's valuation methodology uses a discounted cash flow methodology that takes into account original underwriting criteria, borrower attributes (such as age and credit scores), loan-to-value ratios and expected house price movements and unemployment rates.



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Significance of Financial Instruments

FAIR VALUE hierarchy

example



Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions in different mortgage-backed securities and broker quotes.

This calibration process is inherently subjective as different input sources may imply different levels of expected losses and discount rates; also, adjustment is required for the differing features of different securities. The calibration process yields ranges of possible inputs and estimates of fair value, and management judgement is required to select the most appropriate point in the range.

Key inputs and assumptions used in the models include expected declines in house prices during 2009 of 10 percent (with reasonably possible alternative assumptions of 7 percent and 16 percent) and an average discount rate of 3 percent above LIBOR (with reasonably possible alternative assumptions of 2 percent and 5 percent).



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Significance of Financial Instruments

FAIR VALUE Disclosure – exemption

Other disclosures



Para 29

● **SHORT-TERM**

when the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as **SHORT-TERM TRADE RECEIVABLES AND PAYABLES**;

● **NOT HAVE A QUOTED MARKET PRICE**

for an investment in equity instruments that **DO NOT HAVE A QUOTED MARKET PRICE IN AN ACTIVE MARKET**, or derivatives linked to such equity instruments, that is measured at cost in accordance with IAS 39 because its fair value cannot be measured reliably;



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IFRS 7

Financial Instruments: Disclosures



Qualitative & Quantative disclosures



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Nature and Extent of Risks

Arising from FI

Qualitative disclosures



For each type of risk (e.g., credit, liquidity and market) arising from financial instruments, disclose:


- The **exposures** to risk and how they arise
- **Objectives, policies and processes** for managing the risk and methods used to measure the risk
- Any **changes** to the above from the previous period



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Nature and Extent of Risks
 Arising from FI ----- **Qualitative disclosures**



eg


A separate Group Credit department, is responsible for management of the Group's credit risk, including

- ◆ **Formulating credit policies**
- ◆ **Establishing the authorisation structure**
- ◆ **Reviewing and assessing credit risk.**
- ◆ **Limiting concentrations of exposure to counterparties, geographies and industries**
- ◆ **Developing and maintaining the Group's risk gradings**
- ◆ **Reviewing compliance of business units with agreed exposure limits**

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Nature and Extent of Risks
 Arising from FI ----- **Quantitative disclosures**



Para 34

- For each type of risk arising from financial instruments, disclose:
 - **Summary quantitative data** about the risk exposure as provided to **key management personnel**
 - **Detailed disclosures** to the extent **not disclosed already** from the point above
 - **Concentrations of risk** if not included above

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IFRS 7 - 54

Eg -- concentrations of credit risk by SECTOR



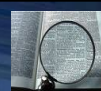
<i>In millions of euro</i>	<i>Notes</i>	Loans and advances to customers		Loans and advances to banks		Investment debt securities	
		2008	2007	2008	2007	2008	2007
Carrying amount	20, 21, 22	63,070	56,805	5,572	4,707	5,807	5,143
Concentration by sector							
Corporate:		42,414	37,987	-	-	4,392	3,854
Real estate		16,966	15,574	-	-	2,399	2,042
Transport		12,724	10,636	-	-	1,928	1,650
Funds		9,331	8,737	-	-	-	-
Other		3,393	3,040	-	-	65	162
Government		-	-	-	-	1,317	1,202
Banks		-	-	5,572	4,707	-	-
Retail:		20,656	18,818	-	-	98	87
Mortgages		14,547	13,361	-	-	98	87
Unsecured lending		6,109	5,457	-	-	-	-
		63,070	56,805	5,572	4,707	5,807	5,143



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Eg -- concentrations of credit risk by LOCATION



<i>In millions of euro</i>	<i>Notes</i>	Loans and advances to customers		Loans and advances to banks		Investment debt securities	
		2008	2007	2008	2007	2008	2007
Concentration by location							
North America		12,649	11,393	1,118	944	2,374	2,246
Europe		36,238	32,656	3,139	2,652	2,443	2,061
Asia Pacific		8,188	7,356	722	664	528	446
Middle East and Africa		5,995	5,400	593	447	462	390
		63,070	56,805	5,572	4,707	5,807	5,143



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Financial Instruments: Disclosures



Credit Risk



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Credit risk - DEF

Arising from FI ----- Quantitative disclosures



The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.



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Credit risk

Arising from FI ----- Quantitative disclosures



by class of financial instruments:

- **Maximum** credit exposure
(without collateral or other credit enhancements)
 - description of collateral and
 - other credit enhancements
- Information about **credit quality** of financial assets that are neither past due nor impaired (*Analysis of credit exposures using an external or internal grading system*)
- Carrying amount of **renegotiated financial assets** (that would be past due and impaired if not renegotiated)
- Credit **commitments** Information to include:



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Credit quality

- (a) an analysis of **credit exposures using an external or internal credit grading system**;
- (b) the nature of the **counterparty**;
- (c) **historical information** about counterparty default rates; and
- (d) any other information used to assess credit quality.



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Credit ratings



External ratings disclosures:

- (a) the amounts of **credit exposures** for each external credit grade;
- (b) the **rating agencies used**;
- (c) the amount of an **entity's rated and unrated credit exposures**; and
- (d) the **relationship** between internal and external ratings.

Internal credit ratings disclosures

- (a) the internal credit ratings **process**;
- (b) the amounts of **credit exposures** for each internal credit grade; and
- (c) the **relationship** between internal and external ratings.



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PAST DUE



A financial asset is past due when a counterparty has failed to make a payment when contractually due



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Credit risk arising from FI

Financial assets that are either past due or impaired



Para 37

An entity shall disclose by class of FA:

- (a) an age analysis of financial assets - past due but not impaired;
- (b) an analysis of financial assets that are **individually determined to be impaired**, including the factors the entity considered in determining that they are impaired; and
- (c) a description of collateral and other credit enhancements and, unless impracticable, an estimate of their fair value (for the above).



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Individually impaired

Example

[in millions of euro]	Note	Loans and adv to customers		Loans and adv to banks		Investment securities	
		2008	2007	2008	2007	2008	2007
Carrying amount	20, 21, 22	63,070	56,805	5,572	4,707	5,807	5,143
Assets at amortised cost							
Individually impaired:							
Grade 6: Impaired		2,920	2,277	15	12	-	-
Grade 7: Impaired		1,460	1,139	7	6	-	-
Grade 8: Impaired		487	380	2	2	-	-
Gross amount		4,867	3,796	24	20	-	-
Allowance for impairment	20, 21	(1,453)	(1,324)	(12)	(5)	-	-
Carrying amount		3,414	2,472	12	15	-	-



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Collectively impaired

Example

	Loans and adv to customers		Loans and adv to banks		Investment securities	
	2008	2007	2008	2007	2008	2007
Collectively impaired:						
Grade 1-3: Low-fair risk	1,812	1,476	-	-	-	-
Grade 4-5: Watch list	389	317	-	-	-	-
Grade 6: Impaired	207	169	-	-	-	-
Grade 7: Impaired	130	106	-	-	-	-
Grade 8: Impaired	52	42	-	-	-	-
Gross amount	2,590	2,110	-	-	-	-
Allowance for impairment²¹	(220)	(198)	-	-	-	-
Carrying amount	2,370	1,912	-	-	-	-

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Past due but not impaired

Example

	Loans and adv to customers		Loans and adv to banks		Investment securities	
	2008	2007	2008	2007	2008	2007
Past due but not impaired:						
Grade 1-3: Low-fair risk	470	328	-	-	-	-
Grade 4-5: Watch list	202	141	-	-	-	-
Carrying amount	672	469	-	-	-	-
Past due comprises:						
30-60 days	512	461	-	-	-	-
60-90 days	141	-	-	-	-	-
90-180 days	14	8	-	-	-	-
180 days +	5	-	-	-	-	-
Carrying amount	672	469	-	-	-	-

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Neither Past due nor impaired

Example

	Loans and adv to customers		Loans and adv to banks		Investment securities		
	2008	2007	2008	2007	2008	2007	
Neither past due nor impaired:							
Grade 1-3: Low-fair risk	48,665	45,607	5,560	4,692	101	101	
Grade 4-5: Watch list	3,963	3,200	-	-	-	-	
Carrying amount	52,628	48,807	5,560	4,692	101	101	
<i>Includes accounts with renegotiated terms</i>	<i>1,132</i>	<i>1,048</i>	<i>111</i>	<i>94</i>	<i>-</i>	<i>-</i>	
Carrying amount							
- amortised cost	20, 21, 22	59,084,	53,660	5,572	4,707	101	101

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	In millions of euro	Loans and adv to customers		Loans and adv to banks	
		2008	2007	2008	2007
Example :					
Fair value of collateral					
The Group holds collateral against loans and advances to customers in the form of					
-mortgage interests over property,					
-other registered securities over assets, and					
-guarantees.					
Against individually impaired:					
Property		2,331	1,822	-	-
Debt securities		885	449	-	-
Equities		238	289	-	-
Other		175	213	-	-
Against collectively impaired:					
Property		1,205	1,065	-	-
Debt securities		438	344	-	-
Equities		227	156	-	-
Other		102	247	-	-
Against past due but not impaired:					
Property		327	188	-	-
Debt securities		221	-	-	-
Other		74	136	-	-
Against neither past due nor impaired:					
Property		38,992	36,221	-	-
Debt securities		11,022	9,095	-	-
Equities		2,210	2,325	-	-
Other		1,530	1,721	579	512
Against fair value through profit or loss:					
Property		1,100	1,243	-	-
Debt securities		432	502	-	-
Equities		83	98	-	-
Other		10	11	-	-
		61,602	56,125	579	512

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Credit ratings and fair values



Trading assets

in millions of euro

	Note	2008	2007
Government bonds and treasury bills:			
Rated AAA	18	10,221	9,842
Corporate bonds:			
Rated AA- to AA+	18	3,054	3,256
Rated A- to A+	18	1,487	814
Asset-backed securities:			
Rated AA- to AA+	18	397	417
Rated A- to A+	18	119	46
Derivative assets:			
Government counterparties		459	375
Bank and financial institution counterparties		1,157	1,193
Corporate counterparties		220	136
Fair value and carrying amount		17,064	16,079



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Credit risk — Repossessed Assets



When an entity obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (eg guarantees), and such assets **meet the recognition criteria in other Standards**, an entity shall disclose:

- (a) the **nature and carrying amount** of the assets obtained; and
- (b) when the **assets are not readily convertible into cash**, its **policies for disposing of such assets** or for using them in its operations.



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IFRS 7 - 70

Repossessed Assets

Example



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:

<i>In millions of euro</i>	2008	2007
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 generally does not use the non-cash collateral for its own operations.



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IFRS 7

Financial Instruments: Disclosures



Liquidity Risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.



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Liquidity risk

Arising from FI ----- Quantitative disclosures

An entity shall disclose:

- (a) a maturity analysis for financial liabilities that shows the remaining contractual maturities;**
- (b) description of how it manages the liquidity risk inherent in (a).**

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Liquidity risk

Arising from FI ----- Quantitative disclosures

In preparing the contractual maturity analysis for financial liabilities, an entity uses its judgement to determine an appropriate number of time bands.

- (a) not later than 1 month;**
- (b) later than 1 month and not later than 3 months;**
- (c) later than 3 months and not later than 1 year; and**
- (d) later than 1 year and not later than 5 years.**

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Liquidity risk

Arising from FI ----- Quantitative disclosures



- **The amounts disclosed in the maturity analysis are the contractual undiscounted cash flows, which is different from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows.**
- **IG 30**
If an entity manages liquidity risk on the basis of expected maturity dates (banks),
 - **it might disclose a maturity analysis of the expected maturity dates of both financial liabilities and financial assets.**
 - **describe how it manages the liquidity risk inherent in the maturity analysis of financial liabilities**



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Liquidity risk – example

Residual contractual maturities of financial liabilities



In millions of euro	Note	Gross		Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
		Carrying amount	nominal inflow / outflow					
31 December 2008								
Trading liabilities	18	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)
		88,811	(94,476)	(55,626)	(3,163)	(4,606)	(29,920)	(1,161)



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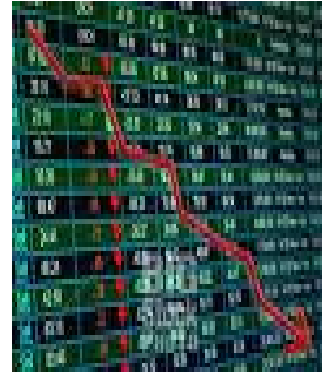
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Financial Instruments: Disclosures



Market Risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.



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Market Risk

comprises three types of risk:

- currency risk,
- interest rate risk
- other price risk



-Currency risk,
The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.



-interest rate risk,
The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates



-other price risk
The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices



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Market risk

Arising from FI ----- Quantitative disclosures

- Market risk (including interest rate risk, currency risk, other price risk)
 - Sensitivity analysis for each type of market risk.
 - Effect on profit or loss and equity
 - Methods and assumptions used in sensitivity analysis
 - Changes in methods and assumptions used from the previous period



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Market risk

Arising from FI ----- Quantitative disclosures



For Sensitivity analysis - relevant risk variables might include:

- (a) prevailing market interest rates, for interest-sensitive financial instruments such as a **variable-rate loan**; or
- (b) currency rates and interest rates, for foreign currency financial instruments such as **foreign currency bonds**.



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Sensitivity analysis

eg

<i>In millions of euro</i>	100 bp parallel increase	100 bp parallel decrease	50 bp increase after 1 year	50 bp decrease after 1 year
Sensitivity of projected net interest income				
2008				
At 31 December	(435)	461	(222)	230
Average for the period	(425)	452	(220)	226
Maximum for the period	(446)	485	(236)	242
Minimum for the period	(394)	419	(203)	209
Sensitivity of reported equity to interest rate movements				
2008				
At 31 December	(778)	789	(390)	398
Average for the period	(765)	788	(372)	381
Maximum for the period	(792)	802	(396)	401
Minimum for the period	(753)	777	(369)	365



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Currency exposure

Foreign currency transactions

<i>In millions</i>	Functional currency of Group entity			
	2008 Euro	2008 US\$	2007 Euro	2007 US\$
Net foreign currency exposure:				
Pounds Sterling	(715)	-	-	-
US\$	684	-	650	-
Euro	-	703	-	-

Foreign operations

<i>In millions</i>	Net investments	
	2008	2007
Functional currency of foreign operation:		
Pounds Sterling	984	782
US\$	680	-



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VAR

Sensitivity analysis that reflects interdependencies between risk variables (e.g. value at risk) can **replace the sensitivity analysis** above

- Explain **methodology and assumptions** underlying analysis
- **Objective** of the method used and limitations that may result in the information not fully reflecting fair value of the assets and liabilities involved



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VAR eg

A summary of the VAR position of the Group's trading portfolios at 31 December and during the period is as follows:

<i>In millions of euro</i>	At 31			
	December	Average	Maximum	Minimum
2008				
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
2007				
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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HELP

- ◆ **Firms have issued publications to assist with IFRS disclosures:**
 - Illustrative Financial Statements for Banks and other institutions



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Key learning points

- ◆ **IFRS 7 to be applied by all entities and to all types of financial instruments (some exceptions noted)**
- ◆ **Standard requires entities to determine classes of financial instruments for certain disclosures**
- ◆ **Disclose information to enhance understanding of significance of financial instruments for financial position and performance**



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Key learning points (continued)

◆ For each type of risk arising from financial instruments

- Qualitative disclosures
 - The **exposures** and how they arise
 - **Objectives, policies and processes** for managing the risks and methods and assumptions used to measure the risk
 - **Any changes** to the above from the previous period
- Quantitative disclosures
 - Quantitative data about the risk exposure as provided to **key management personnel**
 - **Detailed disclosures** to the extent not disclosed already from the point above
 - **Concentration** of risk if not included above

Q & A





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