Good Bank (International) Limited

Consolidated financial statements

31 December 2018

Building a better working world

Contents

Abbreviations and key

The following styles of abbreviation are used in these International GAAP® Illustrative Financial Statements:

IAS 33.41	International Accounting Standard No. 33, paragraph 41
IAS 1.BC13	International Accounting Standard No. 1, Basis for Conclusions, paragraph 13
IAS 39.IG.G.2	International Accounting Standard No. 39 — Guidance on Implementing IAS 39 Section G: Other, paragraph G.2
IAS 39.AG71	International Accounting Standard No. 39 — Appendix A — Application Guidance, paragraph AG71
IFRS 2.44	International Financial Reporting Standard No. 2, paragraph 44
SIC 29.6	Standing Interpretations Committee Interpretation No. 29, paragraph 6
IFRIC 4.6	IFRS Interpretations Committee (formerly IFRIC) Interpretation No. 4, paragraph 6
IFRS 7.20(c)	International Financial Reporting Standard No. 7 not amended by IFRS 9, paragraph 20(a) (either reflecting requirements of comparative period of 2017 per IAS 39 or the concrete references are the same under IFRS 7R and IFRS 7)
IFRS 7R.35H	International Financial Reporting Standard No. 7 as amended by IFRS 9, paragraph 35H
IFRS 9.5.4.1	International Financial Reporting Standard No. 9, chapter 5.4, paragraph 1
IFRS 9 Appendix A	International Financial Reporting Standard No. 9, Appendix A
IFRS 9.B5.4.1	International Financial Reporting Standard No. 9, Appendix B (application guidance), Chapter 5.4, paragraph 1
ISA 700.25	International Standard on Auditing No. 700, paragraph 25
EDTF 20	Enhanced Disclosure Task Force: Recommendation 20
Commentary	The commentary explains how the requirements of IFRS have been implemented in arriving at the illustrative disclosure
GAAP	Generally Accepted Accounting Principles/Practice
IASB	International Accounting Standards Board
Interpretations Committee	IFRS Interpretations Committee (formerly International Financial Reporting Interpretations Committee (IFRIC))
IGAAP	EY's International GAAP
EIR	Effective Interest Rate
OCI	Other comprehensive income
CGU	Cash generating unit
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
SPPI	Solely payments of principle and interest
DVA	Debit value adjustment
CVA	Credit value adjustment
FVA	Fair value adjustment
ECL	Expected credit loss
12mECL	12 month expected credit loss
LTECL	Lifetime expected credit loss
PD	Probability of default
LGD	Loss given default
EAD	Exposure at default
POCI	Purchased or originated credit impaired (financial assets)

Introduction

The purpose of this publication is to provide a practical working model of consolidated financial statements, prepared in accordance with IFRS, presented as the full consolidated financial statements of Good Bank (International) Limited (Good Bank) and its subsidiaries (the Bank) for the year ended 31 December 2018. Both Good Bank and its subsidiaries are fictitious entities. Good Bank is incorporated and listed in the fictitious country of Goodland, whose currency is the Goodland dollar ($). This publication also highlights the impact of adopting IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* including transition disclosures. As permitted by the standard, Good Bank has elected not to restate its comparative information for the effect of IFRS 9 and the date of initial application of the standard is 1 January 2018.

IFRS references are shown on the margin of each page in the document, indicating the specific IFRS paragraph that outlines the accounting treatment or disclosure for that particular line item or block of narrative. In the references, we have differentiated between IFRS 7R *Financial Instruments: Disclosures* and IFRS 7 *Financial Instruments: Disclosures*. IFRS 7R stands for the standard effective from 1 January 2018, incorporating the new requirements of IFRS 9. The previous version of IFRS 7 set the disclosure requirements for the comparative period when IAS 39 *Financial Instruments: Classification and Measurement* was applied. When disclosures are required by both IFRS 9 and IAS 39 and the references are the same under IFRS 7R and IFRS 7 (e.g.; IFRS 7.20(c)), we have only referred to these as IFRS 7.

The narrative provided in these illustrative disclosures has been written to reflect the specific circumstances of the Bank and should not be used for the financial statements of other banks without extensive tailoring. For example, it is assumed that the Bank does not provide finance leases and, therefore, the associated disclosures have not been made. Conversely, certain disclosures are made in these financial statements merely for illustrative purposes, even though they may relate to items or transactions that are not material for the Bank.

The standards applied in these illustrative disclosures are those that are relevant for this publication, were in issue as at 30 September 2018 and effective for annual periods beginning on or after 1 January 2018.

Commentary

Companies in certain jurisdictions may be required to comply with IFRS approved by local regulations, for example, listed companies in the European Union (EU) are required to comply with IFRS as endorsed by the EU. These financial statements only illustrate compliance with IFRS as issued by the IASB and are not designed to satisfy any stock market or other regulatory requirements.

International Financial Reporting Standards (IFRS)

The abbreviation IFRS is defined in paragraph 5 of the Preface to International Financial Reporting Standards, and it includes "standards and interpretations approved by the IASB, and International Accounting Standards (IASs) and Standing Interpretations Committee interpretations issued under previous Constitutions". This is also noted in paragraph 7 of IAS 1 Presentation of Financial Statements and paragraph 5 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Thus, when financial statements are described as complying with IFRS, this means that they comply with the entire body of pronouncements sanctioned by the IASB, including IASs, IFRSs and Interpretations originated by the IFRS Interpretations Committee (formerly the SIC).

International Accounting Standards Boards (IASB)

The IASB is the independent standard-setting body of the IFRS Foundation (an independent not-for-profit private sector organisation working in the public interest). The IASB members (currently 12 full-time members) are responsible for the development and publication of IFRSs, including IFRS for SMEs and for approving the Interpretations of IFRS as developed by the IFRS Interpretations Committee. In fulfilling its standard-setting duties, the IASB follows due process, of which the publication of consultative documents, such as discussion papers and exposure drafts for public comment, is an important component.

The IFRS Interpretations Committee (Interpretations Committee)

The IFRS Interpretations Committee is the interpretive body appointed by the IFRS Foundation Trustees to assists the IASB in establishing and improving standards of financial accounting and reporting for the benefit of users, preparers and auditors of financial statements.

The Interpretations Committee addresses issues of reasonably widespread importance, rather than issues of concern to only a small set of entities. These include any newly identified financial reporting issues not addressed in IFRS. The Interpretations Committee also advises the IASB on issues to be considered in its Annual Improvements to IFRS project.

Financial review by management
Many entities present a financial review by management, which is not required by IFRS, however paragraph 13 of IAS 1 briefly outlines what may be included in an annual report. The IASB issued an IFRS Practice Statement, Management Commentary, in December 2010, which provides a broad non-binding framework for the presentation of management commentary that relates to financial statements prepared in accordance with IFRS. If a company decides to follow the guidance in the Practice Statement, management is encouraged to explain the extent to which the Practice Statement has been followed. A statement of compliance with the Practice Statement is only permitted if it is followed in its entirety. Further, the content of a financial review by management is often determined by local market requirements or issues specific to a particular jurisdiction.

No financial review by management has been included for the Bank.

Accounting policy choices
Accounting policies are broadly defined in IAS 8 and include not just the explicit elections provided for in some standards, but also other conventions and practices that are adopted in applying principle-based standards.
In some cases, IFRS permits more than one accounting treatment for some transactions or events. Preparers of financial statements should select the treatment that is most relevant to their business and their accounting policies.
IAS 8 requires an entity to select and apply its accounting policies consistently for similar transactions, and/or other events and conditions, unless an IFRS specifically requires or permits categorisation of items for which different policies may be appropriate. Where a standard requires or permits such categorisation, an appropriate accounting policy is selected and applied consistently to each category. Therefore, when one of the treatments has been chosen, it becomes an accounting policy and must be applied consistently. Changes in accounting policy should only be made if required by a standard or interpretation, or if the change results in the financial statements providing reliable and more relevant information.
In this publication, where a choice is permitted by IFRS, the Bank has adopted the treatments that we have concluded to be appropriate for the circumstances of the Bank. In such cases, we provide commentary regarding the policy that has been selected and the reasons for the selection.

Enhanced Disclosure Task Force report on "Enhancing the risk disclosures of banks"
On 29 October 2012, the Enhanced Disclosure Task Force (EDTF), a private-sector task force formed as the result of an initiative of the Financial Stability Board (FSB), presented to the FSB the report entitled, "*Enhancing the risk disclosures of banks*", which identifies certain areas for improvement in the risk disclosures of banks. The purpose of the document was to develop high-quality, transparent disclosures that clearly communicate banks' business models and their key risks. On 7 December 2015, the EDTF issued an update and additional guidance on the application of IFRS 9, including the applicability of existing fundamental principles and recommendations.

These illustrative disclosures endeavour to incorporate the EDTF recommendations where relevant and practical. However, when full compliance with the EDTF recommendations would not have been practical or relevant for the purposes of this publication, we have only described the recommendations as commentaries. We encourage entities to adopt the EDTF recommendations based on their individual circumstances. Notations to EDTF recommendations, similar to references to IFRS requirements, are shown on the margins on right side of each page.

Basis of preparation and presentation
The Bank's consolidated annual financial statements are presented to illustrate consolidated[1] annual financial statements produced in accordance with IFRS and, where applicable, interpretations issued by the Interpretations Committee.

Disclosures have not been illustrated for a number of standards that are either not relevant to the financial services industry or not applicable to the Bank's circumstances. A list of standards has been provided below with indications of whether the standard/interpretation is included in Good Bank, our illustrative financial statements for EY's Good Group (International) Limited 2018, or in one of EY's other sets of illustrative financial statements.

The IFRS applied in these illustrative financial statements are those in issue as at 31 December 2018 and effective for annual periods beginning on or before 1 January 2018. Standards issued, but not yet effective, as at 1 January 2018 are not illustrated in these financial statements.

[1] The consolidated financial statements do not include the stand alone disclosures for the parent. In certain jurisdictions, IFRS may apply to the parent entity. Hence, disclosures should also be made for the parent.

Other illustrative financial statements

We provide a number of industry-specific illustrative financial statements and illustrative financial statements addressing specific circumstances that you may wish to consider. The entire series of illustrative financial statements comprises:

- Good Bank (International) Limited
- Good Group (International) Limited
- Good Group (International) Limited –*Alternative Format*
- Good Group (International) Limited — Illustrative interim condensed consolidated financial statements
- Good First-time Adopter (International) Limited
- Good Insurance (International) Limited
- Good Investment Fund Limited (Equity)
- Good Investment Fund Limited (Liability)
- Good Real Estate Group (International) Limited
- Good Mining (International) Limited
- Good Petroleum (International) Limited

In Appendix 1 we have included a summary table of the IFRSs that are applied in our various illustrative financial statements.

Good Bank (International) Limited

Consolidated Financial Statements

31 December 2018

General information

Directors
T. Clifford
M. van der Lof
F. Fabiani
V. Hoffmann
L. Hoogerwaard
L. Wright
J. Hurworth
M. Eberhardt
M. Pabla

Company Secretary
E. Henry

Registered Office
Currency House
29 Hedge Street
Goodville, Goodland

Solicitors
Solicitors & Co.
7 Scott Street
Goodville, Goodland

Auditors
Chartered Accountants & Co.
17 Goodville Square
Goodville, Goodland

Consolidated income statement

for the year ended 31 December 2018

In $ million	Notes	2018	2017 Restated	
				IAS 1.81A, IAS 1.9(d), IAS 1.10(b), IAS 1.51(a)-(e) IAS 1.29, IAS 1.32 IAS 1.104
				IAS 1.46, IAS 1.45
Interest revenue calculated using the effective interest method	11	4,409	4,253	*IFRS 7.20(b); IAS 1.82(a)*
Other interest and similar income	11	342	352	
Interest expense calculated using the effective interest method	12	(1,728)	(1,833)	*IFRS 7.20(b), IAS 1.82(b)*
Other interest and similar expense	12	(301)	(289)	
Net interest income		**2,722**	**2,483**	
Fee and commission income	13	1,477	1,215	*IFRS 7.20(c)(i)*
Fee and commission expense	13	(133)	(170)	*IFRS 7.20(c)(i)*
Net fee and commission income		**1,344**	**1,045**	
Net trading income	14	587	346	*IFRS 7.20(a)(i)*
Credit loss expense on financial assets	15	(495)	(449)	*IAS 1.82(ba),*
Net gains/(losses) on financial assets at fair value through profit or loss	16	(24)	(7)	*IFRS 7.20(a)(i)*
Net gains/(losses) on financial liabilities at fair value through profit or loss	16	(10)	(3)	*IFRS 7.20(a)(i)*
Net gains/(losses) on derecognition of financial assets measured at amortised cost		6	-	*IFRS 7.20(a)(iv),(v) IFRS 7R.20(a) (v),(vi) IAS 1.82(aa), IFRS 7R.20A*
Net gains/(losses) on derecognition of financial assets measured at fair value through other comprehensive income		(3)	-	*IAS 1.82(aa)*
Other operating income	17	86	82	*IAS 1.99,IAS 1.103*
Net operating income		**4,213**	**3,497**	*IAS 1.82(a), IAS 1.85*
Personnel expenses	18	1,180	1,400	*IAS 1.99*
Depreciation of property and equipment		103	106	*IAS 1.99*
Amortisation of intangible assets		37	35	*IAS 1.99, IAS 38.118(d)*
Other operating expenses	19	720	1,022	*IAS 1.99, IAS 1.103*
Total operating expenses		2,040	2,563	*IAS 1.85*
Profit before tax		**2,173**	**934**	
Income tax expense	20	516	223	*IAS 1.82(d), IAS 12.77*
Profit for the year		**1,657**	**711**	*IAS 1.81A*
Attributable to:				
Equity holders of the parent		1,637	703	*IAS 1.81B(a)*
Non-controlling interest		20	8	*IAS 1.81B(a), IFRS 10.B94*
		1,657	**711**	
Earnings per share		**$**	**$**	*IAS 33.66*
Equity shareholders of the parent for the year:				
Basic earnings per share		1.4292	1.1024	
Diluted earnings per share		1.4023	1.0938	*IAS 33.43-44*

The accounting policies and Notes on pages 26 to 56 form part of, and should be read in conjunction with, these financial statements.

Commentary

Paragraph 82(a) of IAS 1, as updated with effect from 1 January 2018, explicitly requires that entities present a specific line called, "Interest revenue, calculated using the effective interest method" within their Revenue, implying that interest revenue calculated using the effective interest rate method (EIR) would now need to be differentiated from interest revenue calculated using other methods and presented separately.

The Interpretation Committee stated in 2018 that this interest revenue line may only include interest arising from amortised cost, fair value through other comprehensive income (FVOCI) instruments, interest on derivatives in formal hedge accounting relationships and amortisation of fair value hedge adjustments along with recycling from the cash flow hedge reserves which relate to EIR items. Although not specifically mentioned by the Interpretation Committee, we believe that it is permissible to include additional line items, such as "Other interest income" on the face of the Consolidated income statement as a change in accounting policy, if applied retrospectively and with appropriate disclosure. An example of this disclosure is set out in Note 11 Whilst the change in IAS 1 did not impact the presentation of interest expense, we elected to apply a symmetrical treatment to interest income to increase consistency.

The Bank has elected to present the various types of revenue on the face of the income statement, which is accepted practice within the industry. IFRS 15.113(a) requires revenue recognised from contracts with customers to be disclosed separately from other sources of revenue, unless presented separately in the statement of comprehensive income or statement of profit or loss. The Bank has elected to present fees and commission income, which form all of the Bank's revenue from contracts with customers, as a line item in the statement of profit or loss separate from the other sources of revenue. IFRS 15 defines revenue as 'income arising in the course of an entity's ordinary activities', but it excludes some revenue contracts from its scope (e.g., financial instruments, insurance contracts and leases). IFRS 15 does not explicitly require an entity to use the term 'revenue from contracts with customers'. Therefore, entities may use different terminology in their financial statements to describe revenue arising from transactions that are within the scope of IFRS 15. However, entities should ensure the terms used are not misleading and allow users to distinguish revenue from contracts with customers from other sources of revenue.

During the year the Bank did not reclassify instruments from amortised cost into fair value through profit or loss (FVPL) or from FVOCI into FVPL. Therefore, IAS 1.82(ca) and IAS 1.82(cb), which require the disclosure of any gains or losses arising from those transactions, are not applicable.

A separate line for 'Net loss on financial assets measured at FVOCI' is not specifically required by IFRS 7R.20(a) (viii), since the information may also be disclosed in the Notes. Similarly, a separate line for "Net gains/(losses) on derecognition of financial assets measured at fair value through other comprehensive income" is not mandated by IFRS, but is disclosed based on an analogy for a similar line required by IAS 1.82(aa) for assets measured at amortised cost.

The split between net losses or gains on instruments measured at fair value through profit or loss between those arising from asset and liabilities is required by IFRS 7.20(a)(i). The Bank has elected to show the split on the face of the income statement, but the split may alternatively be disclosed in the Notes.

Consolidated statement of comprehensive income

for the year ended 31 December 2018

In $ million	Notes	2018	2017	
				IAS 1.10(b), IAS 1.10A *IAS 1.51 (a)-(e), IAS 1. IG* *IAS 1.7, IAS 1.106A.* *IAS 1.51,(d),(e)* *IAS 1.81A, IAS 12.61A*
Profit for the year		**1,657**	**711**	*IAS 1.81A (a)*
Other comprehensive income that will not be reclassified to the income statement				*IAS 1.82A*
Fair value changes on financial liabilities designated at fair value due to the Bank's own credit risk		3	-	*IFRS 7R.20(a)(i)*
Revaluation gains/(losses) on equity instruments at fair value through other comprehensive income		10	-	*IFRS 7R.20(a)(vii)*
Income tax related to the above		(4)	-	*IAS 1.90, IAS 1.91(b)*
Total items that will not be reclassified to the income statement		**9**	**-**	
Other comprehensive income that will be reclassified to the income statement				*IAS 1.82A*
Foreign currency translation:				
Net gains/losses) on hedges of net investments	49.6.3.3.1	18	20	*IAS 39.102 (a), IFRS 7R.24C(b)(i)*
Exchange differences on translation of foreign operations	49.6.3.3.1	(26)	(76)	*IAS 21.32*
Income tax related to the above		3	17	*IAS 1.90, IAS 1.91(b)*
Net foreign currency translation		**(5)**	**(39)**	*IAS 21.32 , IAS 21.52(b)*
Cash flow hedges:				
Hedging net gains/(losses) arising during the year	49.6.3.1.2	195	83	*IFRS 7R.24C(b)(i)* *IFRS 7.23(c)*
Less: Reclassification to the income statement		(30)	(25)	*IAS 1.92,IFRS 7R.24C(b)(iv)*
Income tax related to the above		(52)	(17)	*IAS 1.90, IAS 1.91(b)*
Movement on cash flow hedges		**113**	**41**	*IFRS 7R.24C(b)(i)* *IFRS 7.23(c),*
Debt instruments at fair value through other comprehensive income:				
Net change in fair value during the year		(67)	-	*IAS 1.7(da)*
Changes in allowance for expected credit losses		4	-	
Reclassification to the income statement		29	-	
Income tax related to the above		10	-	
Net gains/(losses) on debt instruments at fair value through other comprehensive income:		**(24)**	**-**	
Available-for-sale financial assets:				
Net change in fair value during the year		-	(111)	*IFRS 7.20(a)(ii)*
Recycling to income statement for impairment		-	39	*IFRS 7.20(e)*
Reclassification to the income statement		-	(14)	*IAS 1.92, IFRS 7.20(a)(ii)*
Income tax related to the above		-	26	*IAS 1.90,IAS 1.91(b)*
Net gains/(loss) on available-for-sale financial assets		**-**	**(60)**	
Total items that will be reclassified to the income statement		**84**	**(58)**	
Other comprehensive income for the year, net of tax		**93**	**(58)**	*IAS 1.81A(b)*
Total comprehensive income for the year, net of tax		**1,750**	**653**	*IAS 1.81A(c)*
Attributable to:				
Equity holders of the parent		1,730	645	*IAS 1.81B(b)*
Non-controlling interest		20	8	*IAS 1.81B(b)*
		1,750	**653**	

The accounting policies and Notes on pages 26 to 56 form part of, and should be read in conjunction with, these financial statements.

Commentary

In practice, many entities use the same financial statement format year on year. Therefore, they opt to name financial statement line items or similar items in the Notes as "gains/(losses)" so that they do not need to update the lines every year to reflect whether that item is a gain or loss for that year. We have adopted the same approach in this publication.

Consolidated statement of financial position

as at 31 December 2018

In $ million		**2018**	**2017**	*IAS 1.10(a)* *IAS 1.51 (a)-(e)*
Assets	**Notes**			*IAS 1.51(d),(e)*
Cash and balances with central banks	23	3,207	2,814	*IAS 1.54(i)*
Due from banks	24	10,618	10,489	*IAS 1.54(d), IFRS 7R.8(f), IFRS 7.8(c)*
Cash collateral on securities borrowed and reverse repurchase agreements	25	7,628	7,673	*IAS 1.54(d), IFRS 7R.8(f), IFRS 7.8(c)*
Derivative financial instruments	29	7,473	7,144	*IAS 1.54(d), IFRS 7.8(a)*
Financial assets held for trading	28	12,830	10,368	*IAS 1.54(d), IFRS 7.8(a)*
of which pledged as collateral	28	7,939	4,003	*IFRS 9.3.2.23, IAS 39.37(a)*
Financial assets at fair value through profit or loss	28	2,262	1,241	*IAS 1.54(d), IFRS 7.8(a)*
Financial investments – available-for-sale		-	12,304	*IAS 1.54(d), IFRS 7.8(d)*
of which pledged as collateral		-	3,988	*IFRS 9.3.2.23 IAS 39.37(a)*
Debt instruments at fair value through other comprehensive income	31	7,401	-	*IAS 1.54(d), IFRS 7R.8(h)*
Equity instruments at fair value through other comprehensive income	31	447	-	*IAS 1.54(d), IFRS 7R.8(h)*
Loans and advances to customers	32	47,924	47,163	*IAS 1.54(d), IFRS 7R.8(f), IFRS 7.8(c)*
Changes in the fair value of hedged assets in portfolio hedges of interest rate risk		486	393	*IAS 39.89A*
Debt instruments at amortised cost	31	1,642	-	*IAS 1.54(d), IFRS 7R.8(f)*
Financial investments – held-to-maturity			127	*IAS 1.54(d), IFRS 7.8(b)*
Other assets	33	409	453	*IAS 1.55*
Property and equipment	34	790	1,006	*IAS 1.54(a)*
Deferred tax assets	20	457	237	*IAS 1.54(o)*
Goodwill and other intangible assets	35	58	78	*IAS 1.54(c)*
Total assets		**103,632**	**101,490**	
Liabilities				
Due to banks		7,408	7,319	*IAS 1.54(m), IFRS 7R.8(g), IFRS 7.8(f)*
Cash collateral on securities lent and repurchase agreements	25	8,128	8,221	*IAS 1.54(m)*
Derivative financial instruments	29	8,065	7,826	*IAS 1.54(m), IFRS 7.8(e)*
Financial liabilities held for trading	28	4,160	4,078	*IAS 1.54(m), IFRS 7.8(e)*
Financial liabilities at fair value through profit or loss	28	3,620	4,536	*IAS 1.54(m), IFRS 7.8(e)*
Due to customers	36	56,143	56,177	*IAS 1.54(m), IFRS 7R.8(g), IFRS 7.8(f)*
Current tax liabilities		245	156	*IAS 1.54(n)*
Other liabilities	37	1,215	1,477	*IAS 1.55*
Debt issued and other borrowed funds	40	6,310	4,192	*IAS 1.54(m), IFRS 7R.8(g), IFRS 7.8(f)*
Provisions	38	586	376	*IAS 1.54(l)*
Deferred tax liabilities	20	502	546	*IAS 1.54(o)*
Total liabilities		**96,382**	**94,904**	
Equity attributable to equity holders of parent				
Issued capital	41	675	675	*IAS 1.54(r) , IAS 1.78(e)*
Treasury shares	41	(22)	(19)	*IAS 1.54(r), IAS 1.78(e)*
Share premium		1,160	1,160	*IAS 1.54(r), IAS 1.78(e)*
Retained earnings		4,645	4,071	*IAS 1.54(r), IAS 1.78(e)*
Other reserves		732	658	*IAS 1.54(r), IAS 1.78(e)*
Total equity attributable to parent		7,190	6,545	*IAS 1.54(r)*
Total equity attributable to non-controlling interest		60	41	*IFRS 10 B94, IAS 1.54(q)*
Total equity		**7,250**	**6,586**	
Total liabilities and equity		**103,632**	**101,490**	

The accounting policies and Notes on pages 26 to 56 form part of, and should be read in conjunction with, these financial statements.

Commentary – Statement of financial position

Paragraph 60 of IAS 1 requires entities to present assets and liabilities in order of their liquidity (rather than split between current and non-current) when this presentation is reliable and relevant. This usually is the case for a bank. IAS 1.64 provides the option to present some of the assets and liabilities using a current/non-current classification and others in order of liquidity when this provides information that is reliable and more relevant. However, IAS 1 is silent as to whether liquidity refers to the liquidity of the instruments (i.e., how quickly the Bank could sell or recover them) or the Bank's actual historical behaviour and future intentions (i.e., whether its ability and intention is to hold an instrument to its maturity and recover it through its lifetime or recover by selling it prior to its maturity). Practice amongst banks is somewhat mixed, but the more dominant practice is adopted by the Bank, i.e., that the order of assets and liabilities on the Bank's balance sheet represents it's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial line item.

To make its presentation aesthetically more pleasing, the statement of financial position can be compressed by aggregating some financial statement lines items (e.g., financial investments), with the breakdown shown in a separate in disclosure note.

IAS 1 requires an entity to present a statement of financial position at the beginning of the earliest comparative period when: it applies an accounting policy retrospectively; it makes a retrospective restatement of items in its financial statements; or when it reclassifies items in its financial statements (IAS 1.10(f)), and the change has a material effect on the statement of financial position. In these situations, IAS 1.40A states that an entity must present, at a minimum, three statements of financial position, two of each of the other statements and the related notes. The three statements of financial position include the statement of financial position as at the current annual period year-end, the statement of financial position as at the previous annual period year-end, and the statement of financial position as at the beginning of the previous annual period ('the opening balance sheet', often referred to as the 'third balance sheet'). However, the notes related to the third balance sheet are not required, nor are additional statements of profit or loss and other comprehensive income, changes in equity or cash flows (IAS 1.40C). The Bank has applied IFRS 15 retrospectively. However an additional balance sheet is only required if the adjustment to opening balances is considered to be material (IAS 1.40A(b)). The adjustment to opening balances as a result of IFRS 15 is not considered to be material and, therefore the Bank has not presented an additional balance sheet. Refer to our Good Group (International) Limited publication for illustrative disclosure of a third balance sheet as a result of the retrospective application of IFRS 15.

There is no specific requirement to identify adjustments made retrospectively on the face of the financial statements, except for the effect of a retrospective application or restatement on each component of equity (IAS 1.106(b)). IAS 8 requires details to be given only in the notes. By labelling the comparatives 'Restated', the Bank illustrates how an entity may supplement the requirements of IAS 8 so that it is clear to the user that adjustments to the amounts in prior financial statements have been reflected in the comparative periods as presented in the current period financial statements.

Commentary – Statement of changes in equity

On the following page, the Bank presents non-recyclable items such as the movement in fair value of equity instruments at fair value through other comprehensive income (FVOCI) within the 'Fair value reserve' and the movement in fair value of liabilities measured at fair value through profit or loss (FVPL) due to own credit in the 'Own credit reserve'. Such movements could also be presented within 'Retained earnings', but we believe showing them on a separate financial statement line provides greater transparency as these items may be non-distributable reserves in certain jurisdictions. However, when such movements in fair value become "realised" upon derecognition of the equity instruments, the corresponding values are reclassified to retained earnings as explained in Note 7.11 of Summary of significant accounting policies. A similar approach would be applied to the own credit adjustments, should the Bank repurchase its issued debt.

The Bank has presented its Statement of changes in equity net of tax, but presentation gross of tax and a corresponding line for related taxation is also acceptable.

Consolidated statement of changes in equity for the year ended 31 December 2018

In $ million	Issued capital	Treasury shares	Share premium	Cash flow hedge reserve	Fair value reserve	Own credit revaluation reserve	Foreign currency translation reserve	Other capital reserve	Retained earnings	Total attributable to equity holders of the parent	Non-controlling interests	Total equity	*IAS 1.78(e)* *IAS 1.106*
At 31 December 2017	**675**	**(19)**	**1,160**	**324**	**171**		**51**	**112**	**4,071**	**6,545**	**41**	**6,586**	*IAS 1.106(d)*
Impact of adopting IFRS 9 (Note 9).	-	-	-	-	(10)	(3)	-	-	(611)	**(624)**	-	**(624)**	*IAS 1.106(b)*
Restated opening balance under IFRS 9	**675**	**(19)**	**1,160**	**324**	**161**	**(3)**	**51**	**112**	**3,460**	**5,921**	**41**	**5,962**	
Total comprehensive income net of tax													
Net result from continuing operations	-	-	-	-	-	-	-	-	1,637	**1,637**	20	**1,657**	
Net change in fair value of debt instrument at FVOCI	-	-	-	-	(47)	-	-	-	-	**(47)**	**-**	**(47)**	*IFRS 7R.20(a)(viii)*
Net amount reclassified to the income statement on sale of debt instruments at FVOCI	-	-	-	-	20	-	-	-	-	**20**	-	**20**	*IFRS 7R.20(a)(viii)* *IAS 1.92*
Net changes in allowance for expected credit losses of debt instruments at FVOCI	-	-	-	-	3	-	-	-	-	**3**	-	**3**	
Net unrealised gains on cash flow hedges	-	-	-	134	-	-	-	-	-	**134**	-	**134**	*IFRS 7R.24C(b)(i)*
Net gains on cash flow hedges reclassified to the income statement	-	-	-	(21)	-	-	-	-	-	**(21)**	-	**(21)**	*IFRS 7R.24C(b)(iv)* *IAS 1.92*
Foreign currency translation	-	-	-	-	-	-	(18)	-	-	**(18)**	-	**(18)**	*IAS 21.52(b), IFRS 7R.24(b)(i) & (iv)*
Net change on hedge of net investment	-	-	-	-	-	-	13	-	-	**13**	-	**13**	
Net change in fair value of equity instruments at FVOCI	-	-	-	-	7	-	-	-	-	**7**	-	**7**	*IFRS 7R.20(a)(vii)*
Fair value of own credit risk changes of financial liabilities at FVPL	-	-	-	-	-	2	-	-	-	**2**	-	**2**	*IFRS 7R.10(a)*
Total comprehensive income	**-**	**-**	**-**	**113**	**(17)**	**2**	**(5)**	**-**	**1,637**	**1,730**	**20**	**1,750**	*IAS 1.106(a)*
Reclassification of net change in fair value of equity instruments upon derecognition	-	-	-	-	(6)	-	-	-	6	**-**	-	**-**	*IFRS 7R.20(a)(vii)*
Reclassification of own credit reserves upon derecognition	-	-	-	-	-	-	-	-	-	**-**	-	**-**	
Issue of share capital (Note 41)	-	-	-	-	-	-	-	-	-	**-**	-	**-**	*IAS 1.106(d)(iii)*
Equity portion of convertible debt	-	-	-	-	-	-	-	-	-	**-**	-	**-**	*IAS 1.106(d)(iii)*
Dividends	-	-	-	-	-	-	-	-	(458)	**(458)**	-	**(458)**	*IAS 1.107*
Net purchase of treasury shares (Note 41)	-	(3)	-	-	-	-	-	-	-	**(3)**	-	**(3)**	*IAS 1.106 (d)(iii)*
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	**-**	(1)	**(1)**	*IAS 1.107*
At 31 December 2018	**675**	**(22)**	**1,160**	**437**	**138**	**(1)**	**46**	**112**	**4,645**	**7,190**	**60**	**7,250**	

The accounting policies and Notes on pages 26 to 56 form part of, and should be read in conjunction with, these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2017

In $ million	Issued capital	Treasury shares	Share premium	Cash flow hedge reserve	Fair value reserve	Own credit revaluation reserve	Foreign currency translation reserve	Other capital reserve	Retained earnings	Total attributable to equity holders of the parent	Non-controlling interests	Total equity	IAS 1.78(e) IAS 1.106
At 31 December 2016	**674**	**(15)**	**1,159**	**283**	**231**	**-**	**90**	**102**	**3,783**	**6,307**	**34**	**6,341**	IAS 1.106(d)
Impact of adopting IFRS 15 (Note 5.1.3)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(11)**	**(11)**	**-**	**(11)**	
Restated opening balance under IFRS 15	**674**	**(15)**	**1,159**	**283**	**231**	**-**	**90**	**102**	**3,772**	**6,296**	**34**	**6,330**	
Total comprehensive income net of tax													
Net result from continuing operations	-	-	-	-	-	-	-		703	**703**	8	**711**	
Net unrealised losses on available-for-sale financial investments	-	-	-	-	(77)	-	-	-	-	**(77)**	-	**(77)**	IFRS 7.20(a),(ii)
Net realised gains on available-for-sale financial investments reclassified to the income statement	-	-	-	-	(10)	-	-	-	-	**(10)**	-	**(10)**	IFRS 7.20(a),(ii)
Net unrealised gains on cash flow hedges	-	-	-	59	-	-	-	-	-	**59**	-	**59**	IFRS 7.23(c)
Net gains on cash flow hedges reclassified to the income statement	-	-	-	(18)	-	-	-	-	-	**(18)**	-	**(18)**	IFRS 7.23(d)
Foreign currency translation	-	-	-	-	-	-	(53)	-	-	**(53)**	-	**(53)**	IAS 21.52(b)
Net change on hedge of net investment	-	-	-	-	-	-	14	-	-	**14**	-	**14**	
Recycling to income for the impairment of available-for-sale financial investments	-	-	-	-	27	-	-	-	-	**27**	-	**27**	
Total comprehensive income	**-**	**-**	**-**	**41**	**(60)**	**-**	**(39)**	**-**	**703**	**645**	**8**	**653**	IAS 1.106(a)
Issue of share capital (Note 41)	1	-	1	-	-	-	-	-	-	**2**	-	**2**	IAS 1.106(d)(iii)
Equity portion of convertible debt	-	-	-	-	-	-	-	10	-	**10**	-	**10**	IAS 1.106(d)(iii)
Dividends	-	-	-	-	-	-	-		(404)	**(404)**	-	**(404)**	IAS 1.107
Net purchase of treasury shares (Note 41)	-	(4)	-	-	-	-	-	-	-	**(4)**	-	**(4)**	IAS 1.106 (d)(iii)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	**-**	(1)	**(1)**	IAS 1.107
At 31 December 2017	**675**	**(19)**	**1,160**	**324**	**171**	**-**	**51**	**112**	**4,071**	**6,545**	**41**	**6,586**	

The accounting policies and Notes on pages 26 to 56 form part of, and should be read in conjunction with, these financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2018

In $ million	Notes	2018	2017	
				IAS 1.10(d), IFRS 5.34
In $ million	**Notes**	**2018**	**2017**	*IAS 7.18(b)*
Operating activities				*IAS 1.51(d),(e) IAS 7.10, IAS 7.18(b)*
Profit before tax		**2,173**	**934**	
Adjustment for:				
Change in operating assets	44	2,822	(2,311)	*IAS 7.20(a)*
Change in operating liabilities	44	(162)	2,116	*IAS 7.20(a)*
Other non-cash items included in profit before tax	44	659	260	*IAS 7.20(b)*
Net gain/(loss) from investing activities		(3,514)	(3,310)	*IAS 7.20(c)*
Net gain/(loss) from financing activities		(2,817)	2,580	
Income tax paid		112	(64)	*IAS 7.35*
Net cash flows from operating activities		**(727)**	**205**	
Investing activities				*IAS 7.21, IAS 7.10*
Proceeds from sale of available-for-sale assets		-	150	*IAS 7.16(d)*
Purchase of available-for-sale assets		-	(144)	*IAS 7.16(c)*
Purchase of property and equipment		4	(90)	*IAS 7.16(a)*
Proceeds from sale of property and equipment		20	15	*IAS 7.16(b)*
Purchase of intangible assets		(15)	(16)	*IAS 7.16(d)*
Net cash flows from/(used in) investing activities		**9**	**(85)**	
Financing activities				*IAS 7.21, IAS 7.10*
Proceeds from exercise of options		-	2	*IAS 7.17(a)*
Purchase of treasury shares	41	(5)	(7)	*IAS 7.17(b)*
Proceeds from sale of treasury shares	41	2	3	*IAS 7.17(a)*
Proceeds from issuance of write-down bonds	40	2,000	-	*IAS 7.17(c)*
Repayment of $1billion fixed rate notes due 2018	40	(1,000)	-	*IAS 7.17(d)*
Dividends paid to equity holders of the parent		(452)	(418)	*IAS 7.31*
Net cash flows from/(used in) financing activities		**545**	**(420)**	
Net increase/(decrease) in cash and cash equivalents		(173)	(300)	
Net foreign exchange difference		16	24	*IAS 7.28*
Cash and cash equivalents at 1 January		11,390	11,666	
Cash and cash equivalents at 31 December	44	**11,233**	**11,390**	*IAS 7.45*
Additional information on operational cash flows from interest and dividends				
Interest paid		2,005	1,998	*IAS 7.31*
Interest received		4,409	4,253	*IAS 7.31*
Dividend received		15	13	*IAS 7.31*

The accounting policies and Notes on pages 26 to 56 form part of, and should be read in conjunction with, these financial statements.

Commentary

IAS 7.18 allows entities to report cash flows from operating activities using either the direct method or the indirect method. The Bank presents its cash flows using the indirect method. The Bank has reconciled profit before tax to net cash flows from operating activities. However, a reconciliation from profit after tax is also acceptable under IAS 7 *Statement of Cash Flows*.

IAS 7.31 requires the cash flows from interest and dividends received and paid to be disclosed separately. These disclosures are included in a separate table because, for a bank that reports its statement of cash flows using the indirect method, most of these cash flows are part of the cash flows from operating activities, in accordance with IAS 7.33.

Notes to the Financial Statements

Notes to the Financial Statements

1. Corporate information

Good Bank (International) Limited (Good Bank), together with its subsidiaries (the Bank), provides retail, corporate banking, and investment banking services in various parts of the world. Good Bank is the ultimate parent of the group. *IAS 1.138(b),(e),(f),(g).*

Good Bank is a limited liability company incorporated and domiciled in Goodland. Its registered office is at Currency House, 29 Hedge Street, Goodville, Goodland. Good Bank has a primary listing on the Goodville Stock Exchange. *IAS 1.138(a),(c),(d)*

The consolidated financial statements for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors on 28 February 2019. *IAS 10.17*

2. Basis of preparation

IAS 1.112(a)
IAS 1.117(a),(b)

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, other financial assets and liabilities held for trading and financial assets and liabilities designated at fair value through profit or loss (FVPL), debt and equity instruments at fair value through other comprehensive income (FVOCI) and available for sale investment (AFS) all of which have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged, and when relating to portfolio fair value hedges, are recognised on a separate line of the statement of financial position. The consolidated financial statements are presented in Goodland dollars ($) and all values are rounded to the nearest million dollars, except when otherwise indicated. *IAS 1.51(d),(e)*

3. Statement of compliance

The consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). *IAS 1.16*

4. Presentation of financial statements

The Bank presents its statement of financial position in order of liquidity based on the Bank's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 42.

Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position except when IFRS netting criteria are met.

Positions that are managed on a Settle-to-market basis, are transactions that are settled in cash before the close of the business day and therefore the balances are no longer recognised on the balance sheet as an asset or a liability. The carrying amounts represent the called but not yet settled balances. Products that the Bank manages on a Settle-to-market basis include: exchange traded futures and options and over-the-counter interest rate and foreign currency swaps cleared through Goodland Clearing House.

Other instruments, primarily over-the-counter derivatives, are only offset and reported net when, in addition to having an unconditional legally enforceable right to offset the recognised amounts without being contingent on a future event and the Bank also intends to settle on a net basis in all of the following circumstances: *IAS 32.42(a)*

IAS 32 AG38A
IAS 32.42(b)

- The normal course of business
- The event of default *IAS 32 AG38B*
- The event of insolvency or bankruptcy of the Bank and/or its counterparties.

5. Changes in accounting policies and disclosures

5.1. New and amended standards and interpretations

In these financial statements, the Bank has applied, for the first time, IFRS 15 *Revenue from Contracts with Customers*, IFRS 9 *Financial Instruments* and the consequential amendments to IFRS 7 *Financial Instruments: Disclosures*, effective for annual periods beginning on or after 1 January 2018. The nature and effect of the changes as a result of the adoption of these new accounting standards are described below. *IAS 8.14* *IAS 8.28*

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the Bank's consolidated financial statements. The Bank has not adopted early any other standard, interpretations or amendments that has been issued but is not yet effective.

5. Changes in accounting policies and disclosures *continued*

5.1 New and amended standards and interpretations

5.1.1. IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018. The Bank elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39. *IFRS 9.7.1.1 IFRS 9.7.2.21*

The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable with the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed in Note 9. *IAS 8.28 IFRS 9.7.2.1 IFRS 9.7.2.15*

5.1.1.1. Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. *IFRS 9.4.1.1 IFRS 9.4.1.2 IFRS 9.4.1.4*

The IAS 39 measurement categories of financial asset (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by: *IFRS 9.4.1.1 IFRS 9.4.1.2 IFRS 9.4.1.4*

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses in profit or loss on derecognition
- Financial assets at FVPL

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms, as explained in Note 7.9.1.2. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed. The Bank's accounting policies for embedded derivatives are set out in Note 7.9.2.1. *IFRS 9.4.3.3*

The Bank's classification of its financial assets and liabilities is explained in Notes 7.7 and 7.9. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in Note 9.

5.1.1.2. Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changed the Bank's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. *EDTF 2 EDTF 3*

Details of the Bank's impairment method are disclosed in Note 7.12. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in Note 9.

5.1.2. IFRS 7R

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 *Financial Instruments: Disclosures* was updated and the Bank has adopted it, together with IFRS 9, for the year beginning 1 January 2018. Changes include:

- Transition disclosures, as shown in Note 9.
- Detailed qualitative and quantitative information about the ECL calculations, such as the assumptions and inputs used are set out in Note 49.4.4.
- Additional and more detailed disclosures for hedge accounting as set out in Note 49.6.

The Bank has not restated comparatives for financial instruments covered by IFRS 9 and IAS 39. The comparative information for 2017 is under IAS 39 and is not comparable with the information presented for 2018 under IFRS 9. Differences arising from the adoption of IFRS 9 were recognised directly in Retained earnings on 1 January 2018 and are disclosed in Note 9. *IAS 8.28 IFRS 9.7.2.1 IFRS 9.7.15*

5. Changes in accounting policies and disclosures *continued*

5.1 New and amended standards and interpretations *continued*

5.1.2 IFRS 7R continued

The Bank concluded on the following assessments based on the facts and circumstances that existed at the date of initial application as at 1 January 2018:

- The business models under which the Bank held and managed its financial assets
- Whether to continue or revoke previous designations of financial assets and financial liabilities that it measured at FVTPL
- For financial liabilities that it continued to designate as FVPL, whether presenting the impact of changes its own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss
- Whether to elect to classify certain equity instruments not held for trading as FVOCI

Commentary

IFRS 9.7.2.1
IFRS 9.7.15

Although IFRS 9.7.2.1 requires entities to apply the new standard retrospectively in accordance with IAS 8, IFRS 9.7.2.15 gives entities the option not to restate prior periods. A similar relief refers to IFRS 7R.42L-42O that include specific disclosure requirements applicable at initial application of IFRS 9 only.

Reconciliations from opening to closing ECL allowances are presented in Notes 24.1, 32.1, 31.1 and 38.1.1.

5.1.3. IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* which replaces all existing revenue requirements and related interpretations and is effective for annual periods beginning on 1 January 2018. IFRS 15 redefined the principles for recognising revenue and is applicable to all contracts with customers other than contracts in the scope of other standards (e.g., interest and fee income integral to financial instruments which would be in the scope of IFRS 9 and lease income). Certain requirements in IFRS 15 are also relevant for the recognition and measurement of gains or losses on disposal of non-financial assets that are not in the ordinary course of business.

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled to in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Bank adopted IFRS 15 using the full retrospective method of adoption which requires it to restate comparative figures. Many of the Bank's revenue streams (e.g., interest income, gains and losses on financial instruments) are outside the scope of IFRS 15 and, therefore, accounting for those streams did not change as a result of the adoption of IFRS 15. The Bank's revenue streams that are within the scope of IFRS 15 relate to fee and commission income disclosed in Note 7.3.

The effect of the transition on the current period has not been disclosed as the standard provides an optional practical expedient not to do so. The Bank did not apply any of the other available optional practical expedients available on transition. The adoption of IFRS 15 has resulted in a reduction of the Bank's consolidated equity of $11m as at 1 January 2017. This was primarily due to the deferral of revenue previously recognised under IAS 18 for certain asset management performance fees which are required to be constrained under IFRS 15. Further explanation of the nature of these changes is provided below.

Commentary

An entity has an option to adopt IFRS 15 using either the full retrospective method or the modified retrospective method. The Bank adopted IFRS 15 using the full retrospective method of adoption with an initial date of application of 1 January 2018.

Entities electing the full retrospective method of adoption will need to apply the provisions of IFRS 15 to each period presented in the financial statements, in accordance with IAS 8. IAS 8.28(f) requires disclosure, for the current period and each prior period presented, the amount of the adjustments for each financial statement line item affected and for basic and diluted earnings per share, if applicable. The effect of the transition to IFRS 15 on the current period has not been disclosed as IFRS 15.C4 provides an optional practical expedient on this requirement.

5. Changes in accounting policies and disclosures *continued*

5.1 New and amended standards and interpretations *continued*

5.1.3. IFRS 15 Revenue from Contracts with Customers continued

The Bank did not apply any of the other available optional practical expedients available on transition under IFRS 15.C5, as follows:

- For completed contracts, an entity need not restate contracts that:
  - Begin and end within the same annual reporting period

Or

  - Are completed at the beginning of the earliest period presented
- For completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.
- For contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contract for those modifications in accordance with IFRS15.20-21. Instead, an entity must reflect the aggregate effect of all modifications that occurred before the beginning of the earliest period presented when:
  - Identifying the satisfied and unsatisfied performance obligations
  - Determining the transaction price
  - Allocating the transaction price to the satisfied and unsatisfied performance obligations
- For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognise that amount as revenue (see IFRS 15.120). *IFRS 15.120-122*

If the entity used any of the above practical expedients, it must apply that expedient consistently to all contracts within all reporting periods presented. In addition, the entity must also disclose:

- The expedients that have been used
- To the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of those expedients

Refer to Appendix 1 of our Good Group (International) Limited 2018 publication for the illustration of the adoption of IFRS 15 using the modified retrospective method.

The effect of adopting IFRS 15 is as follows:

Impact on the consolidated income statement (increase/(decrease) in profit)

In $ million	**Year ended 31 December 2017**
Fee and commission income	(8)
Fee and commission expense	-
Net fee and commission income	**(8)**
Profit before tax	**(8)**
Income tax expense	(3)
Profit for the year	**(5)**
Attributable to:	
Equity holders of the parent	(5)
Non-controlling interest	-

5. Changes in accounting policies and disclosures *continued*

5.1 New and amended standards and interpretations *continued*

5.1.3. IFRS 15 Revenue from Contracts with Customers continued

Impact on the consolidated statement of financial position (increase/decrease))

	31 December 2017	1 January 2017
In $ million		
Other assets	(24)	(16)
Deferred tax liabilities	(8)	(5)
Retained earnings	(16)	(11)

There was no impact on OCI or cash flows for the year-ended 31 December 2017, or on basic and diluted EPS for the year ended 31 December 2017.

Commentary

While IFRS 15 does not change an entity's cash flows, cash or cash equivalents, it does affect the statement of financial position presentation and, indirectly, can have an impact on the presentation of the statement of cash flows as well.

The Bank provided more detailed disclosure of the nature and impact of the adjustments for each line item affected. Some of the changes described may not be material to the Bank, but were provided for illustrative purposes. Entities will need to exercise judgement in determining the level of disclosures to include.

The Bank earns variable performance fees under certain asset management contracts with its customers. The Bank's method of estimating variable consideration upon adoption of IFRS 15 is similar to the previous accounting (i.e., based on a probability-weighted expected value). However, under IFRS 15, the amount of variable consideration needs to be constrained before it can be included in the transaction price.

Before adopting IFRS 15, the Bank recognised variable performance fees as revenue when the amount could be measured reliably and it was probable that it would be received. Under IFRS 15, variable consideration is only included in the transaction price to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variability is subsequently resolved. The Bank reassessed its asset management performance fees and determined that, under IFRS 15, a portion of the variable performance fees would not be included in the transaction price until it is highly probable that a significant reversal will not occur. These fees had previously been recognised as revenue under IAS 18, but would not be recognised as revenue yet under IFRS 15. This change resulted in the following adjustments on transition:

- As at 1 January 2017, Retained earnings decreased by $11 million, with a corresponding decrease in Other assets (Fee and commission receivables) of $16 million and decrease in Deferred tax liabilities of $5 million.
- For the year ended 31 December 2017, Fee and commission income decreased by $8 million and Income tax expense decreased by $3 million.
- As at 31 December 2017, Other assets (Fee and commission receivables) decreased by $24 million and Deferred tax liabilities by $8 million. The cumulative decrease in Retained earnings as at 31 December 2017 was $16 million.

Refer to Note 8.10 for details on the significant judgements made in this respect.

5.2. Presentation of net interest income

With effect from 1 January 2018, paragraph 82(a) of IAS 1 requires interest revenue calculated using the effective interest rate (EIR) method to be presented separately on the face of the income statement. This implies that interest revenue calculated using the EIR method is to be differentiated and presented separately from interest revenue calculated using other methods.

IAS 8.14(a)
IAS 1.82(a)
IAS 1.55
IAS 1.85

The Bank considers its net interest margin to be a key performance indicator; the measure includes both interest calculated using the effective interest method and interest recognised on a contractual basis on its financial assets/liabilities measured at FVPL other than those held for trading.

5. Changes in accounting policies and disclosures *continued*

5.2 Presentation of net interest income *continued*

The Bank has therefore concluded that including an additional line item entitled, "Other interest income" in order to show all interest income, is consistent with its internal reporting of the net interest margin and provides relevant and reliable information to its stakeholders. The Bank has also elected to present its interest expense in a manner consistent and symmetrical with interest income.

Therefore, it separates interest expense on liabilities measured at amortised cost from other interest expense. This constitutes a change in accounting policy and the 2017 comparatives have been restated accordingly. The Bank's accounting policies in respect of interest income/expense and the effective interest method are set out in Notes 7.2.1 and 7.2.2 *IAS 8.14(b)*

6. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2018 including controlled structured entities. Good Bank consolidates a subsidiary when it controls it. Control is achieved when the Bank is exposed, 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. *IFRS 10.7*

Generally, there is a presumption that a majority of voting rights results in control. However, in individual circumstances, the Bank may still exercise control with a less than 50% shareholding, or may not be able to exercise control even with ownership over 50% of an entity's shares. When assessing whether it has power over an investee and therefore controls the variability of its returns, the Bank considers all relevant facts and circumstances, including: *IFRS 10.B3*

- The purpose and design of the investee
- The relevant activities and how decisions about those activities are made and whether the Bank can direct those activities
- Contractual arrangements such as call rights, put rights and liquidation rights *IFRS 10.B52*
- Whether the Bank is exposed, or has rights, to variable returns from its involvement with the investee, and has the power to affect the variability of such returns *IFRS 10.B3*

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests (NCIs), even if this results in the NCIs having a deficit balance. *IFRS 10.B94 IFRS 10.B87 IFRS 10.B86*

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. *IAS 8.14*

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, NCI and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value at the date of loss of control. *IFRS 10.B96 IFRS 10.B98 IFRS10.B99*

Given the level of judgement required regarding consolidation of structured entities, these considerations are described further in the Significant accounting judgements in Note 8.3. Disclosures for investment in subsidiaries, structured entities, securitisations and asset management activities are provided in Note 27.

Notes to the Financial Statements

7. Summary of significant accounting policies

7.1. Foreign currency translation

7.1.1. Functional and presentational currency

The consolidated financial statements are presented in Goodland dollars ($). For each entity in the group, the Bank determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Bank uses the direct method of consolidation.

IAS 1.51(d)
IAS 21.9
IFRIC 16.17

Commentary

The differentiation between the 'direct' and 'step-by-step' consolidation methods is explained in Footnote 2 of paragraph 17 in IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*: "The direct method is the method of consolidation in which the financial statements of the foreign operation are translated directly into the functional currency of the ultimate parent. The step-by-step method is the method of consolidation in which the financial statements of the foreign operation are first translated into the functional currency of any intermediate parent(s) and then translated into the functional currency of the ultimate parent (or the presentation currency if different)."

This is further explained in Paragraph 17 of IFRIC 16, "Whether the ultimate parent uses the direct or the step-by-step method of consolidation may affect the amount included in its foreign currency translation reserve in respect of an individual foreign operation. The use of the step-by-step method of consolidation may result in reclassification to profit or loss of an amount different from that used to determine hedge effectiveness. This difference may be eliminated by determining the amount relating to that foreign operation that would have arisen if the direct method of consolidation had been used. Making this adjustment is not required by IAS 21, however, it is an accounting policy choice that should be followed consistently for all net investments."

7.1.2. Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency at the spot rate of exchange ruling at the date of the transaction. *IAS 21.21*

Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the spot rate of exchange at the reporting date. All foreign exchange differences arising on non–trading activities are taken to other operating income/expense in the income statement, with the exception of the effective portion of the differences on foreign currency borrowings that are accounted for as an effective hedge against a net investment in a foreign entity. These differences are recognised in OCI until the disposal of the net investment, at which time, they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

IAS 21.23(a)
IAS 21.28
IAS 39.102
IAS 21.32
IAS 21.48

Non–monetary items that are measured at historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. *IAS 21.23(b)*

7.1.3. Group companies

On consolidation, the assets and liabilities in foreign operations are translated into dollars at the spot rate of exchange prevailing at the reporting date and their income statements are translated at spot exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. *IAS 21.39*

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations, and are translated at the closing rate of exchange.

7. Summary of significant accounting policies *continued*

7.2. Recognition of interest income

7.2.1. The effective interest rate method

Under both IFRS 9 and IAS 39, interest income is recorded using the EIR method for all financial assets measured at amortised cost, interest rate derivatives for which hedge accounting is applied and the related amortisation/recycling effect of hedge accounting. Similar to interest-bearing financial assets classified as available-for-sale or held to maturity under IAS 39, interest income on interest bearing financial assets measured at FVOCI under IFRS 9 is also recorded using the EIR method. Interest expense is also calculated using the EIR method for all financial liabilities held at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

IAS 1.82(a)

IAS 39.9
IFRS 9 Appendix A

The EIR (and therefore, the amortised cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, the EIR calculation also takes into account the effect of potentially different interest rates that may be charged at various stages of the financial asset's expected life, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

IFRS 9.B5.4.1

IFRS 9.B5.4.4

If expectations of fixed rate financial assets' or liabilities' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the balance sheet with a corresponding increase or decrease in Interest revenue/expense calculated using the effective interest method.

IFRS 9.B5.4.4-7
IAS 39.AG 5-8

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate, but when instruments were initially recognised at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

IFRS 9B5.4.5
IAS 39.AG7

7.2.2. Interest and similar income/expense

Net interest income comprises interest income and interest expense calculated using both the effective interest method and other methods. These are disclosed separately on the face of the income statement for both interest income and interest expense to provide symmetrical and comparable information.

In its Interest income/expense calculated using the effective interest method, the Bank only includes interest on those financial instruments that are set out in Note 7.2.1 above.

Other interest income/expense includes interest on derivatives in economic hedge relationships (as defined in Note 29) and all financial assets/liabilities measured at FVPL, other than those held for trading, using the contractual interest rate.

Interest income/expense on all trading financial assets/liabilities is recognised as a part of the fair value change in Net trading income.

The Bank calculates interest income on financial assets, other than those considered credit-impaired, by applying the EIR to the gross carrying amount of the financial asset.

IFRS 9.5.4.1
IFRS 9.5.7.11
IAS 18.30(a)
IAS 39.9
IAS 18.IE14(a)

When a financial asset becomes credit-impaired (as set out in Note 7.12.1 and is therefore regarded as 'Stage 3', the Bank calculates interest income by applying the EIR to the net amortised cost of the financial asset. If the financial asset cures (as outlined in Note 7.12.1) and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

IFRS 9.5.4.1(b)
IFRS 9.5.4.2

Commentary

At its November 2018 meeting, the IFRS IC discussed whether further guidance is needed as to the line of the income statement on which interest earned on cured but previously defaulted (and therefore stage 3) assets should be accounted. It was concluded by the IFRS IC that the current requirements of IFRS 9.5.5.8 are sufficiently clear and prescribe that previously unrecognised interest revenue of a previously defaulted asset should be recognised as a reversal of an impairment loss.

7. Summary of significant accounting policies *continued*

7.2 Recognition of interest income *continued*

7.2.2. Interest and similar income/expense

For purchased or originated credit-impaired (POCI) financial assets (as set out in Note 7.12.1), the Bank calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the financial asset. The credit-adjusted EIR is the interest rate that, at initial recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI financial asset. *IFRS 9.5.4.1(a) IFRS 9 Appendix A*

The Bank also holds investments in financial assets issued in countries with negative interest rates. The Bank discloses interest received on these financial assets as interest expense, with additional disclosures in Note 12. *IAS 1.112(c)*

Commentary

In January 2015, the IFRS IC discussed the presentation of negative effective interest rates in the income statement. The IFRS IC was not prescriptive as to which line in the income statement interest paid on financial assets with negative interest rates should be presented, other than it cannot be presented as negative interest income. The Bank has elected to classify such expense within interest and similar expenses.

7.3. Fee and commission income

The Bank earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services. *IFRS 15.2*

IFRS 15.22 IFRS 15.32

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Bank's revenue contracts do not typically include multiple performance obligations, as explained further in 7.3.1 and 7.3.2 below.

When the Bank provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time (unless otherwise specified in 7.3.1 and 7.3.2 below). *IFRS 15.B34 IFRS 15.123*

The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 8.10.

Commentary

IFRS 15 applies to all contracts with customers to provide goods or services in the ordinary course of business except for those specifically excluded from its scope, which includes financial instruments within the scope of IFRS 9. Because financial instruments are outside the scope of IFRS 15, most of the bank's main sources of income (e.g., interest income on loans and gains on sale of investment securities) are not within the scope of the standard. However, there are certain arrangements that are within the scope of both IFRS 15 and IFRS 9. For example, a customer contract that includes a line of credit and fees for administrative services for customer deposit accounts is partially in the scope of IFRS 15 (i.e., the administrative services) and partially in the scope of IFRS 9 (i.e., the line of credit and any related borrowings). IFRS 15 provides requirements for contracts that are partially within the scope of IFRS 15 and partially in the scope of other standard. An entity is required to apply the separation or initial measurement requirements in the other standard, if any, to split the contract between the standards. Otherwise, it applies the separation requirements in IFRS 15. For contracts that are partially in the scope of IFRS 9 and IFRS 15, IFRS 9 provides initial measurement requirements. Therefore, IFRS 15 applies to the residual portion of the contract that is not accounted for under IFRS 9. *IFRS 15.5(c), 7*

Most of the services provided by banks are explicitly stated in their contracts with the customer. However, in certain cases, a bank may also provide certain services as part of its customary business practices (for example, investment research for which they may or may not explicitly charge a fee). Although these services may not be explicit in the contract, these will be a promise in the contract (and potentially a performance obligation) under IFRS 15 if they create a valid expectation that the bank will transfer the good or service to the customer. If they are determined to be a performance obligation, a portion of the transaction price needs to be allocated to the implied promise. Identifying implicit promised goods and services may be challenging for some banks. *IFRS 15.27*

Since the nature of each of the Bank's revenue contracts result in a single performance obligation, it has not made significant judgements when allocating the transaction price to the performance obligation. However, some entities may need to make significant judgements in this respect when there are multiple performance obligations in a contract.

7. Summary of significant accounting policies *continued*

7.3 Fee and commission income *continued*

7.3.1. Fee and commission income from services where performance obligations are satisfied over time

Performance obligations satisfied over time include asset management, custody and other services, where the customer simultaneously receives and consumes the benefits provided by the Bank's performance as the Bank performs.

IFRS 15.22
IFRS 15.31. 35-37, 39, 41
IFRS 15.119
IFRS 15.124

The Bank's fee and commission income from services where performance obligations are satisfied over time include the following:

Asset management fees: These fees are earned for the provision of asset management services, which include portfolio diversification and rebalancing, typically over a three-year period. These services represent a single performance obligation comprised of a series of distinct services which are substantially the same, being provided continuously over the contract period. Asset management fees consist of management and performance fees that are considered variable consideration.

IFRS 15.26(e)
IFRS 15.126 (a)-(c)
IFRS 15.22 (b)
IFRS 15.27,29(c)
IFRS 15.47,48 (a)-(b), 50, 51, 56, 57,59,87,88,89
IFRS 15.84(b), 85
IFRS 15.IE129-133

Management fees are invoiced quarterly and determined based on a fixed percentage of the net asset value of the funds under management at the end of the quarter. The fees are allocated to each quarter because they relate specifically to services provided for a quarter, and are distinct from the services provided in other quarters. The fees generally crystallise at the end of each quarter and are not subject to a clawback. Consequently, revenue from management fees is generally recognised at the end of each quarter.

Performance fees are based on returns in excess of a specified benchmark market return, over the contract period. Performance fees are typically received at the end of the performance period specified in the contract. The Bank recognises revenue from performance fees over the contract period, but only to the extent that it is highly probable that a significant reversal of revenue will not occur in subsequent periods. *IFRS 15.117*

Refer to Note 8.10 for the significant judgements made on asset management fees. *IFRS 15.123*

Custody fees: The Bank earns a fixed annual fee for providing its customers with custody services, which include the safekeeping of purchased securities and processing of any dividend income and interest payments. These services represent a single performance obligation comprised of a series of distinct daily services that are substantially the same and have the same pattern of transfer over the contract period. As the benefit to the customer of the services is transferred evenly over the service period, these fees are recognised as revenue evenly over the period, based on time-elapsed. Payment of these fees is due and received quarterly in arrears.

IFRS 15.22 (b)
IFRS 15.27,29(c)
IFRS 15.117

Loan commitment fees: These are fixed annual fees paid by customers for loan and other credit facilities with the Bank, but where it is unlikely that a specific lending arrangement will be entered into with the customer and the loan commitment is not measured at fair value. The Bank promises to provide a loan facility for a specified period. As the benefit of the services is transferred to the customer evenly over the period of entitlement, the fees are recognised as revenue on a straight-line basis. Payment of the fees is due and received monthly in arrears.

IFRS 9.B 5.4.3 (b)
IFRS 15.117

Servicing income for transferred financial assets: The Bank receives fixed annual fees for providing specific administrative tasks in relation to certain assets it has transferred and derecognised. These services include collecting cash flows from borrowers and remitting them to beneficial interest holders, monitoring delinquencies and executing foreclosures. These services represent a single performance obligation comprised of a series of distinct daily services that are substantially the same and have the same pattern of transfer over the contract period. As the benefit to the customer of the services is transferred evenly over the contract period, these fees are recognised as revenue evenly over the period, based on time elapsed. Payment of these fees is due and received monthly in advance.

IFRS 9.B 5.4.3 (a)
IFRS 15.22 (b)
IFRS 15.27,29(c)
IFRS 15.117

Interchange fees: The Bank provides its customers with credit card processing services (i.e., authorisation and settlement of transactions executed with the Bank's credit cards) where it is entitled to an interchange fee for each transaction (i.e., when a credit cardholder purchases goods and services from merchants using the Bank's credit card). These services represent a single performance obligation comprised of a series of distinct daily services that are substantially the same and have the same pattern of transfer over the contract period. The fees vary based on the number of transactions processed and are structured as either a fixed rate per transaction processed or at a fixed percentage of the underlying cardholder transaction. The variable interchange fees are allocated to each distinct day, based on the number and value of transactions processed that day, and the allocated revenue is recognised as the entity performs.

IFRS 15.22 (b)
IFRS 15.27,29(c)
IFRS 15.117

7. Summary of significant accounting policies *continued*

7.3 Fee and commission income *continued*

7.3.1. Fee and commission income from services where performance obligations are satisfied over time continued

Commentary

IFRS 15.22(b) defines, as a type of performance obligation, a promise to transfer to the customer a series of distinct goods or services that are substantially the same and that have the same pattern of transfer, if both of the following criteria are met:

- Each distinct good or service in the series that the entity promises to transfer represents a performance obligation that would be satisfied over time in accordance with IFRS 15.35, if it were accounted for separately; and
- The entity would measure its progress toward complete satisfaction of the performance obligation using the same measure of progress for each distinct good or service in the series.

If a series of distinct goods or services meets the above criteria (i.e., the series requirement), an entity is required to treat that series as a single performance obligation (i.e., it is not optional). For distinct goods or services to be accounted for as a series, one of the criteria is that they must be substantially the same. When determining whether distinct goods or services are substantially the same, entities need to first determine the nature of their promise. For example, if the nature of the entity's promise is to stand ready or provide a single service for a period of time (i.e., because there is an unspecified quantity to be delivered), the evaluation considers whether each time increment (e.g., hour, day), rather than the underlying activities, is distinct and substantially the same. It is important to highlight that even if the underlying activities an entity performs to satisfy a promise vary significantly throughout the day and from day to day, that fact, by itself, does not mean the distinct goods or services are not substantially the same. The series requirement is a new concept and this applies to most of the Bank's performance obligations that are recognised over time. Entities will need to apply significant judgement when determining whether a promised good or service in a contract with a customer meets the criteria to be accounted for as a series of distinct goods or services.

The Bank has identified the Good Credit Card Network as its customer for credit card processing services (i.e. authorisation and settlement of transactions executed with the Bank's credit cards). When a bank provides services in relation to a credit card, the identification of the customer will require judgement and will depend on specific facts and circumstances. For example, if credit card transactions are with merchants that have current accounts with a bank (i.e., the bank is also the merchant acquirer), the merchants would also be customers. In that situation the bank would also be entitled to a merchant fee in exchange for transaction processing and connecting the merchant to the payment network.

The reported loan commitment fees recognised by the Bank are only those which are not regarded as part of the EIR on loans. For instance, the Bank considers that the annual fees received from cardholders that entitle them to the use of a credit card relate entirely to the provision of a loan commitment and as such are integral part of the effective interest rate. The fees are, therefore, within the scope of IFRS 9 and are recognised using the effective interest method. In practice, the Bank has determined that, for such fees, the difference between using the effective interest method and spreading the fees on a straight-line basis over the period of one year is immaterial and, therefore, applies the latter.

7. Summary of significant accounting policies *continued*

7.3 Fee and commission income *continued*

7.3.2. Fee and commission income from providing services where performance obligations are satisfied at a point in time continued

Services provided where the Bank's performance obligations are satisfied at a point in time are recognised once control of the services is transferred to the customer. This is typically on completion of the underlying transaction or service or, for fees or components of fees that are linked to a certain performance, after fulfilling the corresponding performance criteria. These include fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement/participation or negotiation of the acquisition of shares or other securities, or the purchase or sale of businesses, brokerage and underwriting fees. *IFRS 15.31, 38 IFRS 15.119*

The Bank typically has a single performance obligation with respect to these services, which is to successfully complete the transaction specified in the contract. *IFRS 15.22(a) IFRS 15.27,29(c)*

Corporate finance fees: Corporate finance services are related to mergers and acquisitions support, where the Bank provides financial, legal and transaction advisory services. The fees earned in exchange for these services are recognised at the point in time the transaction is completed because the customer only receives the benefits of the Bank's performance upon successful completion of the underlying transaction. The Bank is only entitled to the fee on the completion of the transaction. *IFRS 15.117*

Corporate finance fees are variable consideration. The Bank estimates the amount to which it will be entitled, but constrains that amount until it is highly probable that including the estimated fee in the transaction price will not result in a significant revenue reversal, which generally occurs upon successful completion of the underlying transaction.

Commentary

IFRS 15.35, IFRS 15.38

The Bank provides corporate finance services to its customers with the consideration only payable upon successful completion of the transaction. The performance obligation does not meet the criteria to be recognised over time. In particular, the customer does not simultaneously receive and consume the benefits of the Bank's performance as it performs the service.

This is because, at any time prior to completion of the transaction, another entity would need to substantially re-perform the work the Bank has completed to date if it were to take over the remaining services. However, the customer does control an asset as it is created or enhanced.

In addition, the Bank does not have a right to the consideration for work completed to date. Therefore, revenue is recognised at the point in time when the underlying transaction is completed, which is when the Bank completes performance of its services .

In some cases, the bank may be entitled to consideration for any work completed to date (i.e., payment based on hours incurred) and, if the entity's performance creates an asset that has no alternative use to the entity, revenue may need to be recognised over time. IFRS 15.B2-B13 provides application guidance for performance obligations satisfied over time.

Brokerage fees: The Bank buys and sells securities on behalf of its customers and receives a fixed commission for each transaction. The Bank's performance obligation is to execute the trade on behalf of the customer and revenue is recognised once each trade has been executed (i.e., on the trade date). Payment of the commission is typically due on the trade date. *IFRS 15.117*

The Bank pays certain sales commission to agents for each contract that they obtain for some of its brokerage services. The Bank has elected to apply the optional practical expedient for costs to obtain a contract which allows it to immediately expense such sales commission because the amortisation period of the asset that it otherwise would have used is one year or less. *IFRS 15.8 IFRS 15.94, IFRS 15.129*

7. Summary of significant accounting policies *continued*

7.3 Fee and commission income *continued*

7.3.2. Fee and commission income from providing services where performance obligations are satisfied at a point in time continued

Commentary

Brokerage fees received by the Bank are a fixed amount per transaction. Each brokerage transaction is an optional purchase and represents a separate contract with the customer for the purposes of applying IFRS 15. Therefore, the consideration for brokerage services is fixed. However, there may be circumstances where, for example, a volume discount is given to customers retrospectively upon the customer reaching a specified number of total trades. In such cases, revenue will not be simply recognised at a fixed amount per trade. The variable consideration will still need to be estimated and subject to the variable consideration constraint before it can be included in the transaction price.

The Bank is acting as principal in its brokerage arrangements. In certain cases, a bank may delegate the trade execution to third-party brokers. When more than one party is involved in providing goods or services to a customer, the entity will need to determine whether it is a principal or an agent in the transaction by evaluating the nature of its promise to the customer. An entity is a principal if it controls the promised service before transferring to the customer. IFRS 15.B34-B38 provides application guidance for principal versus agent considerations.

Whilst the Bank provides brokerage services, they are is offered mostly on an execution only basis and not on a matched principle basis. Therefore, brokerage fees reflect commissions. Brokerage firms facilitating a large volume and value of matched principle or exchange traded derivatives need to consider whether to have balance sheet line items, such as ‘Balances with brokers, exchanges and clearing houses’ and ’Brokerage related customer balances’.

Underwriting fees: These fees are received for underwriting of securities for customers that want to raise capital through public offerings of their securities. The Bank has a single performance obligation, which is to provide all necessary activities to support the customer that is raising capital. The underwriting service, which is performed on a ‘firm commitment’ basis is satisfied on the trade date (i.e., the date the underwriter purchases the securities from the issuer). The Bank recognises revenue from the price difference (i.e., the gross underwriting spread) between the price it pays the issuer of the securities and the public offering price. The underwriting spread is known at the trade date, when revenue is recognised. Underwriting fees are variable consideration.

The Bank estimates the amount to which it will be entitled, but constrains that amount until it is highly probable that including the estimated fee in the transaction price will not result in a significant revenue reversal, which generally occurs upon satisfaction of the performance obligation, on the trade date. *IFRS 15.117*

7. Summary of significant accounting policies *continued*

7.3 Fee and commission income *continued*

7.3.2. Fee and commission income from providing services where performance obligations are satisfied at a point in time continued

Commentary

IFRS 15.29(c)

Securities underwriting services typically includes activities such as maintaining certain records, committing to buy a specified portion of the issue and certain selling concession services (i.e., committing to sell a portion of the offering). The benefit to the customer of successfully raising capital is dependent upon successful completion of these individual activities.

As a result, these activities are highly interrelated and represent a single performance obligation.

The Bank does not provide underwriting services as a part of a syndicate. Where the underwriting service is provided by a syndicate, each member of the underwriting syndicate will need to evaluate the transaction price that it expects to receive for providing the services. In particular, the lead underwriter will also need to evaluate whether it is acting as principal to provide underwriting services for the overall issuance (i.e., with the participating underwriters providing services to the lead underwriter, rather than to the issuer) in accordance with the guidance in IFRS 15.B34-B38. For entities that perform underwriting services on a 'best-efforts' basis, the trade date is the date the underwriter sells the securities to third-party investors.

The nature of the underwriting services described above relates to the services as performed in Good Land. In practice, entities will need to assess the nature of the underwriting services performed, the related performance obligations and the timing of satisfaction, based on the actual agreements with their customers, as well as the practice, laws and regulations applicable to their relevant jurisdiction(s).

IFRS 15 requires an entity to provide more descriptive information about its performance obligations. IFRS 15.119 requires an entity to include a description of all of the following:

- When the entity typically satisfies its performance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service)
- The significant payment terms (for example, when payment is typically due, whether the contract has a significant financing component, whether the amount of consideration is variable and whether the estimate of variable consideration is typically constrained in accordance with IFRS15.56-58)
- The nature of the goods or services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (i.e., if the entity is acting as an agent)
- Obligations for returns, refunds and other similar obligations
- Types of warranties and related obligations

The Bank has provided this information in the disclosure of significant accounting policies. This is one way that entities can comply with the disclosure requirement of IFRS 15.119. Entities may also decide to disclose this information in another note to the financial statements.

7.3.2. Contract balances

The following are recognised in the statement of financial position arising from revenue from contracts with customers: *IFRS 15.105*

- 'Fees and commissions receivables' included under 'Other assets', which represent the Bank's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). These are measured at amortised cost and subject to the impairment provisions of IFRS 9. *IFRS 15.108*
- 'Unearned fees and commissions' included under 'Other liabilities', which represent the Bank's obligation to transfer services to a customer for which the Bank has received consideration (or an amount of consideration is due) from the customer. A liability for unearned fees and commissions is recognised when the payment is made or the payment is due (whichever is earlier). Unearned fees and commissions are recognised as revenue when (or as) the Bank performs. *IFRS 15.106*

Commentary

IFRS 15.105 uses the terms 'contract asset' and 'contract liability', but does not prohibit an entity to use alternative terms. However, if an entity uses an alternative term for a contract asset, it must disclose sufficient information so that users of the financial statements can clearly distinguish between unconditional rights to receive consideration (receivables) and conditional rights to receive consideration (contract assets). The Bank has used the terms 'fees and commission receivables' and 'unearned fees and commissions' as alternatives to receivable and contract liability, respectively. The Bank has no contract assets.

7. Summary of significant accounting policies *continued*

7.4. Net trading income

Net trading income includes all gains and losses from changes in fair value and the related interest income or expense and dividends, for financial assets and financial liabilities held for trading. This includes any ineffectiveness recorded on hedging transactions.

IAS 39.55(a)
IFRS 9.5.7.1
IFRS 9.5.7.3

7.5. Net loss on financial assets and liabilities designated at fair value through profit or loss

Net loss on financial instruments at FVTPL represents non-trading derivatives held for risk management purposes used in economic hedge relationship but not qualifying for hedge accounting relationships, financial assets and financial liabilities designated as at FVTPL and from 1 January 2018, also non-trading assets measured at FVTPL, as required by or elected under IFRS 9. The line item includes fair value changes, interest, dividends and foreign exchange differences.

IFRS 7R.20a(i)
IFRS 7.20a(i)

7.6. Net loss on derecognition of financial assets measured at amortised cost or FVOCI

Net loss on derecognition of financial assets measured at amortised cost includes loss (or income) recognised on sale or derecognition of financial assets measured at amortised costs calculated as the difference between the book value (including impairment) and the proceeds received.

IFRS 7.20(a)(iv),(v)
IFRS 7R.20(a)(v),(vi)

7.7. Financial instruments – initial recognition

7.7.1. Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date on which the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades, i.e., purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to customers when funds are transferred to the Bank.

IAS 39.14
IFRS 9.3.1.1

IAS 39.38
IFRS 9.3.1.2
IFRS 7.B5(c)

7.7.2. Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 7.9.1.1 and 7.9.1.2. Financial instruments are initially measured at their fair value (as defined in Note 7.8), except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

IAS 39.43
IFRS 9.5.1.1

IAS 39.43A
IFRS 9.5.1.1A

7.7.3. Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

IAS 39.AG76
IFRS 9.B5.1.2A
IFRS 13.59
IFRS 13.60
IFRS 13.B4
IFRS 13.BC138

Commentary

Deferred Day 1 profit or loss may only be recognised to the extent that it arises from a change in a factor (including time) that market participants would consider when setting a price. The Bank's accounting policy is to recognise Day 1 profit or loss only when the inputs become observable, or when the instrument is derecognised.

7. Summary of significant accounting policies *continued*

7.7 Financial instruments – initial recognition *continued*

7.7.4. Measurement categories of financial assets and liabilities

From 1 January 2018, the Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either: *IFRS 9.4.1.1*

- Amortised cost, as explained in Note 7.9.1
- FVOCI, as explained in Notes 7.9.4 and 7.9.5
- FVTPL, as set out Note 7.9.7.

The Bank classifies and measures its derivative and trading portfolio at FVPL, as explained in Notes 7.9.2 and 7.9.3. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 7.9.7. *IFRS 9.4.1.4* *IFRS 9.4.1.5*

Before 1 January 2018, the Bank classified its financial assets as loans and receivables (amortised cost), FVPL, available-for-sale or held-to-maturity (amortised cost), as explained in Notes 7.9.1, 7.9.9 and 7.9.10.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied, as explained in Note 7.9.7. *IFRS 9.4.2.1* *IAS 39.47*

7.8. Determination of fair value

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarised below: *IFRS 13.9*

- Level 1 financial instruments − Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Bank has access to at the measurement date. The Bank considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the balance sheet date. *IFRS 13.76*
- Level 2 financial instruments − Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Bank will classify the instruments as Level 3. *IFRS 13.81* *IFRS 13.82* *IFRS 13.83* *IFRS 13.84*
- Level 3 financial instruments − Those that include one or more unobservable input that is significant to the measurement as whole. *IFRS 13.86*

The Bank periodically reviews its valuation techniques including the adopted methodologies and model calibrations. However, the base models may not fully capture all factors relevant to the valuation of the Bank's financial instruments such as credit risk (CVA), own credit (DVA) and/or funding costs (FVA). Therefore, the Bank applies various techniques to estimate the credit risk associated with its financial instruments measured at fair value, which include a portfolio-based approach that estimates the expected net exposure per counterparty over the full lifetime of the individual assets, in order to reflect the credit risk of the individual counterparties for non-collateralised financial instruments. The Bank estimates the value of its own credit from market observable data, such as secondary prices for its traded debt and the credit spread on credit default swaps and traded debts on itself. Details of this are further explained in Note 48 (Fair value measurement). *IFRS 13.45-46* *IIFRS 13.48-51* *IFRS 13.56*

The Bank evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary, based on the facts at the end of the reporting period.

7. Summary of significant accounting policies *continued*

7.9. Financial assets and liabilities

7.9.1. Due from banks, Loans and advances to customers, Financial investments at amortised cost

Before 1 January 2018, *Due from bank* and *Loans and advances to customers*, included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Bank intended to sell immediately or in the near term
- That the Bank, upon initial recognition, designated as at FVPL or as available for sale *IAS 39.46(a)* *IAS 39.9*
- For which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available for sale.

From 1 January 2018, the Bank only measures *Due from banks*, *Loans and advances to customers* and other financial investments at amortised cost if both of the following conditions are met: *IFRS 9.4.1.2*

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding

The details of these conditions are outlined below.

7.9.1.1. Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective: *IFRS 9.B4.1.2*

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed *IFRS 9.B4.1.2B*
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)

The expected frequency, value and timing of sales are also important aspects of the Bank's assessment
The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward. *IFRS 9.B4.1.2A*

7.9.1.2. The SPPI test *IFRS 9 B4.1.7A*

As a second step of its classification process the Bank assesses the contractual terms of the financial aset to identify whether they meet the SPPI test. *IFRS 9.4.1.2*

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount). *IFRS 9.4.1.3* *IFRS 9. B4.1.7B*

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. *IFRS 9.4.1.3(b)* *IFRS 9.B4.1.9A*

In contrast, contractual terms that introduce a more than *de minimis* exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL. *IFRS 9.B4.1.7A,* *IFRS 9,B4.1.18*

Commentary

The SPPI assessment can be particularly challenging for more complex instruments with contractual terms such as leverage features, prepayment or extension options, securitisations where cash flows are linked to the underlying assets, non-recourse arrangements, contractually linked instruments or when cash flows change based on certain contingent events. The standard's application guidance and EY's *International GAAP* publication provide specific examples of instruments that pass or fail the SPPI test.

Notes to the Financial Statements

7. Summary of significant accounting policies *continued*

7.9. Financial assets and liabilities per financial statement line items *continued*

7.9.2. Derivatives recorded at fair value through profit or loss

A derivative is a financial instrument or other contract with all three of the following characteristics:

IAS 39.9
IFRS 9.Appendix A

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Bank enters into derivative transactions with various counterparties. These include interest rate swaps, futures, credit default swaps, cross-currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Fully collateralised derivatives that are settled net in cash on a regular basis through Goodland Clearing House are only recognised to the extent of the overnight outstanding balance. The notional amount and fair value of such derivatives are disclosed separately in Note 29. Changes in the fair value of derivatives are included in net trading income unless hedge accounting is applied. Hedge accounting disclosures are provided in Note 49.6.3.

IAS 39.46
IFRS 9.4.1.4
IFRS 9.4.2.1(a)
IAS 39.47(a)
IFRS 9.5.2.1
IFRS 9.5.3.1
IAS 39.55(a)
IAS 39. 9
IFRS 9.Appendix A

7.9.2.1. Embedded derivatives

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

IFRS 9.4.3.1
IAS 39.10

Under IAS 39, derivatives embedded in financial assets, liabilities and non-financial host contacts, were treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVPL. The embedded derivatives separated from the host were carried at fair value in the trading portfolio with changes in fair value recognised in the income statement.

IAS 39.11

From 1 January 2018, with the introduction of IFRS 9, the Bank accounts in this way for derivatives embedded in financial liabilities and non-financial host contracts. Financial assets are classified based on the business model and SPPI assessments as outlined in Note 7.9.1.2.

IFRS 9.4.3.2
IFRS 9.4.3.3

7.9.3. Financial assets or financial liabilities held for trading

The Bank classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit-making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognised in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established.

IAS 39.9
IFRS 9 Appendix A
IAS 39.45(a)
IAS 39.46
IAS 39.47(a)
IAS 39.55(a)
IAS 18.30(c)
IFRS 9.4.2.1
IFRS 9.B4.1.5-6

Included in this classification are debt securities, equities, short positions and customer loans that have been acquired principally for the purpose of selling or repurchasing in the near term.

Commentary

IAS 39 required held-for-trading financial instruments to be measured at FVPL. IFRS 9 requires financial instruments to be classified based on a combination of the entity’s business model for managing the assets and the instruments’ contractual cash flow characteristics. For financial assets that are debt instruments, held for trading is a business model objective that results in measurement at FVPL. The criteria for classifying financial assets and liabilities as held for trading are defined in Appendix A of IFRS 9 and are similar to those under IAS 39.

7. Summary of significant accounting policies *continued*

7.9. Financial assets and liabilities per financial statement line items *continued*

7.9.4. Debt instruments at FVOCI (Policy applicable from 1 January 2018)

The Bank applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met: *IFRS 9.4.1.2A*

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

These instruments largely comprise assets that had previously been classified as financial investments available-for-sale under IAS 39.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost as explained in Note 7.2.2. The ECL calculation for Debt instruments at FVOCI is explained in Note 7.12.3. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss. *IFRS 9.5.7.10-11*

7.9.5. Equity instruments at FVOCI (Policy applicable from 1 January 2018)

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of definition of Equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis. *IFRS 9.4.1.4* *IFRS 9.5.7.5*

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. *IFRS 9.B5.7.1* *IFRS 9.5.7.1A* IFRS 15.110

7.9.6. Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issued funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date. *IAS 39.47* *IFRS 9.5.3.1* *IAS 39.AG5-8* *IAS 32.28*

The Bank has issued financial instruments with equity conversion rights, write-down and call options. When establishing the accounting treatment for these non-derivative instruments, the Bank first establishes whether the instrument is a compound instrument and classifies such instrument's components separately as financial liabilities, financial assets, or equity instruments in accordance with IAS 32. Classification of the liability and equity components of a convertible instrument is not revised as a result of a change in the likelihood that a conversion option will be exercised, even when exercising the option may appear to have become economically advantageous to some holders. When allocating the initial carrying amount of a compound financial instrument to the equity and liability components, the equity component is assigned as the residual amount after deducting from the entire fair value of the instrument, the amount separately determined for the liability component. The value of any derivative features (such as a call options) embedded in the compound financial instrument, other than the equity component (such as an equity conversion option), is included in the liability component. Once the Bank has determined the split between equity and liability, it further evaluates whether the liability component has embedded derivatives that must be separately accounted for (as outlined in Note 7.9.2.1). Disclosures for the Bank's issued debt are set out in Note 40. *IAS 32.28* *IAS 32.29* *IAS 32.30* *IAS 32.31*

7. Summary of significant accounting policies *continued*

7.9. Financial assets and liabilities per financial statement line items *continued*

7.9.7. Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

IAS 39.45(a)
IFRS 9.4.1.5
IFRS 9.4.2.2

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis

IAS 39.AG4D-4G
IFRS 9.B4.1.29-32

Or

- The liabilities (and assets until 1 January 2018 under IAS 39) are part of a group of financial liabilities (or financial assets, or both under IAS 39), which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy

IAS 39.AG4H-4K
IFRS 9.B4.1.33-36

Or

- The liabilities (and assets until 1 January 2018 under IAS 39) contain one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited

IAS 39.11A
IFRS 9.4.3.5
IFRS 9.B4.3.10

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVPL is recorded using the contractual interest rate, as explained in Note 7.2.2. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established.

IAS 39.46,
IFRS 9.5.2.1
IFRS 9.5.3.1
IAS 39.47(a)
IFRS 9.7.7
IAS 39.55(a)
IFRS 9.5.7.1
IFRS 9.5.7.1A
IFRS 7.B5(e)

7.9.8. Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements (within *Provisions*) at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and – under IAS 39 – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under IFRS 9 – an ECL provision as set out in Note 38.1.1.

IFRS 9 Appendix A

IAS 39.9
IAS 39.43
IAS 39.AG4
IAS 39.47(c)

The premium received is recognised in the income statement in *Net fees and commission income* on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 38.1.

The Bank occasionally issues loan commitments at below market interest rates. Such commitments are subsequently measured at the higher of the amount of the ECL allowance (as explained in Notes 7.12 and 49.4.3) and the amount initially recognised less, when appropriate, the cumulative amount of income recognised as outlined in Note 13.

Commentary

The Bank has elected not to apply IFRS 4 *Insurance Contracts* as permitted for financial guarantee contracts since the Bank has not explicitly asserted that it considers such contracts to be insurance contracts.

7. Summary of significant accounting policies *continued*

7.9. Financial assets and liabilities per financial statement line items *continued*

7.9.9. Available-for-sale financial investments (Policy applicable before 1 January 2018)

IAS 39.9
IAS 39.45(d)

Commentary

Accounting policies for available-for-sale financial investments would need to be inserted here. An illustrative example of such disclosures are available in Good Bank - Illustrative Consolidated Financial Statements (October 2016)

7.9.10. Held-to-maturity financial investments (Policy applicable before 1 January 2018)

IAS 39.9
IAS 39.45(b)

Commentary

Accounting policies for 7.8.10.Held-to-maturity financial investments would need to be inserted here. An illustrative example of such disclosures are available in Good Bank - Illustrative Consolidated Financial Statements (October 2016)

7.10. Reclassification of financial assets and liabilities

From 1 January 2018, the Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2017.

IFRS 9.4.4.2
IFRS 9.B4.4.1

7.11. Derecognition of financial assets and liabilities

7.11.1. Derecognition due to substantial modification of terms and conditions

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

IFRS 9.5.4.3
IFRS 9.B5.5.25-26

When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, as set out below, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded. For financial liabilities, the Bank considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent. For financial assets, this assessment is based on qualitative factors.

IFRS 9.B3.3.6

Notes to the Financial Statements

7. Summary of significant accounting policies *continued*

7.11 Derecognition of financial assets and liabilities *continued*

7.11.2. Derecognition other than for substantial modification

7.11.2.1. Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition. *IAS 39.17(a),(b) IFRS 9.3.2.2*

The Bank has transferred the financial asset if, and only if, either: *IAS 39.18(a),(b) IFRS 9.3.2.3(a) IFRS 9.3.2.3,(b)*

- The Bank has transferred its contractual rights to receive cash flows from the financial asset

Or

- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass–through’ arrangement

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met: *IAS 39.19 IFRS 9.3.2.5*

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents, including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either: *IAS 39.20(a) IAS 39.20(c) IFRS 9.3.2.6*

- The Bank has transferred substantially all the risks and rewards of the asset

Or

- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer. *IAS 39.23 IFRS 9.3.2.9*

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank’s continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. *IAS 39.29 IFRS 9.3.2.15*

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay. *IAS 39.30(a) IFRS 9.3.2.16(a)*

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price. *IAS 39.30(b) IFRS 9.3.2.16(b)*

7.11.2.2. Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss. *IAS 39.39 IFRS 9.3.3.1 IAS 39.40 IFRS 9.3.3.2 IAS 39.41 IFRS 9.3.3.3*

7. Summary of significant accounting policies continued

7.12. Impairment of financial assets (Policy applicable from 1 January 2018)

7.12.1. Overview of the ECL principles

As described in Note 5.1.1, the adoption of IFRS 9 has fundamentally changed the Bank's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9. *IFRS 9.5.5.1*

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL) as outlined in Note 7.12.2). The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 49.4.3.5. *IFRS 9.5.5.3* *IFRS 9.5.5.5*

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. *IFRS 9 Appendix A*

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Bank's policy for grouping financial assets measured on a collective basis is explained in Note 49.4.3.6.

7.12.1. Overview of the ECL principles continued

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 49.4.3.5

Based on the above process, the Bank groups its loans into Stage 1, Stage 2,Stage 3 and POCI, as described below:

- Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records
  an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired (as outlined in Note 49.4.3.1). The bank records an allowance for the LTECLs.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition
  and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset. *IFRS 9.5.4.4*

7. Summary of significant accounting policies *continued*

7.12. Impairment of financial assets (Policy applicable from 1 January 2018) *continued*

7.12.2. The calculation of ECLs

The Bank calculates ECLs based on a four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. *IFRS 9.5.5.17 IFRS 9. B5.5.28*

The mechanics of the ECL calculations are outlined below and the key elements are, as follows: *IFRS 7.33(b)*

- PD — The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PDs is further explained in Note 49.4.3.2.
- EAD — The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 49.4.3.3.
- LGD — The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral or credit enhancements that are integral to the loan, as set out in Note 7.13. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 49.4.3.4.

When estimating the ECLs, the Bank considers four scenarios (a base case, an upside, a mild downside ('downside 1') and a more extreme downside ('downside 2')). Each of these is associated with different PDs, EADs and LGDs, as set out in Note 7.12.5. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset. *IFRS 9.5.5.18*

With the exception of credit cards and other revolving facilities, for which the treatment is separately set out in Note 7.12.5, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier. *IFRS 9.5.5.19*

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value *IFRS 9.5.4.3*

Provisions for ECLs for undrawn loan commitments are assessed as set out in Note 38.1.1. The calculation of ECLs (including the ECLs related to the undrawn element) of revolving facilities such as credit cards is explained in Note 7.12.5. *IFRS 7R.B8E*

The mechanics of the ECL method are summarised below:

- Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the four scenarios, as explained above. *IFRS 9.5.5.1 IFRS 9.B5.5.44 EDTF 2*
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR. *IFRS 9.5.5.3 IFRS 9.B5.5.44 EDTF 2*
- Stage 3: For loans considered credit-impaired (as defined in Note 49.4.3.1), the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%. *IFRS 9.5.5.3 IFRS 9.B5.5.44*
- POCI: POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognises the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the four scenarios, discounted by the credit-adjusted EIR.

7. Summary of significant accounting policies *continued*

7.12. Impairment of financial assets (Policy applicable from 1 January 2018) *continued*

- Loan commitments and letters of credit — When estimating LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the four scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. *IFRS 9.B5.5.47*

  For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within *Provisions*. *IFRS 7R.B8E*

- Financial guarantee contracts — The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the four scenarios. The ECLs related to financial guarantee contracts are recognised within *Provisions*. *IFRS 9.B5.5.48* *IFRS 7R.B8E*

7.12.3. Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets. *IFRS 9.5.5.2*

7.12.4. Purchased or originated credit impaired financial assets (POCI)

For POCI financial assets, the Bank only recognises the cumulative changes in LTECL since initial recognition in the loss allowance. *IFRS 9.5.5.13*

7.12.5. Credit cards and other revolving facilities

The Bank's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities with one day's notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects its expectations of customer behaviour,the likelihood of default and its future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Bank's expectations, the period over which the Bank calculates ECLs for these products, is five years for corporate and seven years for retail products. *IFRS 9.B5.5.39-40* *IAS 1.122* *IFRS 9.5.5.20* *IFRS 9.B5.5.39* *IFRS 9.B5.5.40*

Commentary

The extension of the period over which ECL is calculated beyond the earliest date that the facility can be withdrawn is a requirement of IFRS 9.5.5.20 and IFRS 9.B5.5.39-40 and was discussed at the 11 December 2015 meeting of the IASB's Transition Resource Group for Impairment of Financial Instruments.

In line with the above, entities should evaluate whether their products are subject to the scope exception in IFRS 9.5.5.20, which we expect to be a judgement and to be disclosed in accordance with IAS 1.122. The treatment outlined in this publication assumes a similar treatment for all revolving facilities and does not limit the calculation to the one-day period outlined in the loan agreements, but to five and seven years instead. When determining the period, entities should consider the facts and circumstances of their own product portfolios.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, as explained in Note 49.4.3.2, but greater emphasis is also given to qualitative factors such as changes in usage. *IFRS 9.5.5.3* *IFRS 9.5.5.5*

7. Summary of significant accounting policies *continued*

7.12. Impairment of financial assets (Policy applicable from 1 January 2018) *continued*

7.12.5. Credit cards and other revolving facilities

The interest rate used to discount the ECLs for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently not charged interest.

The calculation of ECLs, including the estimation of the expected period of exposure and discount rate is made, as explained in Note 49.4.3.6), on an individual basis for corporate and on a collective basis for retail products. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

7.12.6. Forward looking information

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as: *IFRS 7R.35G(b) IFRS 7R.B8C*

- GDP growth
- Unemployment rates
- Central Bank base rates
- House price indices

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Detailed information about these inputs and sensitivity analysis are provided in Note 49.4.4. *EDTF 2*

Commentary

The above inputs are general economic indicators which we have chosen for illustrative purposes only. In practice, further indicators, such as commodity prices inflation rates, currency rates and government budget deficits may be used too.

7.13. Credit enhancements: collateral valuation and financial guarantees

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Bank's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same as it was under IAS 39. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a quarterly basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily. Details of the impact of the Bank's various credit enhancements are disclosed in Note 49.4.11. *EDTF 2*

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

If a loan, as part of its contractual terms, is guaranteed by a third party the Bank estimates the corresponding ECLs based on the combined credit risk of the guarantor and the guaranteed party, by reflecting the guarantee in the measurement of the loss given default (LGD). The Bank considers the financial guarantee integral to the contractual terms' of the guaranteed loan, when the guarantee was entered into at the same time, or within a short time, after the loan is advanced.

Guarantees that are not integral to the loan's contractual terms are accounted as separate units of accounts subject to ECL. Credit default swaps are not considered to be integral to a loan's contractual terms and are accounted as derivative financial instruments, as set out in Note 7.9.2.

Commentary

Further information about the accounting of credit enhancements including alternative treatments is set out in the April 2018 edition of our *Applying IFRS - Impairment of financial instruments under IFRS 9* publication.

7. Summary of significant accounting policies *continued*

7.14. Collateral repossessed

The Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy.

IFRS 7.38(a)(b)
IFRS 5.6
IFRS 5.15

In its normal course of business, the Bank engages external agents to recover funds from the repossessed assets, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the balance sheet.

IFRS 7.38(a)(b)

7.15. Write-offs

With the exception of partial write-offs, the Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Bank has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

IFRS 7R.35F(e)
IFRS 9.5.4.4

Commentary

IFRS 7R.35L requires entities to disclose the amount outstanding on financial assets that were written off during the period and are still subject to enforcement activities. This requirement can be read to conflict with IFRS 9.5.4.4, which allows write-off only when the Bank concluded it had no reasonable expectations of recovering the asset and stopped seeking to do so. In practice, write-off policies under IAS 39 varied from one jurisdiction to another.

7.16. Forborne and modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

IFRS 7.B5(g)
IAS 39.AG84
IFRS 7.IG27
IFRS 7R.35F(f)
EDTF 27
IFRS 7.B5(g)
IAS 39.63

From 1 January 2018, when the loan has been renegotiated or modified but not derecognised, the Bank also reassesses whether there has been a significant increase in credit risk, as set out in Note 49.4.3.5.The Bank also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

IFRS 9.5.5.12
IFRS 7R.35F(f)
EDTF 2

- All of its facilities have to be considered performing
- The probation period of two years has passed from the date the forborne contract was considered performing
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period
- The customer does not have any contracts that are more than 30 days past due

Details of forborne assets are disclosed in Note 49.4.9.

If modifications are substantial, the loan is derecognised, as explained in Note 7.15.

IFRS 9.5.4.3
IFRS 9.B5.5.25-26

7. Summary of significant accounting policies *continued*

7.16 Forborne and modified loans *continued*

Commentary

Disclosure of forbearance is an EU regulatory reporting requirement; it is not defined or required by IFRS. However, EDTF Principles 27 and 28 recommend providing detailed forbearance disclosures within the financial statements. The definition of forbearance builds on existing accounting and regulatory provisions and encompasses transactions that are generally regarded as modified/renegotiated in most accounting and regulatory frameworks. Banks often use 'renegotiation' and 'forbearance' either interchangeably or 'renegotiation' may be a subset of forborne loans. In this publication, the Bank does not differentiate between renegotiated and forborne loans. The Bank's forbearance policies follow those set out in 99(4) of Regulation (EU) No 575/2013.

7.17. Impairment of financial assets (Policy applicable before 1 January 2018)

Commentary

Accounting policies for available-for-sale financial investments would need to be inserted here. An illustrative example of such disclosures are available in Good Bank - Illustrative Consolidated Financial Statements (October 2016)

7.18. Hedge accounting

As a part of its risk management, the Bank has identified a series of risk categories with corresponding hedging strategies using derivative instruments, as set out in Notes 49.6.3.1, 49.6.3.2 and 49.6.3.3.

As previously mentioned, the Bank elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39. When a hedging relationship meets the specified hedge accounting criteria set out in IAS 39, the Bank applies one of three types of hedge accounting: fair value hedges; cash flow hedges; or hedges of a net investment in a foreign operation. *IAS 39.86*

Transactions that are entered into in accordance with the Bank's hedging objectives but do not qualify for hedge accounting, are referred to in these financial statements as economic hedge relationships.

At inception, the Bank formally documents how the hedging relationship meets the hedge accounting criteria. It also records the economic relationship between the hedged item and the hedging instrument, including the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship at inception and on an ongoing basis. *IAS 39.88(a)*

In order to qualify for hedge accounting, a hedge relationship must be expected to be highly effective on a prospective basis and it needs to be demonstrated that it was highly effective in the previous designated period (i.e., one month). A hedge is considered to be highly effective if the changes in fair value or cash flows attributable to the hedged risk are expected to be offset by the hedging instrument in a range of 80% to 125%. It is also necessary to assess, retrospectively, whether the hedge was highly effective over the previous one month period. The hedge accounting documentation includes the method and results of the hedge effectiveness assessments. *IAS 39.88(b),(d),(e)* *IAS 39.AG105* *IAS 39.AG105(b)*

To calculate the changed in fair value of the hedged item attributable to the hedged risk, the Bank uses the hypothetical derivative method. The hypothetical derivative method involves establishing a notional derivative that would be the ideal hedging instrument for the hedged exposure (normally an interest rate swap or forward contract with no unusual terms and a zero fair value at inception of the hedge relationship). The fair value of the hypothetical derivative is then used as a proxy for the net present value of the hedged future cash flows against which changes in value of the actual hedging instrument are compared to assess effectiveness and measure ineffectiveness.

When the hedged item is a forecast transaction, the Bank also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the income statement. In addition to the above information, hedge documentation for such transactions also describes the nature and specifics of the forecast transactions and explains the Bank's rationale as to why it has concluded the transactions to be highly probable. *IAS 39.AG105(b)* *IAS 39.88(c)*

Disclosures of the Bank's hedge accounting are set out in Notes 49.6.3.1, 49.6.3.2 and 49.6.3.3.

7. Summary of significant accounting policies *continued*

7.18 Hedge accounting *continued*

7.18.1. Fair value hedges

In accordance with its wider risk management, as set out in Note 49.6.3.1.1, it is the Bank's strategy to apply fair value hedge accounting to keep interest rate sensitivities within its established limits. Applying fair value hedge accounting enables the Bank to reduce fair value fluctuations of fixed rate financial assets as if they were floating rate instruments linked to the attributable benchmark rates. From a hedge accounting point of view, the bank designates the hedged risk as the exposure to changes in the fair value of a recognised financial asset or liability or an unrecognised firm commitment, or an identified portion of such financial assets, liabilities or firm commitments that is attributable to a particular risk and could affect profit or loss. The Bank only hedges changes due to interest rates such as benchmark rates (e.g., the Goodland Interbank Offer Rate), which are typically the most significant component of the overall fair value change. The Bank assesses hedge effectiveness by comparing fair value movements of the hedging instruments and the hedged items attributable to changes in these benchmark rates using the hypothetical derivative method as set out above. Within its risk management and hedging strategies, the Bank differentiates between micro and macro fair value hedging strategies, as set out under the relevant subheadings below.

IAS 39.86(a)
IFRS 7R.22A
IFRS 7R.22B(b)
IFRS 7R.22B(a)

In accordance with its hedging strategy, the Bank matches the principal of the hedging instruments to the principal of the hedged items, including prepayment expectations. The Bank uses pay fixed/receive floating interest rate swaps to hedge its fixed rate debt instruments and loans and pay floating/receive fixed interest rate swaps to hedge its fixed rate liabilities.

Hedge ineffectiveness can arise from:

IFRS 7R.22B(c)
IFRS 7R.23D

- Differences in timing of cash flows of hedged items and hedging instruments
- Different interest rate curves applied to discount the hedged items and hedging instruments
- Derivatives used as hedging instruments having a non-nil fair value at the time of designation
- The effect of changes in counterparties' credit risk on the fair values of hedging instruments or hedged items

Additionally, for portfolio (macro) fair value hedges of the Bank's fixed rate mortgage portfolio, ineffectiveness also arises from the disparity between expected and actual prepayments (prepayment risk).

For its mortgage portfolio, as explained in Note 7.18.1.2, the Bank follows a dynamic hedging strategy. Whilst the Bank's overall hedging strategy remains to reduce fair value fluctuations of fixed rate financial mortgages as if they were floating rates instruments linked to the attributable benchmark rates. As such, in order to reflect the dynamic nature of the hedged portfolio, the period for which the Bank designates these hedges is only one month. From an operational point of view, the Bank de-designates the previous hedge relationships and replaces them with new ones on a monthly basis.

IFRS 7R.22A
IFRS 7R.23(C)

Commentary

IFRS 7R.22B(c) requires new disclosure of the rebalancing of hedges. Since the concept is introduced only as part of IFRS 9 hedge accounting, these disclosures are not required for the Bank at this time. We highlight that "rebalancing" the hedged item/hedging instrument ratios when risk component ratios change (i.e., due to changes in the basis risk between the hedged item and hedging instrument) is different from, and should not be confused with, adjusting for the difference between the actual and expected repayment ratio by de-designation and redesignation of the hedge accounting relationship. The latter is considered a dynamic hedging strategy with the related disclosure requirements set out in IFRS 7R.23C

For designated and qualifying fair value hedges, irrespective of whether they are micro or macro fair value hedges, the cumulative change in the fair value of a hedging derivative is recognised in the income statement in Net trading income. In addition, the cumulative change in the fair value of the hedged item attributable to the hedged risk is recognised in the income statement in Net trading income, and also recorded as part of the carrying value of the hedged item in the statement of financial position. For portfolio fair value hedges, the change is presented as a separate line item in the Statement of financial position.

IAS 39.89
IAS 39.89A

Notes to the Financial Statements

7. Summary of significant accounting policies *continued*

7.18. Hedge accounting *continued*

7.18.1. Fair value hedges continued

7.18.1.1. Micro fair value hedges

A fair value hedge relationship is a 'Micro fair value hedge' when the hedged item (or group of items) is a distinctively identifiable asset or liability hedged by one or a few hedging instruments. The financial instruments hedged for interest rate risk in a micro fair value hedge relationship include fixed rate corporate and small business loans, fixed rate debt instruments at FVOCI (or available-for-sale debt securities in 2017) and fixed rate issued long-term deposits. These hedge relationships are assessed for prospective and retrospective hedge effectiveness on a monthly basis.

IFRS 7R.22A
IFRS 7R.22B

If the hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, or the Bank decides to voluntarily discontinue the hedging relationship, the hedge relationship is discontinued prospectively. If the relationship does not meet the hedge effectiveness criteria, the Bank discontinues hedge accounting from the last date on which compliance with hedge effectiveness was demonstrated. If the hedge accounting relationship is terminated for an item recorded at amortised cost, the accumulated fair value hedge adjustment to the carrying amount of the hedged item is amortised over the remaining term of the original hedge by recalculating the EIR. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the income statement.

IAS 39.91
IAS 39.92
IAS 39.AG113
IAS 39.91
IAS 39.92

For fair value hedge relationships where the hedged item is not measured at amortised cost, such as debt instruments at FVOCI (or available-for-sale debt securities in 2017), changes in fair value that were recorded in the income statement whilst hedge accounting was in place are amortised in a similar way to amortised cost instruments using the EIR method. However, as these instruments are measured at their fair values in the statement of financial position, the fair value hedge adjustments are transferred from the income statement to OCI. There were no such instances in either the current year or in the comparative year.

IAS39.91

7.18.1.2. Portfolio (macro) fair value hedges

The Bank applies macro fair value hedging to its fixed rate mortgages. The Bank determines hedged items by identifying portfolios of homogenous loans based on their contractual interest rates, maturity and other risk characteristics. Loans within the Identified portfolios are allocated to repricing time buckets based on expected, rather than contractual, repricing dates. The hedging instruments (pay fix/receive floating rate interest rate swaps) are designated appropriately to those repricing time buckets. Hedge effectiveness is measured on a monthly basis, by comparing fair value movements of the designated proportion of the bucketed loans due to the hedged risk, against the fair value movements of the derivatives, to ensure that they are within an 80% to 125% range.

IFRS 7R.22A
IAS 39.81A
IAS 39.89A
IAS 39.AG114(b)
IAS 39.IG F6.2
IAS 39.IG F6.3

The aggregated fair value changes in the hedged loans are recognised as an asset in the Fair value hedge accounting adjustment on the face of the Statement of financial position. Should hedge effectiveness testing highlight that movements for a particular bucket fall outside the 80-125% range (i.e., the hedge relationship was ineffective for the period), no fair value hedge accounting adjustment is recorded for that month for that particular bucket. Regardless of the results of the retrospective hedge effectiveness testing, at the end of every month, in order to minimise the ineffectiveness from early repayments and accommodate new exposures, the Bank voluntarily de-designates the hedge relationships and re-designates them as new hedges. At de-designation, the fair value hedge accounting adjustments are amortised on a straight-line basis over the original hedged life. The Bank has elected to commence amortisation at the date of de-designation.

IFRS 7R.22B
IFRS 7R.23C
IAS 39 AG 113
IAS 39. 92

7.18.2. Cash flow hedges

In accordance with its wider risk management, as set out in Note 49.6.3.1.2, it is the Bank's strategy to apply cash flow hedge accounting to keep its interest rate and foreign currency revaluation fluctuations within its established limits. Applying cash flow hedge accounting enables the Bank to reduce the cash flow fluctuations arising from foreign exchange and interest rate risk on an instrument or group of instruments (i.e., on its issued floating rate euro denominated bonds), or to hedge interest rate mismatches on a portfolio level from its floating liabilities including future issuances. From an accounting point of view, a cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and could affect profit or loss.

IAS 39.86(b)
IFRS 7R.22A

7. Summary of significant accounting policies *continued*

7.18. Hedge accounting continued

7.18.3. Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the cumulative gain or loss on the hedging instrument is initially recognised directly in OCI within equity (Cash flow hedge reserve). The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in Net trading income in the Income statement. *IAS 39.95*

When the hedged cash flow affects the income statement, the effective portion of the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the income statement. *IAS 39.97*

When a hedging instrument expires, is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in OCI at that time remains in OCI and is recognised when the hedged forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in OCI is immediately transferred to the income statement. *IAS 39.101*

To test the hedge effectiveness, the Bank compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risk (e.g., changes in the forward exchange rates or interest rate risk) as represented by a hypothetical derivative, as explained in Note 7.18. *IFRS 7R.22B*

The possible sources of ineffectiveness for cash flow hedges are generally the same as for those for fair value hedges, described above. However, for cash flow hedges, prepayment risk is less relevant and the causes of hedging ineffectiveness arise from the changes in the timing and the amount of forecast future cash flows. *IFRS 7R.22B(c)*

Within its risk management and hedging strategies, the Bank differentiates between micro and macro cash-flow hedging strategies as set out in the following subsections:

7.18.3.1. Micro cash-flow hedges

Similar to fair value hedges, micro cash flow hedge relationships relate to distinctly identifiable assets or liabilities, hedged by one, or a few, hedging instruments. *IFRS 7R.22B*

7. Summary of significant accounting policies *continued*

7.18. Hedge accounting *continued*

7.18.2. Cash-flow hedges continued

7.18.2.1. Micro cash-flow hedges continued

The Bank's micro cash flow hedges consist principally of cross-currency swaps that are used to protect against exposures to variability in future interest and principal cash flows on its issued floating rate euro notes due to changes in interest rate risk and/or foreign currency risk. The hedging ratio is established by matching the notional of the derivatives against the principal of the hedged issued foreign currency debt. *IFRS 7R.22B*

7.18.3.2. Macro cash-flow hedges

As set out in Note 49.6.3.1.2, it is the Bank's strategy to apply macro cash flow hedge accounting to minimise the variability in future interest cash flows on non-trading variable rate financial assets and liabilities and to keep fluctuations within its established limits. The amounts and timing of future hedged cash flows represent both the interest and principal based on contractual terms with adjustments for expected defaults, and/or prepayments based on the Bank's projected balance sheet including forecasted transactions. The hedged items are designated as the gross asset or liability positions allocated to time buckets based on projected re-pricing and interest profiles. The Bank aims to set the hedging ratio at 100% by matching the notional of the designated hedged items to the notional amount of the corresponding interest rate swaps used as the hedging instruments. The hedge accounting relationship is reviewed on a monthly basis and the hedging instruments and hedged items are de-designated and re-designated, if necessary, based on the effectiveness test results and changes in the hedged exposure.

IFRS 7R.22A
IFRS 7R.22B

IAS 39.F6.2
IAS 39.F6.3

7.18.4. Hedges of a net investment

In accordance with its wider risk management, as set out in Note 49.6.3.3, it is the Bank's strategy to hedge the US dollar currency risk of its net investment in foreign operations using foreign currency borrowings in the same currency. The Bank has net investments in a number of foreign locations and currencies, but it only applies hedge accounting to its US dollar net investments. The Bank designates the hedged risk as the risk of the US dollar changes against the Goodland dollar, in order to reduce fluctuations in the value of the Bank's net investment in its subsidiaries due to movements in the US exchange rate.

IAS 39.102
IFRS 7R.22A
IFRS 7R.22B

Hedge ineffectiveness only arises to the extent the hedging instruments exceed in nominal terms the risk exposure from the foreign operations. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in OCI, while any gains or losses relating to the ineffective portion are recognised in the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the income statement.

IFRS 7R.22B
IFRS 7.22

7.19. Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, non-restricted current accounts with central banks and amounts due from banks on demand or with an original maturity of three months or less.

IAS 7.6
IAS 7.46

7.20. Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Bank retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within cash collateral on securities lent and repurchase agreements, reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. When the counterparty has the right to sell or re-pledge the securities, the Bank reclassifies those securities in its statement of financial position to financial assets held for trading pledged as collateral or to financial investments available-for-sale pledged as collateral, as appropriate.

IFRS 7.15
IFRS 7.42D(a)-(c)
IAS 39.AG40(a)
IAS 39.AG51 IAS 39.IG D.1.1
IFRS 9.B3.2.16(a)-(c)

IAS 39.37
IAS 39.29
IFRS 9.3.2.15

7. Summary of significant accounting policies *continued*

7.20. Repurchase and reverse repurchase agreements *continued*

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within cash collateral on securities borrowed and reverse repurchase agreements, reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in net interest income and is accrued over the life of the agreement using the EIR.

IAS 39.AG50
IAS 39.AG51(a)-(c)
IFRS 9.B3.2.16(a)-(c)

If securities purchased under an agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within financial liabilities held for trading and measured at fair value with any gains or losses included in net trading income.

IAS 39.AG15(b)
IAS 39.IG D.1.1
IAS 18.30(a)

7.21. Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognised in the statement of financial position, unless they are then sold to third parties, in which case, the obligation to return the securities is recorded as a short sale within financial liabilities held for trading and measured at fair value with any gains or losses included in net trading income.

IFRS 7.14
IFRS 7.15
IFRS 7.42D(a)-(c)
IAS 39.AG40(b)
IAS 39.AG50
IAS 39.AG51(a)-(c)
IFRS 9.B3.2.16(a)-(c)
IAS 39.IG D.1.1
IAS39.37

7.22. Leasing

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset.

IFRIC 4.6

7.22.1. Bank as a lessee

Leases that do not transfer to the Bank substantially all of the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they it is incurred.

IAS 17.8
IAS 17.33

7.22.2. Bank as a lessor

Leases where the Bank does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Rental income is recorded as earned based on the contractual terms of the lease in Other operating income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

IAS 17.8
IAS 17.49
IAS 17.50
IAS 17.52

Commentary

The Bank is not exposed to finance leases, neither as a lessee nor as a lessor. An illustrative example of finance leases as a lessor are available in Good Group (International) Limited 2018.

7.23. Property and equipment

Commentary

Accounting policies for Property and equipment would need to be inserted here. An illustrative example of such accounting policies is available in Good Group (International) Limited 2018.

7.24. Business combinations and goodwill

Commentary

Accounting policies for Business combinations and goodwill would need to be inserted here. An illustrative example of such accounting policies is available in Good Group (International) Limited 2018.

Notes to the Financial Statements

7. Summary of significant accounting policies *continued*

7.25. Intangible assets

Commentary

Accounting policies for Intangible assets would need to be inserted here. An illustrative example of such accounting policies is available in Good Group (International) Limited 2018.

7.26. Impairment of non-financial assets

Commentary

Accounting policies for Impairment of non-financial assets would need to be inserted here. An illustrative example of such accounting policies is available in Good Group (International) Limited 2018.

7.27. Pension benefits

Commentary

Accounting policies for Pension benefits would need to be inserted here. An illustrative example of such accounting policies is available in Good Group (International) Limited 2018.

7.28. Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the Bank determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the income statement net of any reimbursement in other operating expenses. Detailed disclosures are provided in Note 38.

IAS 37.14

IAS 37.45
IAS 37.47

7.29. Taxes

7.29.1. Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, by the reporting date in the countries where the Bank operates and generates taxable income. *IAS 12.46*

Current income tax relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income respectively and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate. Detailed disclosures are provided in Note 20. *IAS 12.61A(a),(b)*

7.29.2. Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. *IAS 12.15*

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss *IAS 12.22(c)*
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future *IAS 12.39*

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it becomes probable that future taxable profit will allow the deferred tax asset to be recovered. *IAS 12.56* *IAS 12.37*

7. Summary of significant accounting policies *continued*

7.29. Taxes *continued*

7.29.2 Deferred tax continued

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. *IAS 12.47*

Current and deferred taxes are recognised as income tax benefits or expenses in the income statement except for tax related to the fair value remeasurement of debt instruments at fair value through OCI, foreign exchange differences and the net movement on cash flow hedges, which are charged or credited to OCI. *IAS 12.61A*

These exceptions are subsequently reclassified from OCI to the income statement together with the respective deferred loss or gain. The Bank also recognises the tax consequences of payments and issuing costs, related to financial instruments that are classified as equity, directly in equity.

The Bank only off-sets its deferred tax assets against liabilities when there is both a legal right to offset its current tax assets and liabilities and it is the Bank's intention to settle on a net basis. *IAS 12.74*

7.29.3. Levies and similar charges

The Bank recognises the liability arising from levies and similar charges (such as Goodland's Bank Levy) when it becomes legally enforceable (i.e., when the obligating event arises) which is on 31 December each year. *IFRIC 21*

7.30. Treasury shares and contracts on own shares

Own equity instruments of the Bank which are acquired by it or by any of its subsidiaries (treasury shares) are deducted from equity. Consideration paid or received on the purchase, sale, issue or cancellation of the Bank's own equity instruments is recognised directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of own equity instruments. *IAS 32.33*

When the Bank holds own equity instruments on behalf of its clients, those holdings are not included in the Bank's statement of financial position. *IAS 32.AG36*

Contracts on own shares that require physical settlement of a fixed number of own shares for a fixed consideration are classified as equity and added to or deducted from equity. Contracts on own shares that require net cash settlement or provide a choice of settlement are classified as trading instruments and changes in the fair value are reported in the income statement in 'Net trading income'. *IAS 32.AG27*

7.31. Fiduciary assets

The Bank provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity, unless recognition criteria are met, are not reported in the financial statements, as they are not assets of the Bank. *IFRS 7.20(c)*

7.32. Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and are no longer at the discretion of the Bank. *IAS 10.12-13*

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date. *IAS 10.12-13*

7. Summary of significant accounting policies *continued*

7.33. Equity reserves

The reserves recorded in equity (OCI) on the Bank's statement of financial position include: *IAS 1.79(b)*

- Fair value reserves which comprises:
  - The cumulative net change in the fair value of debt instruments classified at FVOCI, less the ECL allowance
  - The cumulative net change in fair value of equity instruments at FVOCI
  - The cumulative net change in fair value of available-for-sale investments
- Own credit revaluation reserve, which comprises the cumulative changes in the fair value of the financial liabilities designated at FVTPL attributable to changes in the Bank's own credit risk
- Cash flow hedge reserve, which comprises the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge
- Foreign currency translation reserve, which is used to record exchange differences arising from the translation of the net investment in foreign operations, net of the effects of hedging
- Other capital reserve, which includes the portion of compound financial liabilities that qualify for treatment as equity (Note 41)

7.34. Standards issued but not yet effective Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective. *IAS 8.30*

7.34.1. IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases - Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). The Group will make use of both exemptions. *IAS 8.30*

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset, which will lead to a higher charge being recorded in the income statement compared to IAS 17. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

During 2018, the Group performed a detailed impact assessment of IFRS 16 and will apply the modified retrospective approach as permitted by the standard. The Group will recognise a right-of-use asset at the date of initial application for leases previously classified as an operating lease applying IAS 17. As permitted by the standard, this amount will be equal to the lease liability, adjusted for any prepayments or accrued lease payments relating to that lease. The lease liability will be measured at an amount equal to the outstanding lease payments at the date of initial application, considering extension and termination options, discounted at the Group's incremental borrowing rate in the economic environment of the lease. The capitalised right-of-use asset will mainly consist of office property, namely the retail branches.

In summary, the adoption of IFRS 16 is expected to have no impact on retained earnings, while the CET 1 capital is expected to decrease by 9 bps, as result of the increase in the risk-weighted assets (treated as 100% risk-weighted, consistently with the nature of the underlying asset). The recognised right-of-use asset and lease liability will both equal approximately 550 million.

7. Summary of significant accounting policies *continued*

7.34 Standards issued but not yet effective Standards issued but not yet effective *continued*

7.34.2. Amendments to IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. These amendments are applicable for annual reporting periods beginning after 1 January 2019 with the amendments being applied to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. The clarification is in line with how the Bank currently recognises the income tax consequences of dividends and, therefore, expects no impact on its financial statements when this amendment becomes effective. *IAS 8.30*

7.34.3. IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following: *IAS 8.30*

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Bank will apply the interpretation from its effective date. Since the Bank operates in a complex multinational tax environment, applying the Interpretation will affect its consolidated financial statements. In addition, the Bank may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

Commentary

IAS 8.30 requires disclosure of those standards that have been issued but are not yet effective. These disclosures are required to provide known or reasonably estimable information to enable users to assess the impact of the application of such IFRSs on an entity's financial statements. The Bank has only listed the standards expected to have an impact on the Bank's financial position, performance, and/or disclosures.

Banks should tailor the disclosures to take account of their individual circumstances.

Notes to the Financial Statements

8. Significant accounting judgements, estimates and assumptions

The preparation of the Bank's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

IAS 1.122

IAS 1.125

Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

8.1. Impairment losses on financial assets (Policy applicable after 1 January 2018)

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

8.2. Impairment losses on financial assets (Policy applicable before 1 January 2018)

Commentary

Disclosures related significant accounting judgements, estimates and assumptions of financial assets under IAS 39 would need to be inserted here. An illustrative example of such disclosures is available in Good Bank - Illustrative Consolidated Financial Statements (October 2016).

8.3. Consolidation of structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. Good Bank consolidates the structured entities that it controls, as explained in Note 27. When making this judgement, the Bank also considers voting and similar rights available to itself and other parties, who may limit the Bank's ability to control, including rights to appoint, reassign or remove members of the structured entity's key management personnel who have the ability to direct the relevant activities. Good Bank's structured entities include consolidated securitisation vehicles and unconsolidated sponsored structured entities (e.g., client asset-backed finance solutions, sponsored by Good Bank). For disclosures of unconsolidated sponsored structured entities, see Note 27.

IFRS 12.2(a)
IFRS 12.B21

IFRS 12.7
IFRS 10.B15
IFRS 10. B23

8. Significant accounting judgements, estimates and assumptions *continued*

8.4. Going concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

IAS 1.25-26
IAS 10.14-16

Commentary

Regulatory and legislative requirements for the Directors' assessment of an entity's ability to continue as a going concern are generally more detailed and include various qualitative and quantitative factors beyond the requirements of IFRS. Such considerations are usually included in the Director's report and, accordingly, have not been included in the Bank's Financial Statements/Accounting Policies.

8.5. Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see Note 7.8 and Note 48.

IFRS 13.9
IFRS 13.24

8.6. Effective Interest Rate (EIR) method

The Bank's EIR method, as explained in Note 7.2.1, recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments, as well expected changes to Goodland's base rate and other fee income/expense that are integral parts of the instrument.

IFRS 9.5.4.1
IFRS 9.B5.4.4-7
IAS 39.9
IAS 39.AG 5-8

8.7. Hedge accounting

The Bank has designated both micro and macro hedge relationships as fair value or cash flow hedges. The Bank's hedge accounting policies include an element of judgement and estimation, in particular, in respect of the projected behaviour of mortgage prepayments in portfolio fair value hedges and the existence of highly probable cash flows for inclusion within the macro cash flow hedge. Estimates of future interest rates and the general economic environment will influence the availability and timing of suitable hedged items, with an impact on the effectiveness of the hedge relationships. Details of the Bank's hedge accounting policies are described in Notes 7.18 the sensitivities most relevant to prepayment risk are disclosed in 49.6.3.2.

IAS 1.122
IAS 1.125

8.8. Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the tax losses can be utilised. Although, in Goodland, tax losses can be utilised indefinitely. Judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax-planning strategies (see Note 20).

IAS 12.34

Commentary

In jurisdictions where tax losses cannot be used indefinitely, or utilisation of losses is in other ways restricted, especially for entities with a historical track record of losses, demonstrating recoverability of deferred tax assets is expected to be a key area of focus.

8. Significant accounting judgements, estimates and assumptions *continued*

8.9. Provisions and other contingent liabilities

The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings both in Goodland and in other jurisdictions, arising in the ordinary course of the Bank's business.

When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Bank is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Bank does not include detailed, case-specific disclosers in its financial statements. IAS 37 IG B

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Bank takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates.

For further details on provisions and other contingencies see Note 7.28 of the Summary of significant accounting policies and Notes 38 and 45.

8.10. Revenue recognition from contracts with customers

The Bank applied the following judgements in its revenue recognition from contracts with customers: *IFRS 15.123*

- *Estimating variable consideration and assessing the constraint*

Asset management contracts include management and performance fees, which are based on the value of its customers' assets under management and therefore give rise to variable consideration. The Bank uses the expected value method in estimating the variable consideration to be included in the transaction price given the large number of possible outcomes. *IFRS 15.123(b) IFRS 15.126(a) IFRS 15.126(b) IFRS 15.53(a)IFRS 15.56-59 IFRS 15.87-89*

Before including any amount of variable consideration in the transaction price, the Bank considers whether the variable consideration is not constrained (i.e., whether it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur). In this assessment, the Bank considers both the likelihood and the magnitude of the potential revenue reversal. *IFRS 15.84(b), 85*

The Bank has determined that, at contract inception, it cannot conclude that it is highly probable that a significant reversal will not occur, as there are typically a broad range of possible outcomes which are outside of the Bank's control. Therefore, the estimates of the variable consideration with respect to both management and performance fees are fully constrained and are not included in the transaction price at contract inception. The variable consideration estimate is updated at each reporting date and any portion that is no longer considered to be constrained is included in the transaction price.

Asset management fees are determined and invoiced at the end of each quarter. At that date, the uncertainty regarding the variable consideration is resolved and the consideration is no longer constrained. Accordingly, the Bank recognises revenue from management fees at the end of each quarter, applying the variable consideration allocation exception.

Unlike asset management fees, performance fees only crystallise at the end of the performance period (typically three years). Therefore, the Bank continues to update the estimate of the variable consideration and the amount constrained. Determining the amount of performance fees to recognise as revenue is subject to qualitative and quantitative factors. The Bank considers the following factors that may indicate that revenue can be recognised prior to the end of the performance period:

- Investments are in less volatile markets such as debt and fixed income markets;
- The current gross annual return earned on the assets under management to date significantly exceeds the contractual hurdle rate; and/or
- The performance period is nearing its end, which in this point it is highly probable that a significant reversal will not occur.

The Bank continuously evaluates whether there are additional factors that might have an impact on the recognition of performance fees.

8. Significant accounting judgements, estimates and assumptions *continued*

8.10 Revenue recognition from contracts with customers *continued*

Commentary

The "constraint" concept introduced by IFRS 15 is a new way of evaluating variable consideration. In order to include variable consideration in the transaction price, the entity has to conclude that it is 'highly probable' that a significant revenue reversal will not occur in future periods. For the purpose of this analysis, the meaning of the term 'highly probable' is consistent with the existing definition in IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*, i.e., 'significantly more likely than probable'. IFRS 15.57 includes factors that could increase the likelihood or the magnitude of a revenue reversal. The Bank has considered these factors in making a judgement as to the extent to which the variable consideration under its asset management contracts is constrained.

- *Allocating the variable consideration to distinct services within a series*

The Bank's asset management, custody, servicing and credit card transaction processing contracts all contain a single performance obligation comprising of a series of distinct services that are substantially the same and have the same pattern of transfer to the customer. Although the Bank may perform various activities each day (e.g., in an asset management contract the Bank provides portfolio diversification and rebalancing, certain administrative tasks), the Bank has concluded that each day of service is substantially the same because the nature of its promise to the customer is to provide an overall service. *IFRS 15.123(a)* *IFRS 15.22(b)*

As mentioned above, the Bank has applied the variable consideration allocation exception in each of these contracts. This is because the fees received each day or, for asset management fees, each quarter, relate specifically to the Bank's efforts to transfer the services for that day or quarter, which is distinct from the services provided in other days or quarters. In addition, the amount allocated corresponds to the value provided to the customer for that period.

Commentary

For contracts with more than one performance obligation, or contracts that contain a single performance obligation comprised of a series of distinct goods or services, the transaction price must be allocated to each performance obligation or, if certain conditions are met, to each distinct good or service in the series (for example, to each daily provision of service). In accordance with IFRS 15, the transaction price should be allocated to each performance obligation identified on a relative standalone selling price basis. However, there is an exception for allocating variable consideration if the following criteria are met:

- The terms of a variable payment relate specifically to the entity's efforts to satisfy the performance obligation or transfer the distinct good or service; and
- Allocating the variable amount of consideration entirely to the performance obligation or the distinct good or service is consistent with the allocation objective in IFRS 15.73 when considering all of the performance obligations and payment terms in the contract.

In performing this assessment, an entity needs to consider the nature of its promise and how the performance obligation has been defined. In addition, the entity needs to clearly understand the variable payment terms and how those payment terms align with the entity's promise. This includes evaluating any clawbacks or potential adjustments to the variable payment. The fact that the payments do not directly correlate with each of the underlying activities performed each day does not affect this assessment.

IAS 1.22 and IAS 1.125 requires an entity to disclose any significant judgements applied in preparing the financial statements and significant estimates that involve a high degree of estimation uncertainty. The disclosure requirements go beyond the requirements that already exist in some other IFRS, such as IAS 37 *Provisions, Contignet Liabilities and Contignet Assets*.

Under IAS 1, it is only those judgements that have the most significant effect on the amounts recognised in the financial statements and those estimates that have a significant risk of resulting in material adjustments in respect of assets and liabilities within the next financial year that should be addressed in this section. The additional requirement in IFRS 15.123 is to disclose the judgements, and changes in the judgements, made in applying the standard that significantly affect the determination of the amount and timing of revenue from contracts with customers.

In particular, an entity must explain the judgements, and changes in the judgements, used in determining both the timing of satisfaction of performance obligations and the transaction price and the amounts allocated to performance obligations. The following are required by IFRS 15:

- For performance obligations that an entity satisfies over time, the entity must disclose both the method used to recognise revenue and an explanation why the methods used provide a faithful depiction of the transfer of goods or services (IFRS 15.124).
- For performance obligations satisfied at a point in time, the entity must disclose the significant judgements made in evaluating when a customer obtains control of promised goods or services (IFRS 15.125).

8. Significant accounting judgements, estimates and assumptions *continued*

8.10 Revenue recognition from contracts with customers *continued*

- An entity must disclose information about the methods, inputs and assumptions used (IFRS 15.126) to:
  - Determine the transaction price, which includes, but is not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money and measuring non-cash consideration
  - Assess whether an estimate of variable consideration is constrained
  - Allocate the transaction price, including estimating stand-alone selling prices of promised goods or services and allocating discounts and variable consideration to a specific part of the contract (if applicable)
  - Measure obligations for returns, refunds and other similar obligations

Some of the items listed in IFRS 15.125-126 were considered not significant for the Bank and did not warrant further disclosure. Entities will need to apply judgement to ensure the information disclosed is sufficient to meet the disclosure objective.

9. Transition disclosures

The following pages set out the impact of adopting IFRS 9 on the statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs. *IFRS 7R 42I-O*

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is, as follows: *IFRS 7R.42M* IAS 8.28 IAS 1.38

In $ million		**IAS 39 measurement**		**Re-**	**Remeasurement**		**IFRS 9**	
Financial assets	**Ref**	**Category**	**Amount**	**classification**	**ECL**	**Other**	**Amount**	**Category**
Cash and balances with central banks		L&R[1]	2,814	-	-		2,814	AC[2]
Due from banks		L&R	10,489	-	(8)		10,481	AC
Cash collateral on securities borrowed and reverse repurchase agreements		L&R	7,673	-	(6)		7,667	AC
Loans and advances to customers		L&R	47,163	(950)	(580)		45,633	AC
To: Financial assets at FVPL	A			*(950)*				
Debt instruments at amortised cost			N/A	1,661	(28)	(8)	1,625	AC
From: Financial investments – AFS	B			*1,534*	*(26)*	*(8)*		
From Financial investments – HTM	C			*127*	*(2)*			
		L&R	**68,139**	**711**	**(622)**	**(8)**	**68,220**	AC
Financial investments – AFS			12,304	(12,304)	-		N/A	
To: FTVPL (mandatory)	D			*(456)*				
To: Debt instruments at FVOCI	E			*(9,690)*				
To: Equity instruments FVOCI	F			*(624)*				
To: Debt instruments at amortised cost	B			*(1,534)*				
		AFS	**12,304**	**(12,304)**	**-**		**N/A**	
Financial investments – HTM		HTM	127	(127)	-		N/A	
To: Debt instruments at amortised cost	C			(127)	-			
		HTM	**127**	**(127)**	**-**		**N/A**	
Equity instruments at fair value through OCI			N/A	624	-		624	FVOCI
From: Financial investments – AFS	F			*624*				
			N/A	**624**	**-**		**624**	**FVOCI**
Debt instruments at fair value through OCI			N/A	9,690	-		9,690	FVOCI
From: Financial Investments – AFS	E			*9,690*	-			
			N/A	**9,690**	**-**		**9,690**	**FVOCI**

Notes to the Financial Statements

9. Transition disclosures *continued*

In $ million Financial assets	Ref	IAS 39 measurement Category	Amount	Re- classification	Remeasurement ECL	Other	IFRS 9 Amount	Category
Derivative financial instruments		FVPL	7,144	(234)	-		6,910	FVPL(mandatory)
To: Financial assets at FVPL	A			(234)				
Financial assets held for trading		FVPL	10,368	-	-		10,368	FVPL(mandatory)
Financial assets at fair value through profit or loss (designated)	F	FVPL (designated)	1,241	-	-		1,241	FVPL(designated)
Financial assets at fair value through profit or loss (mandatory)			N/A	1,640	-	123	1,763	FVPL (mandatory)
From: Derivative financial instruments	A			*234*				
From: Loans and receivables	A			*950*	-	123		
From: Financial investments – AFS	D			*456*				
		FVPL	**18,753**	**1,406**	**-**	**123**	**20,282**	**FVPL (Mandatory + designated)**
Non-financial assets								
Deferred tax assets	J		**237**		**224**	**(7)**	**454**	
Total assets			**99,560**	**-**	**(398)**	**108**	**99,270**	

[1]L&R: Loans and receivables
[2]AC: Amortised cost

In $ million Financial liabilities	Ref	IAS 39 measurement Category	Amount	Re- classification	Remeasurement ECL	Other	IFRS 9 Amount	Category
Due to banks		AC	7,319	-	-	-	7,319	AC
Cash collateral on securities lent and repurchase agreements		AC	8,221	-	-	-	8,221	AC
Due to customers		AC	56,177	-	-	-	56,177	AC
Debt issued and other borrowed funds		AC	4,192	987	-	80	5,259	AC
From: Financial liabilities at fair value through profit or loss	H			*987*	-	*80*		
		AC	**75,909**	**987**	**-**	**80**	**76,976**	**AC**
Derivative financial instruments		FVPL	7,826	-	-	-	7,826	FVPL(mandatory)
Financial liabilities held for trading		FVPL	4,078	-	-	-	4,078	FVPL(mandatory)
Financial liabilities at fair value through profit or loss (designated)	I	FVPL (designated)	4,536	(987)	-	-	3,549	FVPL (designated)
To: Debt issued and borrowed funds	H			*(987)*	-	-		
		FVPL	**16,440**	**(987)**	**-**	**-**	**15,453**	**FVPL**
Non-financial liabilities								
Provisions		N/A	**376**	**-**	**254**	**-**	**630**	N/A
Total liabilities		N/A	**92,725**	**-**	**254**	**80**	**93,059**	N/A

9. Transition disclosures *continued*

A As of 1 January 2018, the Bank's analysis highlighted that certain complex structured products with separated embedded derivatives, based on the assessment of the combined instrument, did not meet the SPPI criterion. Therefore, the Bank reclassified these loans along with the embedded derivatives - previously separated under IAS 39 - as financial assets at FVPL. From time to time, the Bank originates loans with the intention to sell them through securitisation to unconsolidated/sponsored securitisation vehicles. The balance of these loans on 1 January 2018 was reclassified to financial assets at FVPL. The Bank did not voluntarily designate any loans previously measured at amortised cost as financial assets measured at FVPL.

B As of 1 January 2018, the Bank has classified a portion of its previous AFS portfolio as debt instruments at amortised cost. These instruments met the SPPI criterion, were not actively traded and were held with the intention to collect cash flows and without the intention to sell. The fair value of these instruments that Bank still held at 31 December 2018 was $1,540 million. Their change in fair value over 2018, that would have been recorded in OCI had these instruments continued to be revalued through OCI, would have been $ 6 million.

C As of 1 January 2018, the Bank did not have any debt instruments that did not meet the SPPI criterion within its held-to-maturity portfolio. Therefore, it elected to classify all of these instruments as debt instruments measured at amortised cost.

D As of 1 January 2018, the Bank has classified a portion of its AFS asset-backed securities as financial assets measured at FVPL as the payments did not meet the SPPI criterion. The Bank did not elect to apply the FVPL option to any other securities previously recognised in the AFS portfolio.

E As of 1 January 2018, the Bank has assessed its liquidity portfolio which had previously been classified as AFS debt instruments. The Bank concluded that, apart from a small portion, as described in Section D below, these instruments are managed within a business model of collecting contractual cash flows and selling the financial assets. Accordingly, the Bank has classified these investments as debt instruments measured at FVOCI.

F The Bank has elected the option to irrevocably designate some if its previous AFS equity instruments as Equity instruments at FVOCI.

G Included in financial assets designated at FVPL is a portfolio of variable rate corporate loans which is economically hedged by credit derivatives. The hedges do not meet the criteria for hedge accounting and the loans were recorded at fair value to avoid an accounting mismatch. As of 1 January 2018, these loans would have met the SPPI criterion, but the Bank elected to continue with applying the fair value option to avoid an accounting mismatch.

H In 2010, the Bank issued inflation linked notes with a nominal value of $1.2bn and a rate of 3% above the Goodland annual rate of inflation, due in 2020. In 2010, the Bank took out interest rate swaps to economically hedge these issued bonds. As the relationship was not eligible for hedge accounting, the Bank classified these notes as liabilities designated at fair value to avoid an accounting mismatch. On 1 January 2018, upon application of IFRS 9, the Bank revoked its previous designation made under IAS 39, because the interest rate swaps have been closed out following a change in the Bank's risk management strategy and there is no longer a significant accounting mismatch arising from the notes. The EIR of the instruments at transition was 3.5% and the recognised interest expense over the year was $ 42m.

I The $4,536m opening balance of financial liabilities under IAS 39 represented 10–year structured notes with a par value of $3,600 million and an annual fixed coupon of 5 per cent. These notes include a call option on the Goodland Top 100 index at a level of 197.3. Upon issue, the Bank classified these notes as financial instruments at FVPL as they were managed together with other financial instruments of the Bank on a fair value basis and therefore not classifying these as financial liabilities at FVPL would have created an accounting mismatch. The Bank has continued to classify these notes as financial liabilities at FVPL.

J The impact of adopting IFRS 9 on deferred tax is set out on the next page and in Note 20.2.

9. Transition disclosures *continued*

The impact of transition to IFRS 9 on reserves and retained earnings is, as follows:

IAS 1.106(b)
IAS 8.28(f)
IAS 1.17(c)
IAS 1.38

In $ million	Reserves and retained earnings
Own credit revaluation reserve	
Closing balance under IAS 39 (31 December 2017)	-
Impact of recognising credit risk on financial liabilities designated at FVPL in Own credit reserve	(4)
Deferred tax in relation to the above	1
Opening balance under IFRS 9 (1 January 2018)	**(3)**
Fair value reserve	
Closing balance under IAS 39 (31 December 2017)	171
Reclassification of debt securities from available-for-sale to amortised cost	(8)
Reclassification of investment securities (debt and equity) from available-for-sale to FVPL	(23)
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	17
Deferred tax in relation to the above	4
Opening balance under IFRS 9 (1 January 2018)	**161**
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	4,071
Reclassification adjustments in relation to adopting IFRS 9	
Impact of recognising credit risk for financial liabilities designated at FVPL in Own credit reserve	4
Re-measurement impact of reclassifying financial assets held at amortised cost to FVPL	123
Re-measurement impact of the reclassification of financial liabilities at FVPL reclassified to amortised cost	(80)
Investment securities (debt and equity) from available-for-sale to FVPL	23
Recognition of IFRS 9 ECLs including those measured at FVOCI (see below)	(893)
Deferred tax in relation to the above	212
Opening balance under IFRS 9 (1 January 2018)	**3,460**
Total change in equity due to adopting IFRS 9	**(624)**

The following table reconciles the aggregate opening loan loss provision allowances under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 to the ECL allowances under IFRS 9. Further details are disclosed in Notes 24.1, 25.1, 32.1, 31.1 and 38.1.1.

IFRS 7R.42P

In $ million	Loan loss provision under IAS 39/IAS 37 at 31 December 2017	Re-measurement	ECLs under IFRS 9 at 1 January 2018
Impairment allowance for			
Loans and receivables and held to maturity securities per IAS 39/financial assets at amortised cost under IFRS 9	1,056	596	**1,652**
Available-for-sale debt investment securities per IAS 39/Debt instruments at amortised cost under IFRS 9:	-	26	**26**
Available-for-sale debt investment securities per IAS 39/debt financial assets at FVOCI under IFRS 9	39	17	**56**
	1,095	639	**1,734**
Financial guarantees	10	115	**125**
Letters of credit for customers	14	18	**32**
Other commitments	-	121	**121**
	24	254	**278**
	1,119	**893**	**2,012**

9. Transition disclosures *continued*

IFRS 7R 42I-O

Commentary

The disclosures of the impact of the transition to IFRS 9 on reserves and retained earnings, deferred tax and provisions are not specified by IFRS 9/IFRS 7R. However, providing such disclosures is in line with both IAS 1.106(b) and IAS 8.28(f), which require entities to disclose the effects of retrospective application. The disclosures are also in line with IAS 1.17(c) and IAS 1.38, which require entities to provide additional disclosures when otherwise the information would be insufficient to enable users to understand the impact of particular transactions and to consider comparability when presenting information.

On application of IFRS 9, entities are required to revisit the FVPL designations previously made in accordance with IAS 39 and are also given an opportunity to make new designations in accordance with IFRS 9. More specifically, on the date of initial application:

- Any previous designation of a financial asset as measured at FVPL may be revoked in any case, but must be revoked if such designation no longer eliminates, or significantly reduces, an accounting mismatch.
- A financial asset or a financial liability may be designated as measured at FVPL if such designation would now eliminate or significantly reduce an accounting mismatch.
- Any previous designation of a financial liability as measured at FVPL that was made on the basis that it eliminated or significantly reduced an accounting mismatch may be revoked in any case, but must be revoked if such designation no longer eliminates or significantly reduces an accounting mismatch.
- Any investment in a non-derivative equity instrument that meets the definition of definition of Equity under IAS 32 and is not held for trading may be designated as non-recyclable FVOCI.

It should be noted that it is not possible to change the previous designation of a financial liability to being measured at FVPL on the grounds that it is now managed on a fair value basis. (This is because the relevant paragraph of IFRS 9.7.2.10 states that, "at the date of initial application, an entity: (a) may designate a financial liability as measured at fair value through profit or loss in accordance with paragraph 4.2.2(a)". IFRS 9.4.2.2(a), however, only allows entities to irrevocably designate a financial liability as measured at FVPL when it eliminates, or significantly reduces, a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases, but not when they are managed on a fair basis. Paragraph (b) of IFRS 9.4.2.2 allows entities to irrevocably designate a financial liability as measured at FVPL when it is managed and its performance is evaluated on a fair value basis. However, IFRS 9.7.2.10.(a) is the applicable paragraph for the transition rules and lists the conditions when the FVPL designation upon initial application is allowed. (It only lists paragraph (a) of IFRS 9.4.2.2 and not (b)). As such, we conclude that the FVPL designation upon transition only allows mitigation of an accounting mismatch that would otherwise arise.

Such designations and revocations should be made based on the facts and circumstances that exist at the date of initial application and classification should be applied retrospectively (IFRS 9.7.2.8).

Under IAS 39, in certain circumstances, entities may choose to elect to hold equity instruments at cost. The option to hold such investments at cost is no longer available under IFRS 9. The Bank did not elect to use that option in the past.

We specifically draw attention to IFRS 7R.42M-N that require the following disclosures when entities reclassify financial assets and liabilities that were previously classified as FVPL and AFS:

- The fair value of the financial asset or liability at the year end and the fair value gains and losses that would have been recognised in profit or loss during the period if the liabilities had not been reclassified
- The EIR determined on the date of initial application and the recognised interest revenue or expense

We have addressed these disclosures in the narrative part of the transition tables.

For the purpose of this exercise, we assumed the deferred tax balances can be offset in accordance with the requirements of IAS 12 *Income Taxes*.

10. Segment information

During 2017 and 2018, the Bank has been organised into five operating segments based on products and services, as follows: *IFRS 8.22 (a)* *IFRS 8.22 (b)*

Retail banking	–	Individual customers' deposits and consumer loans, overdrafts, credit card facilities and funds transfer facilities
Corporate banking	–	Loans and other credit facilities and deposit and current accounts for corporate and institutional customers
Investment banking	–	Investment banking services including corporate finance, merger and acquisitions advice, specialised financial advice and trading
Private, Wealth and Asset management	–	Investment products and services to institutional investors and intermediaries
Group function	–	Treasury and finance and other central functions

IFRS 8.27 (a)

The Executive Management Committee monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses and is measured consistently with operating profits or losses in the consolidated financial statements. However, income taxes are managed on a group basis and are not allocated to operating segments.

IFRS 8.23, *IFRS 8.IG3*

Interest income is reported net as management primarily relies on net interest revenue as a performance measure, along with the gross income and expense.

Transfer prices between operating segments are based on the Bank's internal pricing framework. *IFRS 8.27(a)*

Commentary

IFRS 8 requires entities to state on what basis intragroup transactions are executed. Entities that state that intragroup transactions were executed on an arm's length basis should also consider the requirements of IAS 24 *Related Party Disclosures*, which only allows such disclosures to be ' made only if such terms can be substantiated.' This wording implies a rebuttable presumption that related party transactions are not on an arm's-length basis, unless the reporting entity can demonstrate otherwise. To substantiate that related party transactions are on an arm's length basis, an entity would need to be satisfied that a transaction with similar terms and conditions could be obtained from an independent third party. Hence, the Bank does not make a specific reference to whether or not transactions are on an arm's length basis. However, in some jurisdictions, such omission may result in other duties under other legislative requirements. In such cases, entities should consider both the relevant legislation and IAS 18 *Revenue* and conclude accordingly. *IAS 24.23*

IFRS 8.34

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2018 or 2017.

Notes to the Financial Statements

10. Segment information *continued*

10.1. Profit segments

An analysis of the Bank's income statement, total assets and liabilities are, as follows:

31 December 2018 In $ million	Retail Banking	Corporate Banking	Investment Banking	Private, Wealth and Asset management	Group Functions	Total	
Interest revenue calculated using the effective interest method	2,734	1,014	573	132	(44)	4,409	IFRS 8.23(c)
Other interest and similar income	219	70	44	12	(3)	342	IFRS 8.23(c)
Interest expense calculated using the effective interest method	(1,054)	(394)	(225)	(55)	-	(1,728)	IFRS 8.23(d)
Other interest and similar expense	(190)	(63)	(39)	(12)	3	(301)	IFRS 8.23(d)
Net interest income	**1,709**	**627**	**353**	**77**	**(44)**	**2,722**	
Fee and commission income	207	442	707	121	-	1,477	IFRS 8.23(f)
Fee and commission expense	(12)	(40)	(63)	(18)	-	(133)	IFRS 8.23(f)
Net fee and commission income	**195**	**402**	**644**	**103**	**-**	**1,344**	
Net trading income	-	-	587	-	-	587	IFRS 8.23(f)
Credit loss expense on financial assets	(93)	(134)	(268)	-	-	(495)	IFRS 8.23(f)
Net gains/(losses) on financial assets at fair value through profit or loss	(5)	(6)	(13)	-	-	(24)	IFRS 8.23(f)
Net gains/(losses) on financial liabilities at fair value through profit or loss	(2)	(3)	(5)	-	-	(10)	IFRS 8.23(f)
Net gains/(losses) on derecognition of financial assets measured at amortised cost	1	2	3	-	-	6	IFRS 8.23(f)
Net gains/(losses) on derecognition of financial assets measured at fair value through other comprehensive income	(1)	(1)	(1)	-	-	(3)	IFRS 8.23(f)
Other operating income	26	14	23	6	17	86	IFRS 8.23(f)
Net operating income	**1,830**	**901**	**1,323**	**186**	**(27)**	**4,213**	
Personnel expenses	265	245	298	29	343	1,180	IFRS 8.23(f)
Depreciation of property and equipment	(11)	20	63	29	2	103	IFRS 8.23(e)
Amortisation of intangible assets	23	10	4	-	-	37	IFRS 8.23(e)
Other operating expenses	227	200	35	-	258	720	IFRS 8.23(f)
Total operating expenses	**504**	**475**	**400**	**58**	**603**	**2,040**	
Segment profit (loss) before taxation	**1,326**	**426**	**923**	**128**	**(630)**	**2,173**	
Income tax expense						**516**	IFRS 8.23(h)
Profit for the year						**1,657**	IFRS 8.23
Additions to property and equipment	40	20	26	-	1	87	IFRS 8.24(b)
Additions to other intangible assets	9	5	3	-	-	17	IFRS 8.24(b)
Total Assets	**34,005**	**24,631**	**30,921**	**12,429**	**1,646**	**103,632**	IFRS 8.23
Total Liabilities	**30,842**	**23,132**	**26,987**	**14,457**	**964**	**96,382**	IFRS 8.23

Notes to the Financial Statements

10. Segment information *continued*

10.1 Profit segments *continued*

An analysis of the Bank's income statement, total assets and liabilities are, as follows:

31 December 2017 **In $ million**	**Retail Banking**	**Corporate Banking**	**Investment Banking**	**Private, Wealth and Asset management**	**Group Functions**	**Total**	
Interest revenue calculated using the effective interest method	2,637	978	553	128	(43)	4,253	*IFRS 8.23(c)*
Other interest and similar income	225	73	46	12	(4)	352	*IFRS 8.23(c)*
Interest expense calculated using the effective interest method	(1,118)	(418)	(238)	(59)	-	(1,833)	*IFRS 8.23(d)*
Other interest and similar expense	(182)	(61)	(37)	(12)	3	(289)	*IFRS 8.23(d)*
Net interest income	**1,562**	**572**	**324**	**69**	**(44)**	**2,483**	
Fee and commission income	170	363	581	101	-	1,215	*IFRS 8.23(f)*
Fee and commission expense	(15)	(51)	(81)	(23)	-	(170)	*IFRS 8.23(f)*
Net fee and commission income	**155**	**312**	**500**	**78**	**-**	**1,045**	
Net trading income	-	-	346	-	-	346	*IFRS 8.23(f)*
Credit loss expense on financial assets	(85)	(121)	(243)	-	-	(449)	*IFRS 8.23(f)*
Net gains/(losses) on financial assets at fair value through profit or loss	(1)	(2)	(4)	-	-	(7)	*IFRS 8.23(f)*
Net gains/(losses) on financial liabilities at fair value through profit or loss	(1)	(1)	(1)	-	-	(3)	*IFRS 8.23(f)*
Net gains/(losses) on derecognition of financial assets measured at amortised cost	-	-	-	-	-	-	*IFRS 8.23(f)*
Net gains/(losses) on derecognition of financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	*IFRS 8.23(f)*
Other operating income	26	13	22	5	16	82	*IFRS 8.23(f)*
Net operating income	**1,656**	**773**	**944**	**152**	**(28)**	**3,497**	
Personnel expenses	314	291	353	35	407	1,400	*IFRS 8.23(f)*
Depreciation of property and equipment	(11)	21	65	29	2	106	*IFRS 8.23(e)*
Amortisation of intangible assets	22	9	4	-	-	35	*IFRS 8.23(e)*
Other operating expenses	322	285	49	-	366	1,022	*IFRS 8.23(f)*
Total operating expenses	**647**	**606**	**471**	**64**	**775**	**2,563**	
Segment profit (loss) before taxation	**1,009**	**167**	**473**	**88**	**(803)**	**934**	
Income tax expense						**223**	*IFRS 8.23(h)*
Profit for the year						**711**	*IFRS 8.23*
Additions to property and equipment	45	23	30	-	1	99	*IFRS 8.24(b)*
Additions to other intangible assets	8	4	3	-	-	15	*IFRS 8.24(b)*
Total Assets	**30,447**	**25,373**	**32,477**	**11,164**	**2,029**	**101,490**	*IFRS 8.23*
Total Liabilities	**27,522**	**22,777**	**28,471**	**16,134**	**-**	**94,904**	*IFRS 8.23*

Notes to the Financial Statements

10. Segment information *continued*

10.1 Profit segments *continued*

Commentary

The minimum requirements of paragraphs 23-24 of IFRS 8 for disclosing segment information on profit or loss, assets and liabilities is limited to the information with the specific references above, unless the Chief Operating Decision Maker reviews information on a more granular basis. For the purposes of the Bank's financial statements, we decided to include the full income statement, but only the minimum requirements for the assets and liabilities.

10.2. Geographical information

The Bank operates in four geographical markets: Goodland (Domestic), Europe, Americas and Asia Pacific. The following tables show the distribution of the Bank's external net operating income and non-current assets allocated based on the location of the customers and assets respectively for the years ended 31 December 2018 and 31 December 2017:

IFRS 8.33(a)
IFRS 8.33(b)

31 December 2018 **In $ million**	**Domestic**	**Europe**	**Americas**	**Asia Pacific**	**Total**
Interest revenue calculated using the effective interest method	3,174	882	265	88	4,409
Other interest and similar income	246	68	21	7	342
Interest expense calculated using the effective interest method	(1,243)	(346)	(104)	(35)	(1,728)
Other interest and similar expense	(217)	(60)	(18)	(6)	(301)
Net interest income	**1,960**	**544**	**164**	**54**	**2,722**
Fee and commission income	1,063	295	89	30	1,477
Fee and commission expense	(95)	(27)	(8)	(3)	(133)
Net fee and commission income	**968**	**268**	**81**	**27**	**1,344**
Net trading income	435	117	35	-	587
Credit loss expense on financial assets	(356)	(99)	(30)	(10)	(495)
Net gains/(losses) on financial assets at fair value through profit or loss	(18)	(5)	(1)	-	(24)
Net gains/(losses) on financial liabilities at fair value through profit or loss	(7)	(2)	(1)	-	(10)
Net gains/(losses) on derecognition of financial assets measured at amortised cost	5	1	-	-	6
Net gains/(losses) on derecognition of financial assets measured at fair value through other comprehensive income	(2)	(1)	-	-	(3)
Other operating income	62	17	5	2	86
Net operating income	**3,047**	**840**	**253**	**73**	**4,213**
Personnel expenses	849	236	71	24	1,180
Depreciation of property and equipment	74	21	6	2	103
Amortisation of intangible assets	27	7	2	1	37
Other operating expenses	519	144	43	14	720
Total operating expenses	**1,469**	**408**	**122**	**41**	**2,040**
Segment profit (loss) before taxation	1,578	432	131	32	2,173
Income tax expense	372	103	31	10	516
Profit for the year	**1,206**	**329**	**100**	**22**	**1,657**
Non-current assets	**468**	**210**	**349**	**21**	**1,048**

IFRS 8.33(b)

Non-current assets for this purpose consists of property, equipment and goodwill and other intangible assets.

Notes to the Financial Statements

10. Segment information *continued*

10.2 Geographical information *continued*

31 December 2017 **In $ million**	**Domestic**	**Europe**	**Americas**	**Asia Pacific**	**Total**
Interest revenue calculated using the effective interest method	3,062	851	255	85	4,253
Other interest and similar income	254	70	21	7	352
Interest expense calculated using the effective interest method	(1,319)	(367)	(110)	(37)	(1,833)
Other interest and similar expense	(208)	(58)	(17)	(6)	(289)
Net interest income	**1,789**	**496**	**149**	**49**	**2,483**
Fee and commission income	875	243	73	24	1,215
Fee and commission expense	(123)	(34)	(10)	(3)	(170)
Net fee and commission income	**752**	**209**	**63**	**21**	**1,045**
Net trading income	256	69	21	-	346
Credit loss expense on financial assets	(323)	(90)	(27)	(9)	(449)
Net gains/(losses) on financial assets at fair value through profit or loss	(6)	(1)	-	-	(7)
Net gains/(losses) on financial liabilities at fair value through profit or loss	(2)	(1)	-	-	(3)
Net gains/(losses) on derecognition of financial assets measured at amortised cost	-	-	-	-	-
Net gains/(losses) on derecognition of financial assets measured at fair value through other comprehensive income	-	-	-	-	-
Other operating income	59	16	5	2	82
Net operating income	**2,525**	**698**	**211**	**63**	**3,497**
Personnel expenses	1,008	280	84	28	1,400
Depreciation of property and equipment	77	21	6	2	106
Amortisation of intangible assets	25	7	2	1	35
Other operating expenses	737	204	61	20	1,022
Total operating expenses	**1,847**	**512**	**153**	**51**	**2,563**
Segment profit (loss) before taxation	678	186	58	12	934
Income tax expense	161	45	13	4	223
Profit for the year	**517**	**141**	**45**	**8**	**711**
Non-current assets	**496**	**218**	**352**	**22**	**1,088**

IFRS 8.33(b)

Non-current assets for this purpose consists of property, equipment and goodwill and other intangible assets.

Commentary

In accordance with IFRS 8.33(b), the geographical allocation of the non-current assets should be based on where the assets are located. In accordance with IFRS 8.33(a), the geographical allocation of the revenues from external customers may be based on any (reasonable) criterion, but that basis must be disclosed. The Bank's internal reporting is set up to report internally in accordance with IFRS. These segment disclosures could have been significantly more extensive if internal reports had been prepared on a basis other than IFRS. In that case, a reconciliation between the internally reported items and the externally communicated items would need to be prepared.

11. Interest and similar income

In $ million	2018	2017	
Interest income calculated using the effective interest method			IAS 1.77 IAS 39.55-56
Securities borrowed and reverse repurchase agreements	410	423	
Due from banks	714	703	
Loans and advances to customers	2,894	2,832	
Financial investments – available-for-sale		291	*IAS 39.55(b)*
Financial investments – held-to-maturity		4	*IAS 39.56*
Debt instruments at amortised cost	121		
Debt instruments at FVOCI	270		
Loans and advances to customers	52	65	*IFRS 7.20(d)*
	4,409	4,253	*IFRS 7.20(b)*
Other interest and similar income			*IFRS 7.20(a)(i)*
Derivatives	149	143	
Other financial assets measured at FVPL	193	209	
	342	352	
Total interest and similar income	**4,751**	**4,605**	

Included in the interest income of loans and advances to customers is $5m (2017: $15m), with a corresponding adjustment to the amounts recorded in the statement of financial position, reflecting changes to the Bank's EIR assumptions, incorporating the characteristics and expected behaviour of the balances. *IAS 39.AG6-8 IFRS 9.B5.4.6*

12. Interest and similar expense

In $ million	2018	2017	*IAS 1.77 IFRS 9.B5.4.4*
Interest expense calculated using the effective interest method			
Due to banks	68	63	
Securities lent and repurchase agreements	362	394	
Due to customers	1,050	1,045	
Debt issued and other borrowed funds	239	323	
Negative interest on interest bearing assets	9	8	
	1,728	1,833	*IFRS 7.20(b) IFRS 7R.20(b)*
Other interest and similar expense			*IFRS 7.20(a)(i) IFRS 7.20(a)(i)*
Derivatives	120	119	
Other financial liabilities measured at FVPL	181	170	
	301	289	
Total interest and similar expense	**2,029**	**2,122**	

Notes to the Financial Statements

13. Net fees and commission income

Disaggregated revenue information

IFRS 15.113(a)
IFRS 15.114-115

Segments	Retail Banking	Corporate Banking	Investment Banking	Asset management	Total
	For the year ended 31 December 2018				
In $ million					
Fees and commission income					
Fee income earned from services that are provided over time:					
Asset management fees:	-	-	-	154*	**154**
Debt and fixed income	-	-	-	52	52
Equities	-	-	-	102	102
Custody fees	-	-	70	12	**82**
Interchange fees	50	34	-	9	**93**
Loan commitment fees	163	277	-	-	**440**
Servicing income for transferred financial assets	29	35	-	-	**64**
Other fees received	3	3	2	4	12
	245	**349**	**72**	**179**	**845**
Fee income from providing financial services at a point in time:					
Corporate finance fees	-	-	123	-	**123**
Brokerage fees	-	-	221	119	**340**
Underwriting fees	-	-	160	-	**160**
of which: equity securities	-	-	*87*	-	***87***
of which: debt securities	-	-	*73*	-	***73***
Other fees received	3	2	1	3	**9**
	3	2	505	122	632
Total revenue from contracts with customers	**248**	**351**	**577**	**301**	**1,477**
Geographical information					
Domestic	248	331	453	234	**1,266**
Europe	-	17	67	36	**120**
Americas	-	3	40	22	**65**
Asia Pacific	-	-	17	9	**26**
Total revenue from contracts with customers	**248**	**351**	**577**	**301**	**1,477**

Notes to the Financial Statements

13. Net fees and commission income *continued*

IFRS 15.113(a)
IFRS 15.114-115

	For the year ended 31 December 2017				
Segments	**Retail Banking**	**Corporate Banking**	**Investment Banking**	**Asset management**	**Total Restated**
In $ million					
Fees and commission income					
Type of service					
Fee income earned from services that are provided over time:					
Asset management fees	-	-	-	209*	**209**
Debt and fixed income	-	-	-	84	84
Equities	-	-	-	125	125
Custody fees	-	-	65	12	**77**
Interchange fees	53	35	-	9	**97**
Loan commitment fees	141	238	-	-	**379**
Servicing income for transferred financial assets	29	30	-	-	**59**
Other fees received	8	3	2	4	17
	231	**306**	**67**	**234**	**838**
Fee income from providing financial services at a point in time:					
Corporate finance fees	-	-	72	-	**72**
Brokerage fees	-	-	111	60	**171**
Underwriting fees	-	-	127	-	**127**
of which: equity securities	-	-	*68*	-	***68***
of which: debt securities	-	-	*59*	-	***59***
Other fees received	2	1	1	3	**7**
	2	1	311	63	**377**
Total revenue from contracts with customers	**233**	**307**	**378**	**297**	**1,215**
Geographical information					
Domestic	233	240	286	226	**985**
Europe	-	42	51	39	**132**
Americas	-	25	26	21	**72**
Asia Pacific	-	-	15	11	**26**
Total revenue from contracts with customers	**233**	**307**	**378**	**297**	**1,215**

* For the year ended 31 December 2018, $20 million (2017: $25 million) of performance fees has been recognised as revenue and related to asset management services provided in previous periods but not recognised as revenue in those previous periods as a result of being constrained (see paragraph 8.10.2 above). IFRS 15.116(c)

13. Net fees and commission income *continued*

Commentary

The Bank presented disaggregated revenue based on the type of services provided to customers, the geographical region, and the timing of transfer of the services. Entities will need to make this determination based on entity-specific and/or industry-specific factors that would be most meaningful to their business. When determining which categories are most useful, entities need to consider how they disaggregate revenue in other communications (e.g., press releases, information regularly reviewed by the chief operating decision maker).

The Bank's disaggregated revenue information is disclosed separately and reconciled with the segment reporting disclosures. Entities may find it appropriate to provide disaggregated revenue information within the segment reporting disclosures.

The Bank has not disclosed information about the allocation of the transaction price to remaining performance obligations in contracts. This is due to the contract periods being typically less than one year in duration. Where contracts do have a longer duration, for example, asset management contracts, they are subject to the variable consideration constraint, and, therefore, not included within the transaction price.

IFRS 15.116 also requires disclosure of 'revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period' and 'revenue recognised in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods'. Entities can present this in a tabular or narrative format.

14. Net trading income

In $ million	2018	2017	
Equities	290	175	
Debt securities	118	(12)	
Other interest rate instruments	62	69	
Foreign exchange	65	60	
Other trading income			
-hedge ineffectiveness on (Note 49.6.3):			
-micro and portfolio fair value hedges	38	56	
-micro and portfolio cash flow hedges	2	3	
Other	12	(5)	
	587	**346**	*IFRS 7.20(a)(i)*

Equities income includes the results of buying and selling, and changes in the fair value of equity securities, equity securities sold short and equity-linked derivatives. Debt securities income includes the results of buying and selling and changes in the fair value of debt securities and debt securities sold short as well as the related interest income and expense. The results of trading money market instruments, interest rate swaps, options and other derivatives are recorded under other interest rate instruments.

Foreign exchange income includes gains and losses from spot and forward contracts and other currency derivatives. (Other foreign exchange differences arising on non-trading activities are taken to other operating income/expense in the income statement.) Other net trading income includes the impact of fair value changes due to movement in the fair value of asset backed securities, recorded as held for trading.

15. Credit loss expense

The table below shows the ECL charges on financial instruments for the year recorded in the income statement:

IAS 1.15, IAS 1.17

IFRS 7R.B8J

2018 In $ million	Note	Stage 1 Individual	Stage 1 Collective	Stage 2 Individual	Stage 2 Collective	Stage 3	POCI	Total
Due from banks	24.1	7	-	-	-	-	-	**7**
Cash collateral on securities borrowed and reverse repurchase agreements	25.2	7	-	-	-	-	7	**14**
Loans and advances to customers	32.1	82	128	33	51	100	6	**400**
Debt instruments measured at FVOCI	31.1.1	2	-	2	-	-	4	**8**
Debt instruments measured at amortised cost	31.1.2	8	-	4	-	-	-	**1**
Financial guarantees	38.1.1	21	-	6	-	-		**27**
Letters of credit	38.1.1	7	-	3	-	-		**10**
Other undrawn commitments	38.1.1	4	6	3	3	1		**17**
Total Impairment loss		**138**	**134**	**51**	**54**	**101**	**17**	**495**

Commentary

The above breakdown is not a disclosure specified by IFRS 7R, but we believe a breakdown showing the impact of ECL on the profit and loss account is information that users of the financial statements would find beneficial and is in line with IAS 1.15 and 17. The reference to IFRS 7R.B8J relates to the split between "individually" and "collectively" assessed allowances, which is mandatory for balance sheet disclosure.

The table below shows the impairment charges recorded in the income statement under IAS 39 during 2017:

31 December 2017 In $ million	Specific	Collective (individually not significant exposures)	Collective (Incurred but not yet identified)	Total
Credit loss expense on Due from banks (Note 24.1)	5	-	-	**5**
Credit loss expense on Loans and advances to customers (Note 32.1)				
Corporate	61	-	40	**101**
SME	40	30	47	**117**
Consumer lending	35	61	-	**96**
Residential mortgages	27	50	-	**77**
	163	141	87	**391**
Credit loss expense on financial investments-available-for-sale				
Debt securities	38	-		**38**
Equities	1	-	-	**1**
	39	-	-	**39**
Total on balance sheet items	**207**	**141**	**87**	**435**
Off balance sheet items	14	-	-	14
Total	**221**	**141**	**87**	**449**

IFRS 7.20(e)

16. Net gain or (loss) on financial assets and liabilities at fair value through profit or loss

In $ million	2018	2017	
Financial assets mandatorily measured at fair value through profit or loss	7	-	
Financial assets designated at fair value through profit or loss	2	18	
Financial liabilities designated at fair value through profit or loss	(46)	(28)	
	(37)	**(10)**	*IFRS 7.20R(a)(i)*

Further information on assets and liabilities designated at FVPL is disclosed in Note 28.

Commentary

Realised and unrealised gain/loss on financial assets designated at FVPL relate to financial instruments that have been classified as financial assets and liabilities at FVPL using the fair value option (i.e., excluding the held for trading assets/liabilities). These are presented net, as permitted by paragraph 35 of IAS 1. However, the standard requires gains and losses to be reported separately, if material. The separation of gains and losses has not been performed in this note as the amounts are immaterial.

17. Other operating income

In $ million	2018	2017	
Dividend income	15	13	*IAS 18.35(b)(v)*
Gains from sales of available-for-sale financial investments	-	14	*IFRS 7.20(a)(ii)*
Losses from sales of FVOCI financial investments	(13)	-	
Gains from sales of debt instruments at amortised cost	8	3	
Gains from sales of loans and receivables	6	3	*IFRS 7.20(a)(iv)*
Operating lease income	40	26	
Other	30	23	
	86	**82**	

Included in (losses)/gains from sales of available-for-sale financial investments are the amounts transferred from equity to the income statement on derecognition of available-for-sale investments.

Notes to the Financial Statements

18. Personnel expenses

In $ million	2018	2017	
Wages and salaries	955	1,078	
Social security costs	86	185	
Pension costs – Defined contribution plan (Note 39)	139	137	*IAS 19.53*
	1,180	**1,400**	

19. Other operating expenses

In $ million	2018	2017	
Advertising and marketing	58	170	
Administrative	283	414	
Professional fees	139	165	
Rental charges payable under operating leases	149	148	*IAS 17.35(c)*
Non-trading foreign exchange	10	9	*IAS 21.52(a)*
Goodland bank levy	52	51	
Other	29	65	
	720	**1,022**	

Good Bank is subject to a bank levy. The levy is applied to the consolidated year-end balance sheet of the Bank based on total liabilities and equity, excluding Common Equity Tier 1 capital. The levy is applied at a rate of 0.05% and is not deductible for corporation tax. *IFRIC 21*

Other operating expenses includes $14 million (2017: $13 million) relating to development costs of software for internal use. *IAS 38.126*

Professional fees include fees payable to the auditor of $15 million (2017: $14 million), as analysed below: *IAS 1.1.104*

In $ million	2018	2017
Statutory audit Good Bank	9	8
Statutory audit of Good Bank's subsidiaries	1	1
Audit related services	2	2
Non audit services	3	3
	15	**14**

Commentary

The disclosure to split the auditors' remuneration between audit and non-audit services is not an IFRS requirement. However, most jurisdictions (including Goodland's) require it.

20. Income tax

The components of income tax expense for the years ended 31 December 2018 and 2017 are, as follows: *IAS 12.79* *IAS 1.77*

In $ million	2018	2017	
Current tax			
Goodland			
Goodland current income tax	479	213	*IAS 12.80(a)*
Adjustment in respect of current income tax of prior years	(2)	2	*IAS 12.80(b)*
Overseas			
Overseas current tax	60	48	*IAS 12.80(a)*
Adjustment in respect of current income tax of prior years	(1)	-	*IAS 12.80(b)*
Deferred tax			
Relating to origination and reversal of temporary differences	(20)	(40)	*IAS 12.80(c)*
	516	**223**	

20.1. Reconciliation of the total tax charge

The tax charge shown in the income statement differs from the tax charge that would apply if all profits had been charged at Goodland's corporate rate. A reconciliation between the tax expense and the accounting profit multiplied by Goodland's domestic tax rate for the years ended 31 December 2018 and 2017 is, as follows: *IAS 12.81(c)(i)*

In $ million	2018	2017
Accounting profit before tax	**2,173**	**934**
At Goodland's statutory income tax rate of 30% (2017: 30%)	651	280
Adjustment in respect of current income tax of prior years	(3)	2
Effect of different tax rates in other countries	(43)	(32)
Income not subject to tax	(90)	(32)
Non-deductible expenses	1	5
Income tax expense reported in the consolidated income statement	**516**	**223**

The effective income tax rate for 2018 is 25% (2017: 26%).

Commentary

For simplicity, we have not included lines for 'change in tax rates' and 'local and overseas withholding taxes' in the above reconciliation, but entities with significant operations in different tax jurisdictions and countries with changes in tax rates are expected to have such lines.

20. Income tax *continued*

IAS 1.77

20.2. Deferred tax

The following table shows deferred tax recorded in the statement of financial position and changes recorded in the Income tax expense:

IAS 12.81(g)(i)
IAS 12.81(g)(ii)

In $ million	Deferred tax assets 2018	Deferred tax liabilities 2018	Income statement 2018	OCI 2018
Provisions	54	(29)	(9)	-
Impairment allowance for loans and advances to customers	54	-	(3)	-
Fair value of financial instruments held for trading	73	(91)	(4)	-
Revaluation of cash flow hedges	5	(140)	(1)	(52)
Revaluation of financial investments - debt instruments at fair value through OCI	2	(48)	1	10
Foreign currency translation reserve	-	(7)	-	8
Derivative financial instruments	20	(102)	-	-
Net gain on hedge of net investment	-	(10)	-	(10)
IFRS 9 First time application	217			
Other temporary differences	32	(75)	(4)	-
Total	**457**	**(502)**	**(20)**	**(44)**

IAS 12.81(g)(i)
IAS 12.81(g)(ii)

In $ million	Deferred tax assets 2017	Deferred tax liabilities 2017	Income statement 2017	OCI 2017
Provisions	45	(33)	(36)	-
Impairment allowance for loans and advances to customers	51	(40)	6	-
Fair value of financial instruments held for trading	69	(84)	(3)	-
Revaluation of cash flow hedges	4	(102)	4	(17)
Revaluation of financial investments - debt instruments at fair value through OCI	3	(56)	6	26
Foreign currency translation reserve	-	(15)	-	23
Derivative financial instruments	(20)	(130)	(3)	-
Net gain on hedge of net investment	-	-	-	(6)
Other temporary differences	85	(86)	(14)	-
Total	**237**	**(546)**	**(40)**	**26**

21. Earnings per share

Disclosures for Earnings per share would need to be inserted here. An illustrative example of such disclosures are available in Good Group (International) Limited 2018.

22. Dividends paid and proposed

Disclosures for Dividend paid and proposed would need to be inserted here. An illustrative example of such disclosures are available in Good Group (International) Limited 2018.

23. Cash and balances with central banks

In $ million	2018	2017
Cash on hand	180	172
Current account with the Central Bank of Goodland	2,183	1,868
Deposits with the Central Bank of Goodland	623	562
Deposits with other central banks	221	212
	3,207	**2,814**

Commentary

The ECLs relating to *Cash and balances with Central Banks* here rounds to zero. In practice, an ECL may need to be charged on Cash and balances with Central Banks, in which case, disclosures similar to those in Note 24.1 would need to be provided if such amounts are material.

Deposits with the Central Bank of Goodland and with other central banks represent mandatory reserve deposits and are not available for use in the Bank's day-to-day operations. *IAS 7.48-49*

24. Due from banks

In $ million	2018	2017
Placements with other banks	10,687	10,542
Less: Allowance for impairment losses	(69)	(53)
	10,618	**10,489**

24.1. Impairment allowance for due from banks

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 49.4.3.2 and policies regarding whether ECL allowances are calculated on an individual or collective basis are set out in Note 49.4.3.6:

IFRS 7R.35M
EDTF 26
IFRS 7.36(c)
IFRS 7.37(a)-(b)

In $ million	2018				2017
Internal rating grade	**Stage 1 Individual**	**Stage 2 Individual**	**Stage 3**	**Total**	**Total**
Performing					
High grade	10,000	-	-	**10,000**	**9,050**
Standard grade	623	-	-	**623**	**876**
Sub-standard grade	-	-	-	**-**	**352**
Past due but not impaired	-	-	-	**-**	**201**
Non- performing					
Individually impaired	-	-	64	**64**	**63**
Total	**10,623**	**-**	**64**	**10,687**	**10,542**

24. Due from banks *continued*

24.1. Impairment allowance for due from banks *continued*

An analysis of changes in the gross carrying amount and the corresponding ECL allowances is, as follows:

IFRS 7R.35I(a)-(d)
EDTF 28

In $ million	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
Gross carrying amount as at 1 January 2018	**10,479**	**-**	**63**	**10,542**
New assets originated or purchased	703	-	-	**703**
Payments and assets derecognised (excluding write offs)	(773)	-	(3)	**(776)**
Transfers to Stage 1	-	-	-	**-**
Transfers to Stage 2	-	-	-	**-**
Transfers to Stage 3	-	-	-	**-**
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	**-**
Accrued interest	103		3	**106**
Amounts written off[1]	-	-	-	**-**
Foreign exchange adjustments	111	-	1	**112**
At 31 December 2018	**10,623**	**-**	**64**	**10,687**

IFRS 7R.35H(a)-(c)
IFRS 7R.42P
EDTF 26
EDTF 3

In $ million	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
ECL allowance as at 1 January 2018	**9**	**-**	**52**	**61**
New assets originated or purchased	5	-	-	**5**
Payments and assets derecognised (excluding write offs)	(4)	-	-	**(4)**
Transfers to Stage 1[2]	-	-	-	**-**
Transfers to Stage 2	-	-	-	**-**
Transfers to Stage 3	-	-	-	**-**
Impact on year end ECL of exposures transferred between stages during the year[3]	-	-	-	**-**
Unwind of discount[4]	1	-	2	**3**
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	**-**
Changes to models[5] used for ECL calculations Note 49.4.3	-	-	-	**-**
Changes to estimates and assumptions[6] used for ECL calculations Note 49.4.3	1	-	(2)	**(1)**
Recoveries	-	-	-	**-**
Amounts written off	-	-	-	**-**
Foreign exchange adjustments	1	-	4	**5**
At 31 December 2018	**13**	**-**	**56**	**69**

[1] includes full and partial write-off's
[2] Represents movements prior to re-measurement.
[3] Represents the change in the year-end ECLs of exposures that were transferred from one stage to another during the year.
[4] Represents the change in the effect of discounting during the year. For Stage 3 (and POCI), this is recorded as a reduction in *Interest income* and not in *Credit loss expense on financial assets*.
[5] Represents changes in the models. In 2018 this was nil.
[6] Represents changes to estimates and model assumptions (e.g., GDP rates, unemployment rates and house price indices).

The above explanations also apply, but are not repeated for, the corresponding impairment schedules in Notes 31.1, 32.1 and 38.1.1.

Commentary

IFRS 7R.35I requires entities to provide sufficient explanation to enable users to understand how significant changes in gross balances over the year have contributed to changes in ECLs. It does not explicitly require a reconciliation of movements in the gross carrying amounts in a tabular format, as shown above. The standard's requirement could be addressed using a narrative explanation. However, the example in the Illustrative Guidance (IFRS 7R.IG20B) provides a reconciliation in a tabular format and it is an EDTF recommendation to provide a reconciliation. Therefore, the Bank has elected to provide it.

24. Due from banks *continued*

24.1. Impairment allowance for due from banks continued

Movements in the impairment allowances arising from Due from banks balances under IAS 39 over 2017 included $5m charges, $2m recoveries and $7m unwind of discount, the latter recorded as interest income. in addition, $5m impairment charges were derecognised as these were permanently written off. *IFRS 7.16*

Contractual amounts outstanding in relation to Due from banks that were still subject to enforcement activity, but otherwise had already been written off, were nil both at 31 December 2018 and at 31 December 2017. *IFRS 7R.35L*

25. Securities lending and repurchase agreements and assets held or pledged as collateral

During its normal course of business, the Bank borrows and lends securities and may also sell securities under agreements to repurchase (repos) and purchase securities under agreements to resell (reverse repos).
The accounting treatment of these transactions is explained in Notes 7.20 and 7.21.

25.1. Securities borrowed and reverse repo arrangements

The following table provides an analysis of the consideration paid, including accrued interest, recorded in the statement of financial position, within cash collateral on securities borrowed and reverse repurchase agreements:

In $ million	**2018**	**2017**
Cash collateral paid for securities borrowed	3,216	3,500
Less: Allowance for ECL/impairment losses	(2)	-
Cash collateral paid for reverse repos	4,418	4,173
Less: Allowance for ECL/impairment losses	(4)	-
Total	**7,628**	**7,673**

The following table shows the corresponding liability within other trading liabilities reflecting the obligation to return the securities that have subsequently been sold to third parties:

In $ million	**2018**	**2017**
Other trading liability as a result of short selling securities borrowed	1,520	1,302
Other trading liability as a result of short selling securities received through reverse repos	2,521	2,691
Total	**4,041**	**3,993**

Commentary

Disclosures around securities borrowed and reverse repo arrangements are not mandated by IFRS. However, given such disclosures complement the requirements of IFRS 7.42D for securities lent and repo arrangements, entities often decide to voluntarily disclose this information.

25.2. Impairment on cash collateral on securities borrowed and reverse repurchase agreements

The table below shows the credit quality and the maximum exposure to credit risk for categories based on the Bank's internal credit rating system and year-end stage classification as at 31 December 2018 and 31 December 2017, respectively. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 49.4.3.2 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 49.4.3.6

IFRS 7R.35M
EDTF 26
IFRS 7.36(c)
IFRS 7.37(a)-(b)

In $ million	**2018**				**2017**
Internal rating grade	**Stage 1 Individual**	**Stage 2 Individual**	**Stage 3**	**Total**	**Total**
Performing					
High grade	7,628	-	-	**7,628**	**7,673**
Standard grade		-	-	**-**	**-**
Sub-standard grade	-	-	-	**-**	**-**
Past due but not impaired	-	-	-	**-**	**-**
Non- performing					
Individually impaired	-	-	-	**-**	**-**
Total	**7,628**			**7,628**	**7,673**

25. Securities lending and repurchase agreements and assets held or pledged as collateral *continued*

25.2 Securities borrowed and reverse repo arrangements *continued*

The outstanding balance of cash collateral on securities borrowed and reverse repurchase agreements decreased by $45m. The decrease is a result of $14,548 new assets off-set by repayments of $14,595 and foreign currency revaluation of $8 m. The ECL allowance as of 1 January 2018 was $6m and remained at the same level at 31 December 2018. Movements over the year were minor, and were driven mainly by the movements in the corresponding gross figures in 2018. The impairment allowance under IAS 39 for cash collateral on securities borrowed and reverse repurchase agreements was nil.

IFRS 7R.35H (a)(c)
EDTF 2,26,28
IFRS 7R.42P

Commentary

As ECLs of *Cash collateral on securities borrowed and reverse repurchase agreements* balances were small and Stage 1 throughout the year, the requirements of IFRS 7R.35H (a)-(c), IFRS 7R.42P and EDTF 2, 26 and 28 were addressed by the above narrative and not in a tabular format.

The Bank did not have any contractual amount outstanding on Cash collateral on securities borrowed and reverse repurchase agreements that were still subject to enforcement activity, but, otherwise, had already been written off either at 31 December 2018 or at 31 December 2017.

IFRS 7R.35L

25.3. Securities lent and repo arrangements

The following table summarises the liability arising from the consideration received, including accrued interest within cash collateral on securities lent and repurchase agreements, reflecting the transaction's economic substance as a loan to the Bank:

In $ million	**2018**	**2017**	*IFRS 7.42D(a-c)*
Cash collateral received on securities lent	3,914	4,010	
Cash collateral received on repos	4,214	4,211	
Total	**8,128**	**8,221**	

The following table summarises the assets sold/lent and reclassified as pledged financial assets as the counterparty has the right to sell or re-pledge the securities:

	Financial asset held for trading pledged as collateral		**Financial investments available-for-sale pledged as collateral**		
In $ million	**2018**	**2018**	**2017**	**2017**	*IFRS 7.42D(a-c)*
Securities lent	4,000	2,100	-	1,984	
Repos	3,939	1,903	-	2,004	
Total	**7,939**	**4,003**	**-**	**3,988**	

25.4. Assets pledged and held as collateral

Assets pledged as collateral

IFRS 7.14

In $ million	**2018**	**2017**	
Asset type			
Assets pledged as collateral under lending and repo agreement (Note 25)	7,939	7,991	*IAS 1.77*
Residential mortgages pledged under the RMBS Programme (Note 26.1)	91	98	
Residential mortgages pledged under the Covered bond Programme (Note 26.1)	137	148	
Derivative financial instruments (Note 29)	4,500	4,820	
Total	**12,667**	**13,057**	

25. Securities lending and repurchase agreements and assets held or pledged as collateral *continued*

25.4 Securities borrowed and reverse repo arrangements *continued*

Fair value of assets held as collateral

IFRS 7.15

In $ million	2018	2017
Asset type		
Assets pledged as collateral under securities borrowing and reverse repo agreements (Note 30)	8,321	7,560
Customer deposits held as collateral for irrevocable commitments under import letters of credit (not requiring segregation/derecognition) (Note 36)	85	82
Derivative financial instruments (Note 30)	3,305	3,105
Total	**11,711**	**10,747**

Commentary

Paragraph 15(b) of IFRS 7 *Financial Instruments: Disclosures* requires entities to disclose if assets pledged as collateral under securities borrowing and lending arrangements have been re-pledged. The Bank has not re-pledged these assets, but some have subsequently been sold to third parties. The liabilities arising from such activities are disclosed in Note 25.1.

26. Transferred financial assets

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

The following tables provide a summary of financial assets that have been transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition, together with the associated liabilities:

IFRS 7.42D(d-e)

IFRS 7.14(a)(b)
IFRS 7.15
IFRS 9.3.2.23
IFRS 7.42A-42H

	2018			2017			
In $ million	Financial assets at fair value through profit or loss	Amortised cost	Total	Financial assets at fair value through profit or loss	Available-for-sale	Loans and receivables	Total
(A) Securities lending and repos							
Carrying amount of transferred assets	7,939	-	7,939	4,003	3,988	-	7,991
Carrying amount of associated liabilities	8,128	-	8,128	4,168	4,053	-	8,221
Fair value of assets	7,939	-	7,939	4,003	3,988	-	7,991
Fair value of associated liabilities	**8,128**	**-**	**8,128**	**4,168**	**4,053**		**8,221**
(B) Securitisations							
Carrying amount of transferred assets	-	228	228	-	-	246	246
Carrying amount of associated liabilities	-	231	231	-	-	248	248
Fair value of assets	-	295	295	-	-	310	310
Fair value of associated liabilities	-	262	262	-	-	280	280
Net position at FV	**-**	**33**	**33**	**-**	**-**	**30**	**30**

(A) Securities lending and repurchase agreements

Details of assets transferred but not derecognised under securities lending and repurchase agreements are disclosed in Note 25.4.

IFRS 7.42D(a-c)

26. Transferred financial assets *continued*

26.1 Transferred financial assets that are not derecognised in their entirety *continued*

(B) Good Bank's own securitisations within the RMBS and Covered Bond programmes

The Bank operates both a Covered Bond and an RMBS (Residential Mortgage Backed Security) programme, both of which went live on April 2014. In both cases, Good Bank acts as the servicer to the programme.

The RMBS programme

The Bank transferred a pool of fixed rate mortgages with a carrying amount of $100 million into a Structured Entity (Good RMBS Trust 1 Ltd) that issued securities to borrow from the market. The structured entity is controlled by Good Bank as, in addition to holding voting rights and having the ability to use the power to affect the amount of the investors' return, Good Bank is also exposed to variable returns as it holds a portion of the issued bonds. The obligation to the external noteholders has been recorded as a financial liability in the line item Debt issued and other borrowed funds. The carrying amount of the transferred assets and the associated liability as at 31 December 2018 was $91 million and $92 million, respectively, (2017 $98 million and $99 million) while the fair value was $125 million and $105 million, respectively, (2017: $130 million and $115 million). *IFRS 7.42D(a-e)*

Good Bank's maximum exposure to the RMBS programme represents the fair value of the liability; at year end, it was $105m (2017: $115m).

The Covered Bond programme

Under Good Bank's Covered Bond programme, notes are issued by Good Bank from its own balance sheet. Bond holders are protected from suffering a loss even in the event that Good Bank defaults, because at the point when the notes were issued, Good Bank also transferred the legal title of a portfolio of mortgages to the Good Covered Bond Trust Limited Liability Partnership (LLP) to act as collateral for the covered bond investors. Cover Bond LLP is the legal guarantor for the repayment of the Covered Bonds. *IFRS 7.42D(a-e)*

The title transfer of the mortgages has been achieved by Good Bank providing an inter-company loan on the same terms and conditions as the external bonds to the LLP. The LLP used the proceeds to purchase the mortgage portfolio. The net result is that the LLP retains the legal title, but proceeds from the mortgages are passed through the intercompany loan to the covered bond holders. Good Bank consolidates the LLP on the basis that, in addition to having power as the sole owner, it also is entitled to substantial variable returns through the over-collateralised portion of the sold mortgages.

The carrying amounts of the transferred assets and the associated issued debt as at 31 December 2018 were $137 million and $139 million, respectively, (2017: $148 million and $149 million) while the fair value was $170 million and $157 million, respectively, (2017: $180 million and $165 million).

Good Bank's maximum exposure to the RMBS programme represents the fair value of the liability and at year end was $157m (2017: $155m).

Good Bank does not have a contractual obligation to provide financial support other than liquidity facilities to its consolidated structured entities. Neither of the consolidated structured entities have taken benefit of the liquidity facilities, nor has Good Bank provided voluntary non-contractual financial support to the LLP over the reported periods. *IFRS 12.14-17*

Good Bank did not lose control of consolidated structured entities or subsidiaries in either 2016 or 2015 that would have resulted in deconsolidating the entities or would have had an effect on the equity attributable to owners of the parent. *IFRS 12.18-19*

Commentary

The above disclosures, whilst they relate to structured entities, are covered by IFRS 7.42D (a-e) and not by IFRS 12. Although, in Good Bank's case, both the RMBS and the Covered Bond entities are consolidated and, therefore, it may be argued that, in the consolidated accounts, the transactions may not qualify for asset transfers, it is common practice to provide these disclosures.

26. Transferred financial assets *continued*

26.2. Transferred financial assets that are derecognised in their entirety but where the Bank has continuing involvement

The following table summarises the effect on the Bank's statement of financial position and maximum exposure to risk as a result of its continuous involvement:

IFRS 7.42E(a-c)

	2018			2017		
In $ millions	**Carrying value**	**Fair value**	**Maximum exposure to loss**	**Carrying value**	**Fair value**	**Maximum exposure to loss**
Commercial mortgage securitisation	-	-	-	-	-	-
Residential mortgage securitisation	20	20	20	40	40	40
Structured notes (Interest rate derivatives)	11	11	11	6	6	6

The following table summarises the impact on the Bank's income statement at the time of the transactions and as a result of its continuous involvement:

IFRS 7.42G

	2018			2017		
In $ millions	**Year to date profit and loss**	**Cumulative profit**	**Gain on disposal**	**Year to date profit and loss**	**Cumulative profit**	**Gain on disposal**
Commercial mortgage securitisation	23	23	18	-	-	-
Residential mortgage securitisation	21	26.8	-	5.8	5.8	-
Structured notes (Interest rate derivatives)	(5)	1	-	6	6	12

<u>Commercial mortgages</u>

IFRS 7.42E (a-f)

In 2018, Good Bank sold a pool of commercial mortgages for $500m to an unrelated third party in the US market. The transaction resulted in full derecognition of the financial assets from Good Bank's statement of financial position and a gain of $18 million. Following this transfer, Good Bank's only continuing involvement in the transferred assets is to act as servicer of the transferred assets for a term of four years, with an annual servicing fee of 1% of serviced assets. Good Bank does not have an obligation to repurchase the transferred assets.

<u>Residential mortgages</u>

IFRS 7.42E (a-f)

In 2017, Good Bank transferred residential mortgage loans for $1.5 billion to a newly established unconsolidated structured entity. The transaction resulted in full derecognition of loans from Good Bank's statement of financial position, with no significant impact on profit for the year.

Following this transfer, Good Bank continues to have three types of continuing involvement in the transferred assets:

- As counterparty to the structured entity of a non-standard interest rate swap
- As servicer of the transferred assets
- Good Bank also has an option to unwind the transaction by redeeming all notes at their fair value at any time, in the unlikely event of changes in accounting and/or regulatory requirements that significantly impact the transaction

The fair value of the swap as at 31 December 2018 amounted to $20 million (2017: $40 million); the fair value changes on this swap recognised in the profit and loss account in 2018 were $20 million (2017: $5 million). Fee income recognised in the profit and loss account in 2018 amounted to $1 million (2017: $0.8 million). Good Bank does not have an obligation to repurchase the transferred assets, but has provided a liquidity facility to the programme which has not been used since its launch. The Bank's maximum exposure to loss is represented by the fair value of the swap.

26. Transferred financial assets continued

26.2 Transferred financial assets that are derecognised in their entirety but where the Bank has continuing involvement *continued*

Structured notes

In February 2017, the Bank transferred a pool of long-term debt securities with a carrying amount of $320 million to a third party and concurrently sold an interest rate swap referenced to the transferred assets for the benefit of the transferee. The gain recognised at the date of transfer was $12 million. The transfer qualified for full derecognition on the basis that the Bank concluded not to have retained substantially all of the risks and rewards and had surrendered control over the transferred assets. The Bank's continuing involvement with the transferred securities is only the swap which is recorded in the statement of financial position as Derivative financial instruments liability at the interest rate swap's fair value of $11 million (2017: $6 million). The Bank's maximum exposure to loss is represented by the fair value of the swap. The fair value recognised as a loss on the interest swap in the period was $5 million (2017: loss $6 million) and the cumulative loss is $11 million. The maturity of the interest swap is 28 February 2024, which is the same maturity as the transferred securities. Good Bank also provided a liquidity facility to the programme which has not been used since its launch. *IFRS 7.42E (a-f)*

27. Investment in subsidiaries, structured entities, securitisations and asset management activities

27.1. Consolidated subsidiaries

The consolidated financial statements include the financial statements of Good Bank (International) Ltd and its subsidiaries. Good Bank does not have any joint ventures or associates. Significant subsidiaries of Good Bank are:

IFRS 12.2(b)
IFRS 12.10a(i)
IFRS 12.12(b)

Name of subsidiary	Country of incorporation	% equity interest 2018	% equity interest 2017
Singapore Bank Ltd	Singapore	100	100
China Bank Inc	China	80	80
Bankland Bank Ltd	Badland	100	100
Credit Card Inc	USA	100	100
French Bank S.A.	France	100	100
German Bank AG	Germany	100	100
Irish Bank Ltd	Ireland	100	100
Good Covered Bond LLP	Goodland	100	100
Good RMBS Trust 1 Ltd	Goodland	100	100

China Bank Inc is the only significant subsidiary of Good Bank that has a material non-controlling interest (2018: 20%, 2017:20%). The following table summarises key information relevant to China Bank Inc. *IFRS 12.12(a)* *IFRS 12.12(c)*

In $ millions	**2018**	**2017**
Loans to customers	565	532
Derivative financial instruments	83	71
Other assets	325	314
Due to customers	(448)	(411)
Derivative financial instruments	(60)	(80)
Other liabilities	(280)	(276)
Net assets	185	150
Accumulated non-controlling interests of the subsidiary	**37**	**30**
Net interest margin	74	71
Profit after tax	**65**	**60**
Profit allocated to non-controlling interest	13	12
Dividends paid to non-controlling interests	**2**	**1**

27. Investment in subsidiaries, structured entities, securitisations and asset management activities *continued*

27.2. Nature, purpose and extent of the Bank's exposure to structured entities

In the course of its business the Bank's activities include transactions with various structured entities which have been designed to achieve a specific business objective. A structured entity is one that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. *IFRS 12.10*

A structured entity often has some or all of the following features or attributes:

- Restricted activities *IFRS 12.A*
- A narrow and well-defined objective, such as to effect a tax-efficient lease, carry out research and development activities, provide a source of capital or funding to an entity or provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors
- Insufficient equity to permit the structured entity to finance its activities without subordinated financial support *IFRS 12. B22*
- Financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches)

The primary use of structured entities is to provide the Bank and its clients and customers with specific pools of assets and to provide access to liquidity for clients through asset securitisations. Structured entities' legal forms may vary, but, generally, include limited liability corporations, trusts, funds and partnerships. Structured entities generally finance the purchase of assets through securitisation and therefore raise finance from external investors by enabling them to invest in parcels of specified financial assets.

Commentary

Large organisations may conclude that, whilst they have subsidiaries with non-controlling interests, they are not significant to the Group and, therefore, they do not disclose the above information. IFRS 12.12 and IFRS 12.B10 also requires other measures (e.g., current and non-current or cash-flows) which Good Bank concluded not to be relevant for its subsidiary. We encourage entities to consider the applicable measures on a case-by-case basis as to whether they require disclosure in accordance with IFRS 12.10.

27.3. Consolidated structured entities

Good Bank only has two consolidated structured entities, Good Covered Bond LLP and Good RMBS Trust 1 Ltd, which are explained in detail in Note 27.1 above.

27.4. Unconsolidated structured entities

These are entities that do not meet consolidation criteria explained Note 6 and Note 8.3. The Bank's interest in these entities varies depending on the type and natureof the entities. Below is a description of the structured entities that Good Bank has exposure to, by main types: *IFRS 12.26*

- *Customer investment vehicles*: these are generally set up to provide tailored investment opportunities to the Bank's clients, usually offering a pre-agreed often guaranteed return. The entities are not consolidated as the Bank does not have the power to influence the returns or change the investment structure during the life of these instruments. In addition to the initial set-up and marketing, the Bank's continued involvement includes servicing and administering these entities on behalf of the investors. *IFRS 12.9*
- *Entities that provide secured lending to third parties*: these entities may take the form of funding entities, trusts and private investment companies. The funding is secured by the asset in the structured entities. The Bank's involvement is predominantly lending and loan commitments. As the Bank does not have the power to control the investment decisions in these entities, they are not consolidated.
- *Securitisation vehicles:* the Bank is often involved in setting up securitisation vehicles by either transferring or helping with the purchase of fixed income securities, corporate loans and asset-backed securities (primarily commercial and residential mortgage-backed securities). The vehicles fund these purchases by issuing multiple tranches of debt and equity securities, the repayment of which is linked to the performance of the assets in the vehicles.

27. Investment in subsidiaries, structured entities, securitisations and asset management activities *continued*

27.4 Unconsolidated structured entities *continued*

The Bank does not consolidate these structured entities as either it does not have the power to control the investment decisions or it is exposed to significant variable returns of these structured entities. Moreover, the Bank's ownership did not exceed 20% in any single securitisation vehicle over the reported periods.

The following tables show the carrying amount of the Bank's recorded interest in its consolidated statement of financial position as well as the maximum exposure to risk (as defined in below) due to these exposures in the unconsolidated structured entities and asset management activities: *IFRS 12.9*

IFRS 12.24
IFRS 12.25
IFRS 12.26
IFRS 12.28
IFRS 12.29

At 31 December 2018 In $ millions	**Customer investment vehicles**	**Entities to provide secured lending to third parties**	**Securit-isations**	**Funds Asset management**	**Total**	**Maximum exposure to loss**
Trading assets at fair value	112	34	92	3,520	3,758	3,758
Loans	37	92	23	-	152	152
Positive market value of derivatives	67	12	11	445	535	1,600
Financial assets at fair value through the profit and loss	-	-	-	543	543	543
Equity instruments at fair value through other comprehensive income	-	-	-	274	274	274
Other assets	-	-	-	153	153	153
Total Assets	**216**	**138**	**126**	**4,935**	**5,415**	**6,480**
Negative market value of derivatives	(12)	(9)	(23)	(103)	(147)	750
Total Liabilities	**(12)**	**(9)**	**(23)**	**(103)**	**(147)**	**750**
Off-balance sheet exposures	3	12	7	-	22	200
Size of the structured entity	3,431	4,256	9,111	46,703	63,501	
Fee income	52	63	26	37	178	

IFRS 12.27(b)

At 31 December 2017 In $ millions	**Customer investment vehicles**	**Entities to provide secured lending to third parties**	**Securit-isations**	**Funds Asset management**	**Total**	**Maximum exposure to loss**
Trading assets at fair value	121	43	82	3,200	3,446	3,446
Loans	32	89	24	-	145	145
Positive market value of derivatives	72	9	13	400	494	1,400
Financial assets at fair value through the profit and loss	-	-	-	121	121	121
Financial investments classified as available-for-sale	-	-	-	605	605	605
Other assets				131	131	131
Total assets	**225**	**141**	**119**	**4,457**	**4,942**	**5,848**
Negative market value of derivatives	(42)	(52)	(12)	(97)	(203)	600
Total liabilities	**(42)**	**(52)**	**(12)**	**(97)**	**(203)**	**600**
Off-balance sheet exposures	4	11	6	-	21	180

27. Investment in subsidiaries, structured entities, securitisations and asset management activities *continued*

27.4 Unconsolidated structured entities *continued*

Size of the structured entity	3,451	4,311	9,341	42,457	59,560	
Fee income	51	59	25	32	167	*IFRS 12.27(b)*

In the above table, the Bank determined the size of the structured entities by evaluating the following measures and indicators: *IFRS 7.B10 (a)*

- Customer and investment vehicles – fair value of notes in issue
- Entities to provide secured lending to third parties – total assets of the entities
- Securitisations – notional value of notes in issue
- Funds – net asset value of assets under management

The fee income from private, wealth and asset management activities only reflects fee income arising from funds that, from the Bank's perspective are unconsolidated structured entities. The total income as a business division (of which this is only a subset) is disclosed in Note 10.

The Bank determines its maximum exposure to loss by evaluating the nature of its interest in the unconsolidated structured entity on an instrument-by-instrument basis, as follows:

- For loans and non-derivative trading instruments, this is their carrying amounts in the consolidated statement of financial position
- The maximum exposure for derivatives and off-balance sheet commitments such as guarantees, liquidity facilities and loan commitments is reflected by the notional amounts

The amounts disclosed, however, are not considered to represent the true economic risks faced by the Bank as they do not take into account potential benefits from exercising collaterals or hedges, nor the probability of such losses occurring.

27.5. Sponsored unconsolidated structured entities where the Bank had no interest as of 31 December 2018 or 31 December 2017

As a sponsor, the Bank may be involved in the legal set-up and initial marketing of the entity and the Bank may also provide support for the entity including, but not limited to: *IFRS 12.27(a)*

- Transferring assets to the entity
- Providing operational support to ensure the entity's continued operation
- Providing guarantees of performance to the structured entity

The Bank also considers itself a sponsor for a structured entity if market participants would reasonably associate the entity with the Bank. Additionally, the use of Good Bank's name for the structured entity also indicates that the Bank acts, or has acted, as a sponsor.

The Bank did not transfer assets or receive income from sponsored structured entities over the reported periods other than as disclosed in Note 26.2. *IFRS 12.27(b)* *IFRS 12.27(c)*

In 2018, $5m was drawn down from the liquidity facility and provided to one of its sponsored unconsolidated securitisation vehicles in order that it could meet a temporary shortfall in liquidity arising from an operational error. The facility was fully repaid within a month and the Bank does not expect the error to recur. The Bank did not provide voluntary non-contractual financial support over the reported periods. *IFRS 12.30*

Commentary

The Bank's involvement in unconsolidated structured entities does not include the origination and transfer of the assets other than those explained in Note 26.2. We encourage entities involved in complex securitisation structures to consider an appropriate reconciliation between disclosures of unconsolidated sponsored structured entities and derecognised transferred financial assets with continuous involvement, asnecessary.

28. Financial assets and liabilities at fair value through profit or loss

28.1. Financial assets at fair value through profit or loss

In $ million	2018	2017	
Financial assets held for trading - mandatorily measured at FVTPL			
Government debt securities	1,212	3,121	
Debt securities issued by banks	1,216	806	
Asset backed securities	598	587	
Other debt securities	460	453	
Listed and actively traded equities	1,405	1,398	
	4,891	**6,365**	*IFRS 7.8(a)(ii)*
Financial assets held for trading pledged as collateral - mandatorily measured at FVTPL			
Government debt securities	6,368	2,453	
Debt securities issued by banks	524	518	
Other debt securities	257	245	
Listed and actively traded equities	790	787	*IFRS7.42D(a)*
	7,939	**4,003**	*IAS 39.37(a)* *IFRS 7.8(a)(ii)*
Total Financial assets held for trading	**12,830**	**10,368**	
Financial assets at fair value through profit or loss			
ABS securities – mandatorily measured at FVTPL	102		*IFRS 7.8(a)(ii)*
Loans and advances to customers – mandatorily measured at FVTPL	894		*IFRS 7.8(a)(ii)*
Loans and advances to customers – designated at FVTPL	1,266	1,241	*IFRS 7.8(a)(i)*
	2,262	**1,241**	
	15,092	**11,609**	*IFRS 7.8(a)(i)*

ABS securities and Loans and advances to customers mandatorily measured at FVTPL are those that have falied the SPPI test under IFRS 9. *IFRS 7.B5(a)(i) IFRS 7.B5(aa)(ii)*

Included in financial assets designated at FVPL is a portfolio of variable rate corporate loans which is economically hedged by credit derivatives. The hedges do not meet the criteria for hedge accounting and the loans are recorded at fair value to avoid an accounting mismatch. The maximum credit exposure of the loans and advances to customers amounts to $1,266 million (2017: $1,241 million). The cumulative change in fair value of the loans attributable to changes in credit risk amounts to a loss of $35 million (2017: loss of $32 million) and the change for the current year is a loss of $3 million (2017: loss $2 million). *IFRS 7.9(a) IFRS 7.R10A(b) IFRS 7.9(c)*

The notional value of the credit derivatives is $1,334 million (2017: $978 million). The change in fair value of the credit derivatives attributable to changes in credit risk since the loans were first designated amounts to a gain of $30 million (2017: gain of $27 million) and the change for the current year is a gain of $3 million (2017: gain of $2 million). *IFRS 7.9(b) IFRS 7.9(d)*

The changes in fair value of the designated loans attributable to changes in credit risk have been calculated by determining the changes in credit spread implicit in the fair value of bonds issued by entities with similar credit characteristics. *IFRS 7.11(a)*

Financial liabilities at fair value through profit or loss

In $ million	2018	2017	
Financial liabilities held for trading			
Short position in listed and actively traded equities	2,897	2,765	
Short position in listed and actively traded debt securities	1,263	1,313	
	4,160	**4,078**	*IFRS 7.8(e)(ii)*
Financial liabilities designated at fair value through profit or loss			
Structured notes	3,620	3,549	
$1.2 billion fixed rate notes due 2020	-	987	
	3,620	**4,536**	
	7,780	**8,614**	*IFRS 7.8(e)(i)*

$1.2 billion fixed rate notes due 2020

In 2010, the Bank issued notes with a nominal value of $1.2bn and a fixed rate of 5% due in 2020. At the same time, the Bank entered into *'pay floating receive fixed'* interest rate swaps to economically hedge the issued bonds and classified the notes as liabilities at designated fair value to avoid an accounting mismatch.

28. Financial assets and liabilities at fair value through profit or loss *continued*

28.1 Financial assets at fair value through profit or loss *continued*

In January 2018, upon application of IFRS 9, the Bank revoked its previous designation of such financial liabilities made under IAS 39, because the interest rate swaps have been closed in accordance with the change in the Bank's strategy and there is no longer a significant accounting mismatch arising from the securities. Refer to the transition note 9 and 40, which include also the impact and effective interest rate upon redesignation.

28.2. Structured notes

On 10 January 2014, the Bank issued 10-year notes with a par value of $3,600 million and an annual fixed coupon of 5 per cent, including a call option on the Goodland Top 100 index at a level of 197.3. The structured notes issued by the Bank form part of a group of financial instruments that, together, are managed on a fair value basis. *IFRS 7.B5(a)(i)* *IFRS 7.B5(a)(ii)*

In $ million	2018	2017	
Cumulative change in fair value of the structured notes attributable to changes in credit risk	23	47	*IFRS 7.10A(a)*
Change during the year in fair value of the structured notes attributable to changes in credit risk	(24)	32	*IFRS 7.10A(a)*

The Bank estimates its own credit risk from market observable data such as secondary prices for its traded debt, and the credit spread on credit default swaps and traded debts on itself. *IFRS 7.10(a)(ii)*

The amount that the Bank would contractually be required to pay at maturity (based on the current intrinsic value of the call options) is $34 million more than the carrying amount ($28 in 2017). *IFRS 7.10(b)*

Commentary

IFRS 7 requires that entities include the effect of changes in own credit risk when determining the carrying amounts of liabilities measured at fair value. Under IAS 39, such movements were recorded in the statement of profit or loss, although entities were allowed to early apply the IFRS 9 requirements. Upon adoption of IFRS 9, for financial liabilities designated as at FVTPL using the fair value option, such movements are recorded in the Other comprehensive income (IFRS 9.7.1.2).

Notes to the Financial Statements

29. Derivative financial instruments

The Bank enters into derivatives for trading and risk management purposes, as explained in Note 7.18 in the Summary of significant accounting policies. The Bank may take positions with the expectation of profiting from favourable movements in prices, rates or indices. Most of the trading portfolio is within the Bank's investment banking division and is treated as trading risk for risk management purposes. Derivatives held for risk management purposes include hedges that either meet the hedge accounting requirements or hedges that are economic hedges, but do not meet the hedge accounting requirements. The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross, is the quantity of the derivative contracts' underlying instrument (being an equity instrument, commodity product, foreign currency, reference rate or index). The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either the market or credit risk. *IAS 1.77*

Commentary

The disclosures of notional amounts are not mandatory under IFRS 7. However, these disclosures are recommended in EDTF 29 and are considered to be best practice.

EDTF 29

31 December 2018 In $ million	Carrying value assets	Carrying value liabilities	Notional amount	
Derivatives held for trading				
Interest rate swaps	1,868	2,466	33,687	
Foreign exchange contracts	688	2,090	54,362	
Interest rate options/futures	1,026	1,095	15,250	
Equity swaps and options	-	11	2,027	
Commodity futures	800	-	8,595	
	4,382	**5,662**	**113,921**	
Derivatives in economic hedge relationships				
Interest rate swaps	422	1,229	13,730	
Foreign exchange contracts	918	448	5,727	
Credit derivative contracts	405	18	2,994	
	1,745	**1,695**	**22,451**	
Derivatives used as fair value hedges				
Interest rate swaps	467	650	11,972	*IFRS 7R.22B(a))*
	467	**650**	**11,972**	*IFRS 7R.24A(a),(b),(d)*
Derivatives used as cash flow hedges				
Interest rate swaps	612	58	4,382	
Cross-currency interest rate swaps	267	-	980	
	879	**58**	**5,362**	*IFRS 7R.22B(a)(i)*
Total derivative financial instruments	**7,473**	**8,065**	**153,706**	*IFRS 7R.24A(a),(b),(d)*

Commentary

IFRS 9.6.7.1 provides the option to designate all, or part, of the financial assets protected by credit default swaps as measured at FVPL in certain circumstances for entities adopting IFRS 9 hedge accounting. As the Bank has chosen to continue with the IAS 39 hedge accounting, the treatment is not permitted. Hence, this fact pattern is not illustrated in this publication.

29. Derivative financial instruments *continued*

EDTF 29

31 December 2017 In $ million	Carrying value assets	Carrying value liabilities	Notional amount
Derivatives held for trading			
Interest rate swaps	1,993	2,034	22,459
Foreign exchange contracts	988	1,890	38,054
Interest rate options/futures	967	895	11,986
Equity swaps and options	-	15	1,908
Commodity futures	911	743	15,890
	4,859	**5,577**	**90,297**
Derivatives in economic hedge relationships			
Interest rate swaps	352	903	7,942
Foreign exchange contracts	304	606	2,985
Credit derivative contracts	508	21	1,264
	1,164	**1,530**	**12,191**
Derivatives used as fair value hedges			
Interest rate swaps	480	674	11,490
	480	**674**	**11,490**
Derivatives used as cash flow hedges			
Interest rate swaps	379	45	4,001
Cross-currency interest rate swaps	262	-	1,174
	641	**45**	**5,175**
Total derivative financial instruments	**7,144**	**7,826**	**119,153**

At their inception, derivatives often involve only an exchange of cash or other assets in the future, with little or no transfer of initial consideration. However, these instruments frequently involve a high degree of leverage and the value of the amounts required to be exchanged can be significantly higher than the initial investment. A relatively small movement in the value of the underlying asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Bank. The Bank's exposure to derivative contracts is monitored on regular basis as part of its overall risk management framework (see also Note 49.4.1). The Bank's derivative assets and financial liabilities are generally not offset in the statement of financial position unless the IFRS netting criteria are met (see Note 30).

IAS 32.42

For derivatives that are managed on a 'Settle-to-market basis', the change in fair value is settled in cash daily before the close of the business day. Therefore, the carrying amounts of such derivatives represent only the called but not yet settled balances. Products that the Bank manages on a settle-to-market basis include exchange traded futures and options and over-the-counter interest rate and foreign currency swaps cleared through Goodland Clearing House.

IFRS 9.3.2.3
IAS 39.17
IFRS 9.3.3.1
IAS 39.39

29.1. Derivative financial instruments held or issued for trading purposes

IFRS 7.31

Most of the Bank's derivative trading activities relate to deals with customers that are normally offset by transactions with other counterparties. The Bank may also take positions with the expectation of profiting from favourable movements in prices, rates or indices.

29.2. Derivative financial instruments held or issued for hedging purposes

IFRS 7.31

As part of its asset and liability management, the Bank uses derivatives for economic hedging purposes in order to reduce its exposure to market risks. This is achieved by hedging specific financial instruments, portfolios of fixed rate financial instruments and forecast transactions, as well as hedging of aggregate financial position exposures. Where possible, the Bank applies hedge accounting.

The accounting treatment explained in Note 7.18, depends on the nature of the item hedged and compliance with the IAS 39 hedge accounting criteria. Further disclosures on hedge accounting are provided in 49.6.3.

29. Derivative financial instruments *continued*

29.3. Derivatives in economic hedge relationships

Included in this classification are any derivatives entered into by the Bank in order to economically hedge its exposures for risk management purposes that are not designated in hedge relationships as they do not meet the IAS 39 hedge accounting criteria.

29.4. Forwards and futures

Forward and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Futures contracts, including commodity futures, are transacted at standardised amounts on regulated exchanges and are subject to daily cash margin requirements. *IFRS 7.31*

The main differences in the risks associated with forward and futures contracts are credit risk and liquidity risk. The Bank has credit exposure to the counterparties of forward contracts. The credit risk related to future contracts is considered very low because the cash margin requirements of the exchange help ensure that these contracts are always honoured. Forward contracts are usually settled gross and are, therefore, considered to bear a higher liquidity risk than the futures contracts which, unless chosen to be executed by delivery, are settled on a net basis. Both types of contracts result in market risk exposure.

29.5. Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index. *IFRS 7.31*

Interest rate swaps relate to contracts taken out by the Bank with other counterparties (customers and financial institutions) in which the Bank either receives or pays a floating rate of interest, respectively, in return for paying or receiving a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a currency swap (included within foreign exchange contracts), the Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross settled.

Credit default swaps are contractual agreements between two parties to make payments with respect to defined credit events, based on specified notional amounts. The Bank purchases credit default swaps in order to mitigate the risk of default by the counterparty on the underlying security referenced by the swap.

Irrespective of whether settled through clearing houses or directly with the counterparties, most swaps are fully collateralised and require daily margin settlement. The practice significantly reduces the Bank's credit risk, but requires more diligent liquidity management than if the positions were not collateralised.

29.6. Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specified amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. *IFRS 7.31*

The Bank purchases and sells options through regulated exchanges and in the over-the-counter markets. Options purchased by the Bank provide it with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed value either on or before the expiration of the option. The Bank is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

Options written (sold) by the Bank provide the purchaser the opportunity to purchase from, or sell to, the Bank the underlying asset at an agreed value either on or before the expiration of the option. These instruments represent a higher market risk than purchased options.

29.7. Fair values

Disclosures concerning the fair value and credit/market risk of derivatives are provided in Notes 48 and 49.6.2

30. Offsetting

The Bank has various netting agreements in place with counterparties to manage the associated credit risks. Such arrangements primarily include: repo and reverse repo transactions, securities borrowing and lending arrangements, and over-the-counter and exchange traded derivatives. These netting agreements and similar arrangements generally enable the counterparties to set-off liabilities against available assets received in the ordinary course of business and/or in the event of the counterparty's default. The offsetting right is a legal right to settle, or otherwise eliminate, all or a portion of an amount due by applying an amount receivable from the same counterparty against it, thus, reducing credit exposure. However, the offsetting criteria in IAS 32 are not met in all cases (see Note 4).

The tables on the following pages summarise the financial assets and liabilities subject to offsetting, enforceable master netting and similar agreements, as well as financial collateral received to mitigate credit exposures for these financial assets, and whether offset is achieved in the balance sheet:

30. Offsetting *continued*

Financial assets subject to offsetting, netting arrangements

IFRS 7R.13B
IFRS 7R.13C
IFRS 7R.13D

31 December 2018 In $ Million	**Offsetting recognised on the balance sheet**			**Netting potential not recognised on the balance sheet**			**Assets not subject to netting arrangements[1]**	**Total assets**	**Maximum exposure to risk**
	Gross assets before offset	**Offset with gross liabilities[2]**	**Net assets recognised on the statement of financial position**	**Financial liabilities**	**Collateral received**	**Assets after consideration of netting potential[3]**	**Assets recognised on the statement of financial position**	**Recognised in the statement of financial position**	**After consideration of netting potential**
Cash collateral on securities borrowed and reverse repurchase agreements	8,728	(1,421)	7,307	-	(8,321)	-	321	7,628	321
Derivative financial instruments	10,817	(3,451)	7,366	(3,325)	(3,305)	736	107	7,473	843
Total	**19,545**	**(4,872)**	**14,673**	**(3,325)**	**(11,626)**	**736**	**428**	**15,101**	**1,164**

31 December 2017 In $ Million	**Offsetting recognised on the balance sheet**			**Netting potential not recognised on the balance sheet**			**Assets not subject to netting arrangements[2]**	**Total assets**	**Maximum exposure to risk**
	Gross assets before offset	**Offsetting with gross liabilities**	**Net assets recognised on the statement of financial position**	**Financial liabilities**	**Collateral received**	**Assets after consideration of netting potential[4]**	**Assets recognised on the statement of financial position**	**Recognised in the statement of financial position**	**After consideration of netting potential**
Cash collateral on securities borrowed and reverse repurchase agreements	8,620	(1,097)	7,523	-	(7,560)	-	150	7,673	150
Derivative financial instruments	8,272	(1,231)	7,041	(3,296)	(3,105)	640	103	7,144	743
Total	**16,892**	**(2,328)**	**14,564**	**(3,296)**	**(10,665)**	**640**	**253**	**14,817**	**893**

[1] Represents items not subject to enforceable netting arrangements and other out-of-scope items.
[2] "Netting with gross liabilities" column represents amounts that can be offset under IAS 32. These numbers are the same amount as those presented in the "Netting with gross assets "column in the liabilities table on the following page
[3] Amounts have been capped by the relevant netting agreement so as not to exceed the net amount of financial assets presented on the balance sheet; (i.e., over-collateralisation, where it exists, is not reflected in the table, given surplus collateral would not be recognisable in an event of default.

30. Offsetting *continued*

Financial liabilities subject to offsetting, netting arrangements

IFRS 7R.13B
IFRS 7R.13C

31 December 2018 In $ Million	Offsetting recognised on the balance sheet			Netting potential not recognised on the balance sheet			Assets not subject to netting arrangements	Total liabilities	Maximum exposure to risk
	Gross liabilities before offsetting	Offsetting with gross assets	Net liabilities recognised on the statement of financial position	Financial assets	Collateral pledged	Liabilities after consideration of netting potential	Liabilities recognised on the statement of financial position	Recognised on the statement of financial position	After consideration of netting potential
	$ million	$ million	$ million	$ million	$ million	$ million	$ million	$ million	$ million
Cash collateral on securities lent and repurchase agreements	9,447	(1,421)	8,026	-	(7,939)	87	102	8,128	189
Derivative financial instruments	11,384	(3,451)	7,933	(3,325)	(4,500)	108	132	8,065	240
Total	**20,831**	**(4,872)**	**15,959**	**(3,325)**	**(12,439)**	**195**	**234**	**16,193**	**429**

IFRS 7.13B
IFRS 7.13C

31 December 2017	Offsetting recognised on the balance sheet			Netting potential not recognised on the balance sheet			Assets not subject to netting arrangements	Total liabilities	Maximum exposure to risk
	Gross liabilities before offsetting	Offsetting with gross assets	Net liabilities recognised on the statement of financial position	Financial assets	Collateral pledged	Liabilities after consideration of netting potential	Liabilities recognised on the statement of financial position	Recognised on the statement of financial position	After consideration of netting potential
	$ million	$ million	$ million	$ million	$ million	$ million	$ million	$ million	$ million
Cash collateral on securities lent and repurchase agreements	9,088	(1,097)	7,991	-	(7,991)	-	230	8,221	230
Derivative financial instruments	9,057	(1,231)	7,826	(3,296)	(4,820)	-	-	7,826	-
Total	**18,145**	**(2,328)**	**15,817**	**(3,296)**	**(12,811)**	**-**	**230**	**16,047**	**230**

31. Financial investments other than those measured at FVPL

Below is an analysis of the Bank's financial investments other than those measured at FVPL:

In $ million	2018	2017	
Financial investments – Available-for-sale (not pledged as collateral)			
Debt securities			
Government debt securities			
Goodland	-	1,662	
United Kingdom	-	502	
Netherlands	-	131	
United States	-	189	
Singapore	-	62	
Badland	-	67	
Total government debt securities	-	2,613	
Other debt securities			
Financial institutions	-	3,241	
Non-financial institutions	-	2,005	
Total other debt securities	-	5,246	
Equities		457	
Total financial investments available-for-sale (not pledged as collateral)	**-**	**8,316**	
Available for sale investments pledged as collateral			*IAS 39.37(a),(d)*
Government debt securities (Goodland's Government debt)	-	3,798	
Other debt securities	-	23	
Equities	-	167	
Total Available for sale investments pledged as collateral	**-**	**3,988**	*IFRS 7.8(d)*
Total Available-for-sale investments	**-**	**12,304**	
Debt instruments measured at FVOCI			
Government debt securities			
Goodland	1,200	-	
United Kingdom	524	-	
Netherlands	120	-	
United States	212	-	
Singapore	53	-	
Badland	23	-	
Total government debt securities	2,132	-	
Other debt securities			
Financial institutions	3,311	-	
Non-financial institutions	1,958	-	
Total other debt securities	5,269	-	
Loans from customers measured at FVOCI	-	-	
Total debt instruments measured at FVOCI	**7,401**	**-**	
Equity instruments measured at FVOCI	**447**	**-**	*IFRS 7R.11A(c)*
Debt instruments at amortised cost			
Government debt securities			
Goodland	1,304	-	
Germany	178	-	
United States	160	-	
Total debt instruments at amortised costs	**1,642**	**-**	
Financial investments – held-to-maturity			
Government debt securities	-	41	
Corporate bonds	-	19	
ABS securities	-	71	
Collective impairment	-	(4)	
Total financial investments – held-to-maturity	**-**	**127**	*IFRS 7.8(b)*
Total financial investments other than those measured at FVPL	**9,490**	**12,431**	

31. Financial investments other than those measured at FVPL *continued*

More information regarding the valuation methodologies can be found in Note 48.4.

In 2017, the Bank received dividends of $3m from its available-for-sale securities, recorded as other operating income. *IFRS 7.20(a)(ii)*

The Bank has designated its equity investments previously classified as available-for-sale as equity investments at FVOCI on the basis that these are not held for trading. Investments include mandatory shares in exchanges and clearing houses, investments arising when the Bank received equity shares in exchange for debt forgiven in 2015 and a small amount of shares retained from its venture capital business which the Bank disposed of in 2016. *IFRS 7R.11A(a)-(b)*

In 2018, the Bank received dividends of $4m from its FVOCI equities which was recorded in the income statement as other operating income. *IFRS 7R.11A(d) IFRS 7R.20(a)(vii)*

Over the course of the year, the Bank also sold FVOCI debt instruments with a principal value of $60m. Additionally, out of the Bank's FVOCI debt portfolio, instruments with a principal of $4,800m matured. In relation to this, the Bank transferred $3m unrealised gains from OCI to the Income statement. The Bank did not dispose of or derecognise any FTOCI equity instruments in 2018. *IFRS 7R.11A IFRS 7R.11B*

31.1. Impairment losses on financial investments subject to impairment assessment

31.1.1. Debt instruments measured at FVOCI

The table below shows the fair value of the Bank's debt instruments measured at FVOCI by credit risk, based on the Bank's internal credit rating system and year-end stage classification. Details of the Bank's internal grading system are explained in Note 49.4.3.2 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 49.4.3.6.

IFRS 7R.35M EDTF 26

In $ million	**2018**			
Internal rating grade	**Stage 1 Individual**	**Stage 2 Individual**	**Stage 3**	**Total**
Performing				
High grade	6,232	-	-	**6,232**
Standard grade	988	167	-	**1,155**
Sub-standard grade	-	-	-	**-**
Past due but not impaired	-	-	-	**-**
Non- performing				
Individually impaired	-	-	52	**52**
Total	**7,220**	**167**	**52**	**7,439**

An analysis of changes in the fair value and the corresponding ECLs is, as follows:

EDTF 28

In $ million	**Stage 1 Individual**	**Stage 2 Individual**	**Stage 3**	**Total**
Fair value as at 1 January 2018	**8,264**	**1,412**	**70**	**9,746**
New assets originated or purchased	2,505	-	-	**2,505**
Assets derecognised or matured (excluding write-offs)	(3,638)	(1,244)	(23)	**(4,905)**
Change in fair value	(93)	(11)	(1)	**(105)**
Transfers to Stage 1	120	(120)	-	**-**
Transfers to Stage 2	(64)	64	-	**-**
Transfers to Stage 3	-	-	-	**-**
Changes due to modifications not derecognised	-	-	-	**-**
Accrued interest	32	21	3	**56**
Amounts written off	-	-	-	**-**
Foreign exchange adjustments	56	45	3	**104**
At 31 December 2018	**7,220**	**167**	**52**	**7,401**

Commentary

IFRS 7R.IG20B provides a reconciliation in a tabular format to help address the requirements of IFRS 7R.35I to provide an explanation of how significant changes in gross balances have contributed to changes in ECLs. The Bank has elected to provide a similar table for debt instruments measured at FVOCI.

31. Financial investments other than those measured at FVPL *continued*

31.1. Impairment losses on financial investments subject to impairment assessment *continued*

31.1.1. Debt instruments measured at FVOCI continued

IFRS 7R.35H(a)-(c)
IFRS 7R.42P
EDTF 26
EDTF 3

In $ million	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
ECLs as at 1 January 2018	**11**	**5**	**40**	**56**
New assets originated or purchased	2	-	-	**2**
Assets derecognised or matured (excluding write offs)	(4)	(5)	(20)	**(29)**
Transfers to Stage 1	2	(1)	-	**1**
Transfers to Stage 2	(1)	1	-	**-**
Transfers to Stage 3	-	-	-	**-**
Impact on year end ECL of exposures transferred between stages during the year	(1)	1	-	**-**
Unwind of discount	1	1	1	**3**
Changes due to modifications not resulting in derecognition	-	-	-	**-**
Changes to models used for ECL calculations Note 49.4.4	-	-	-	**-**
Changes to assumptions used for ECL calculations Note 49.4.4	-	-	-	**-**
Recoveries	-	-	-	**-**
Amounts written off	-	-	-	**-**
Foreign exchange adjustments	2	1	2	**5**
At 31 December 2018	**12**	**3**	**23**	**38**

As highlighted in the fair value movements table, the movements in ECLs were primarily driven by new purchased and sales. IFRS 7R.35I(a)-(d)

31.1.2. Debt instruments measured at amortised cost

The table below shows the credit quality and the maximum exposure to credit risk per based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 49.4.3.2 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 49.4.3.6:

IFRS 7R.35M
EDTF 26

In $ million	2018			
Internal rating grade	**Stage 1 Individual**	**Stage 2 Individual**	**Stage 3**	**Total**
Performing				
High grade	1,107	-	-	**1,107**
Standard grade	341	197	-	**538**
Sub-standard grade	-	39	-	**39**
Past due but not impaired	-	-	-	**-**
Non- performing				
Individually impaired	-	-	-	**-**
Total	**1,448**	**236**	**-**	**1,684**

An analysis of changes in the gross carrying amount and the corresponding ECLs is, as follows:

IFRS 7R.35I(a)-(d)
EDTF 28

In $ million	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
Gross carrying amount as at 1 January 2018	**1,394**	**257**	**-**	**1,651**
New assets purchased	149	-	-	**149**
Assets derecognised or matured (excluding write-offs)	(140)	(80)	-	**(220)**
Transfers to Stage 1	-	-	-	**-**
Transfers to Stage 2	(31)	31	-	**-**
Transfers to Stage 3	-	-	-	**-**
Changes due to modifications not derecognised	-	-	-	**-**
Accrued interest	53	16	-	**69**
Amounts written off	-	-	-	**-**
Foreign exchange adjustments	23	12	-	**35**
At 31 December 2018	**1,448**	**236**	**-**	**1,684**

31. Financial investments other than those measured at FVPL *continued*

31.1. Impairment losses on financial investments subject to impairment assessment *continued*

31.1.2 Debt instruments measured at amortised cost continued

IFRS 7R.35H(a)-(c)
IFRS 7R.42P
EDTF 26
EDTF 3

In $ million	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
ECL allowance as at 1 January 2018	**20**	**6**	**-**	**26**
New assets purchased	4	-	-	**4**
Assets derecognised or matured (excluding write-offs)	(3)	(3)		**(6)**
Transfers to Stage 1	-	-	-	**-**
Transfers to Stage 2	(1)	1	-	**-**
Transfers to Stage 3	-	-	-	**-**
Impact on year end ECL of exposures transferred between stages during the year	-	1	-	**1**
Unwind of discount	1	1	-	**2**
Impact of net re-measurement of year end ECL	2	1	-	**3**
Changes due to modifications not resulting in derecognition	-	-	-	**-**
Changes to models used for ECL calculations Note 49.4.4	-	-	-	**-**
Changes to assumptions used for ECL calculations Note 49.4.4	1	1	-	**2**
Recoveries	-	-	-	**-**
Amounts written off	-	-	-	**-**
Foreign exchange adjustments	6	4	-	**10**
At 31 December 2018	**30**	**12**	**-**	**42**

31.1.3. Credit quality analysis at 31 December 2017

The table below shows gross balances under IAS 39 as at 31 December 2017 based on the Bank's internal credit rating system, which is described in Note 49.4.3.2.

IFRS 7.36(c)
IFRS 7.37(a)
IFRS 7.37(b)

31 December 2017	Neither past due nor impaired					
In $ million	**High grade**	**Standard grade**	**Sub-standard grade**	**Past due but not impaired**	**Individually impaired**	**Total**
Financial investments available-for-sale						**-**
Government debt securities	6,391	-	-	-	20	**6,411**
Other financial instruments	3,243	1,319	19	14	50	**4,645**
	9,634	**1,319**	**19**	**14**	**70**	**11,056**
Financial investments held-to-maturity					-	
Government debt securities	-	-	-	-	-	**-**
Corporate bonds	131	-	-	-	-	**131**
ABS securities	-	-	-	-	-	-
	131	-	-	-	-	**131**
Total	**9,765**	**1,319**	**19**	**14**	**70**	**11,187**

32. Loans and advances to customers

In $ million	2018	2017	
Corporate lending	12,883	12,452	IFRS 7.6
Small business lending	4,787	4,752	
Consumer lending	18,402	17,883	
Residential mortgages	13,692	13,075	
	49,764	48,162	
Less: Allowance for ECL/impairment losses	(1,840)	(999)	
	47,924	**47,163**	IFRS 7.8(c)

Commentary

The above analysis of class of financial instruments, as required by IFRS 7.6, is for illustrative purposes only and represents what is appropriate for the Bank. Entities will need to ensure that their disclosures are specific to their individual circumstances and may provide further analysis per industries, mortgage types, geographic regions, credit cards, etc.

32.1. Impairment allowance for loans and advances to customers

32.1.1. Corporate lending

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 49.4.3.2 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 49.4.3.6.

IFRS 7R.35M, EDTF 26, IFRS 7.36(c), IFRS 7.37(a)-(b)

In $ million	2018					2017
Internal rating grade	**Stage 1 Individual**	**Stage 2 Individual**	**Stage 3**	**POCI**	**Total**	**Total**
Performing						
High grade	9,133	-	-	-	**9,133**	**9,592**
Standard grade	1,230	1,857	-	-	**3,087**	**1,418**
Sub-standard grade	-	206	-	-	**206**	**467**
Past due but not impaired	-	-	93	-	**93**	**560**
Non- performing						
Individually impaired	-	-	250	114	**364**	**415**
Total	**10,363**	**2,063**	**343**	**114**	**12,883**	**12,452**

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Corporate lending is, as follows:

IFRS 7R.35I(a)-(d), EDTF 28

In $ million	Stage 1 Individual	Stage 2 Individual	Stage 3	POCI	Total
Gross carrying amount as at 1 January 2018	**8,831**	**2,203**	**415**	**53**	**11,502**
New assets originated or purchased	1,576	-	-	70	**1,646**
Payments and assets derecognised (excluding write offs)	(260)	(283)	(144)	(11)	**(698)**
Transfers to Stage 1	95	(85)	(10)	-	**-**
Transfers to Stage 2	(123)	153	(30)	-	**-**
Transfers to Stage 3	(27)	(45)	72	-	**-**
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	(9)	-	**(9)**
Accrued interest	220	72	30	2	**324**
Amounts written off	-	-	(15)	-	**(15)**
Foreign exchange adjustments	51	48	34	-	**133**
At 31 December 2018	**10,363**	**2,063**	**343**	**114**	**12,883**

32. Loans and advances to customers *continued*

32.1. Impairment allowance for loans and advances to customers continued

32.1.1. Corporate lending continued

IFRS 7R.35H(a)-(c)

In $ million	Stage 1 Individual	Stage 2 Individual	Stage 3	POCI	Total	
ECL allowance as at 1 January 2018 under IFRS 9	**201**	**88**	**142**	**6**	**437**	IFRS 7R.42P
New assets originated or purchased	51	-	-	-	**51**	EDTF 26
Payments and assets derecognised (excluding write offs)	(6)	(1)	(13)	(1)	**(21)**	EDTF 3
Transfers to Stage 1	7	(6)	(1)	-	**-**	
Transfers to Stage 2	(19)	19	-	-	**-**	
Transfers to Stage 3	(6)	(7)	13	-	**-**	
Impact on year end ECL of exposures transferred between stages during the year	(3)	6	3	-	**6**	
Unwind of discount through credit loss expense	5	3	9	1	**18**	
Unwind of discount as a reduction of interest income	-	-	6	-	**6**	
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	(5)	-	**(5)**	
Changes to models used for ECL calculations Note 49.4.4	4	(3)	9	-	**10**	
Changes to estimates and assumptions used for ECL calculations Note 49.4.4	9	12	19	1	**41**	
Recoveries	-	-	(6)	-	**(6)**	
Amounts written off	-	-	(13)	-	**(13)**	
Foreign exchange adjustments	6	6	4	1	**17**	
At 31 December 2018	**249**	**117**	**167**	**8**	**541**	

In 2018, the Bank acquired a corporate lending portfolio of $150 million which resulted in a $4 million increase in the year-end 12-month ECL. In 2018, the Bank acquired a portfolio categorised as POCI with a fair value of $70 million with contractual principal of $120 million. Over the course of 2018, the Bank sold a portfolio of corporate loans with a gross value of $20m at a loss of $3m. The contractual amount outstanding on loans that have been written, but were still subject to enforcement activity was nil at 31 December 2018 (2017: nil). IFRS 7R.20A IFRS 7R.35L

The increase in ECLs of the portfolio was driven by an increase in the gross size of the portfolio and movements between stages as a result of increases in credit risk and a deterioration in economic conditions. Further analysis of economic factors is outlined in Note 49.4.4. IFRS 7R.B8D EDTF 28

Commentary

The line 'Unwind of discount as a reduction of interest income' in the movement table of the ECL allowance includes, for Stage 3 assets, the loss allowance for interest contractually due but not yet received, that increases both the disclosed gross carrying amount and the loss allowance. In line with the December 2015 ITG discussion, the increase in the loan loss allowance is recognised against interest income, to offset the interest accrued on the gross carrying amount for the same assets. The net effect is that interest on level 3 assets is only credited to income based on the EIR applied to the net amortised cost, as required by IFRS 9.5.4.1. For Stage 3 assets that are subsequently cured (i.e. paid in full or no longer credit impaired), and therefore are reclassified into Stage 2 or Stage 1, or derecognised, the reversal of the allowance on contractual interest due but not yet received is recognised as a decrease in the impairment charge, as confirmed by IFRIC in March 2019. In the movement table of the ECL allowance, this amount is included in the line 'Changes to assumptions used for ECL calculations'.

32.1.2. Small business lending

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 49.4.3.2 and policies about whether ECL allowances are calculated on an individual or collective basis are set out in Note 49.4.3.6

32. Loans and advances to customers *continued*

32.1. Impairment allowance for loans and advances to customers *continued*

32.1.2. Small business lending continued

IFRS 7R.35M
EDTF 26
IFRS 7.36(c)
IFRS 7.37(a)-(b)

In $ million	2018							2017
Internal rating grade	Stage 1 Individual	Stage 1 Collective	Stage 2 Individual	Stage 2 Collective	Stage 3	POCI	Total	Total
Performing								
High grade	1,168	832	-	-	-	-	**2,000**	**3,458**
Standard grade	728	340	299	358	-	-	**1,725**	**894**
Sub-standard grade	-	-	213	321	-	-	**534**	**180**
Past due but not impaired	-	-	75	194	102	23	**394**	**12**
Non-performing								
Individually impaired	-	-	-	-	103	31	**134**	**208**
Total	**1,896**	**1,172**	**587**	**873**	**205**	**54**	**4,787**	**4,752**

In $ million	Stage 1 Individual	Stage 1 Collective	Stage 2 Individual	Stage 2 Collective	Stage 3	POCI	Total
Gross carrying amount as at 1 January 2018	**1,871**	**1,129**	**616**	**928**	**208**	**-**	**4,752**
New assets originated or purchased	67	103	-	-	-	56	**226**
Payments and assets derecognised (excluding write offs)	(124)	(120)	(90)	(112)	(18)	(4)	**(468)**
Transfers to Stage 1	16	8	(12)	(8)	(4)	-	**-**
Transfers to Stage 2	(48)	(19)	48	19	-	-	**-**
Transfers to Stage 3	(5)	(4)	(16)	(2)	27	-	**-**
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	(9)	-	**(9)**
Accrued interest	108	67	35	44	10	2	**266**
Amounts written off	-	-		-	(12)	-	**(12)**
Foreign exchange adjustments	11	8	6	4	3	-	**32**
At 31 December 2018	**1,896**	**1,172**	**587**	**873**	**205**	**54**	**4,787**

IFRS 7R.35I(a)-(d)
EDTF 28

32. Loans and advances to customers *continued*

32.1. Impairment allowance for loans and advances to customers *continued*

32.1.2. Small business lending continued

In $ million	Stage 1 Individual	Stage 1 Collective	Stage 2 Individual	Stage 2 Collective	Stage 3	POCI	Total	
ECL allowance as at 1 January 2018 under IFRS 9	**57**	**46**	**36**	**42**	**89**	**-**	**270**	*IFRS 7R.35H(a)-(c)*
New assets originated or purchased	5	15	-	-	-	-	**20**	*IFRS 7R.42P*
Payments and assets derecognised (excluding write offs)	(4)	(12)	(6)	(3)	(4)	-	**(29)**	*EDTF 26*
Transfers to Stage 1	3	-	(2)	-	(1)	-	**-**	*EDTF 3*
Transfers to Stage 2	(12)	(4)	12	4	-	-	**-**	
Transfers to Stage 3	(3)	(2)	(2)	(1)	8	-	**-**	
Impact on year end ECLs of exposures transferred between stages during the year	(1)	(1)	1	2	8	-	**9**	
Unwind of discount through credit loss expense	3	3	2	4	4	-	**17**	
Unwind of discount as a reduction of interest income	-	-	-	-	(6)	-	**(6)**	
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	(7)	-	**(7)**	
Changes to models used for ECL calculations Note 49.4.4	5	7	4	2	4	1	**23**	
Changes to estimates and assumptions used for ECL calculations Note 49.4.4	8	10	6	5	15	2	**46**	
Recoveries	-	-	-	-	-	-	**-**	
Amounts written off	-	-	-	-	(3)	-	**(3)**	
Foreign exchange adjustments	2	2	1	1	2	-	**8**	
At 31 December 2018	**63**	**64**	**52**	**56**	**109**	**3**	**347**	

Notes to the Financial Statements

32. Loans and advances to customers continued

32.1. Impairment allowance for loans and advances to customers continued

32.1.2. Small business lending continued

In 2018, the Bank acquired a portfolio categorised as POCI with a fair value of $56 million and a contractual principal of $90 million. The contractual amount outstanding on financial assets written off by the Bank as at 31 December 2018 and that are still subject to enforcement activity was nil (2017: nil). *IFRS 7R.35L*

The increase in ECL of the portfolio was driven by an increase in the size of the portfolio, movements between stages as a result of increases in credit risk and due to deterioration in economic conditions. Further analysis of the economic factors is set out in Note 49.4.4. *IFRS 7R.B8D EDTF 28*

Over the course of 2018, the Bank sold a portfolio of small business loans with a gross value of $10m at a loss of $2m. The Bank derecognised loans with gross value of $7m due to modifications, resulting in a loss of $1m. *IFRS 7R.20A*

32.1.3. Consumer lending

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are set out in Note 49.4.3.2 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 49.4.3.6.

IFRS 7R.35M EDTF 26 IFRS 7.36(c) IFRS 7.37(a)-(b)

In $ million	**2018**					**2017**
Internal rating grade	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3**	**POCI**	**Total**	**Total**
Performing						
High grade	2,539	-	-	-	**2,539**	**7,140**
Standard grade	9,196	3,064	-	-	**12,260**	**8,492**
Sub-standard grade		2,243	-	-	**2,243**	**1,199**
Past due but not impaired		564	56	200	**820**	**571**
Non- performing						
Individually impaired	-	-	511	29	**540**	**481**
Total	**11,735**	**5,871**	**567**	**229**	**18,402**	**17,883**

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to consumer lending are, as follows:

IFRS 7R.35I(a- (d) EDTF 28

In $ million	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3**	**POCI**	**Total**
Gross carrying amount as at 1 January 2018	**11,342**	**6,060**	**481**	**-**	**17,883**
New assets originated or purchased	611	-	-	241	**852**
Payments and assets derecognised (excluding write offs)	(615)	(260)	(109)	(14)	**(998)**
Transfers to Stage 1	75	(75)	-	-	**-**
Transfers to Stage 2	(38)	38	-	-	**-**
Transfers to Stage 3	(84)	(97)	181	-	**-**
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-		
Accrued interest	424	178	40	2	**644**
Amounts written off	-	-	(30)	-	**(30)**
Foreign exchange adjustments	20	27	4	-	**51**
At 31 December 2018	**11,735**	**5,871**	**567**	**229**	**18,402**

Notes to the Financial Statements

32. Loans and advances to customers continued

32.1. Impairment allowance for loans and advances to customers continued

32.1.3. Consumer lending continued

IFRS 7R.35H(a)-(c)

In $ million	Stage 1 Collective	Stage 2 Collective	Stage 3	POCI	Total	
ECL allowance as at 1 January 2018 under IFRS 9	**228**	**226**	**112**	**-**	**566**	IFRS 7R.42P
New assets originated or purchased	28	-	-	-	**28**	EDTF 26
Payments and assets derecognised (excluding write offs)	(11)	(6)	(41)	-	**(58)**	EDTF 3
Transfers to Stage 1	6	(6)	-	-	**-**	
Transfers to Stage 2	(17)	17	-	-	**-**	
Transfers to Stage 3	(6)	(11)	17	-	**-**	
Impact on year end ECL of exposures transferred between stages during the year	(1)	2	7	-	**8**	
Unwind of discount through credit loss expense	9	7	8	1	**25**	
Unwind of discount as a reduction of interest income	-	-	2	-	**2**	
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	**-**	
Changes to models used for ECL calculations Note 49.4.4	4	4	9	2	**19**	
Changes to estimates and assumptions used for ECL calculations Note 49.4.4	4	2	19	-	**25**	
Recoveries	-	-	(5)	-	**(5)**	
Amounts written off	-	-	(30)	-	**(30)**	
Foreign exchange adjustments	3	2	3	-	**8**	
At 31 December 2018	**247**	**237**	**101**	**3**	**588**	

In 2018, the Bank acquired a Consumer lending portfolio categorised as POCI with a fair value of $241 million and a contractual principal of $350 million.

The contractual amount outstanding on financial assets that have been written off by the Bank as at 31 December 2018 and that were still subject to enforcement activity was nil (2017: nil). *IFRS 7R.35L*

The increase in ECL of the portfolio was driven by an increase in the size of the portfolio, movements between stages as a result of increase in credit risk and due to deterioration in economic conditions. Further analysis of economic factors is set out in Note 49.4.4. *IFRS 7R.B8D EDTF 28*

32. Loans and advances to customers *continued*

32.1. Impairment allowance for loans and advances to customers *continued*

32.1.4. Residential mortgages

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are set out in Note 49.4.3.2 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 49.4.3.6.

IFRS 7R.35M
EDTF 26
IFRS 7.36(c)
IFRS 7.37(a)-(b)

In $ million	2018					2017
Internal rating grade	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3**	**POCI**	**Total**	**Total**
Performing						
High grade	5,929	-	-	-	**5,929**	**9,432**
Standard grade	6,095	811	-	-	**6,906**	**2,568**
Sub-standard grade	-	371	-	-	**371**	**533**
Past due but not impaired	-	71	21	-	**92**	**240**
Non- performing						
Individually impaired	-	-	394	-	**394**	**302**
Total	**12,024**	**1,253**	**415**	**-**	**13,692**	**13,075**

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Residential mortgages is, as follows:

IFRS 7R.35I(a)-(d)
EDTF 28

In $ million	Stage 1 Collective	Stage 2 Collective	Stage 3	POCI	Total
Gross carrying amount as at 1 January 2018	**10,845**	**1,928**	**302**	**-**	**13,075**
New assets originated or purchased	1,746	-	-	-	**1,746**
Payments and assets derecognised (excluding write offs)	(1,100)	(535)	(167)	-	**(1,802)**
Transfers to Stage 1	200	(200)	-	-	-
Transfers to Stage 2	(134)	134	-	-	-
Transfers to Stage 3	(89)	(200)	289	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	(10)	-	**(10)**
Accrued interest	533	114	26	-	**673**
Amounts written off	-	-	(29)	-	**(29)**
Foreign exchange adjustments	23	12	4	-	**39**
At 31 December 2018	**12,024**	**1,253**	**415**	**-**	**13,692**

32. Loans and advances to customers continued

32.1. Impairment allowance for loans and advances to customers continued

32.1.4. Residential mortgages continued

IFRS 7R.35H(a)-(c)

In $ million	Stage 1 Collective	Stage 2 Collective	Stage 3	POCI	Total	
ECL allowance as at 1 January 2018 under IFRS 9	**150**	**88**	**68**	**-**	**306**	*IFRS 7R.42P*
New assets originated or purchased	31	-	-	-	**31**	*EDTF 26*
Payments and assets derecognised (excluding write offs)	(8)	(1)	(30)	-	**(39)**	*EDTF 3*
Transfers to Stage 1	22	(22)	-	-	**-**	
Transfers to Stage 2	(8)	8	-	-	**-**	
Transfers to Stage 3	(2)	(25)	27	-	**-**	
Impact on year end ECL of exposures transferred between stages during the year	(2)	2	6	-	**6**	
Unwind of discount through credit loss expense	8	5	7	-	**20**	
Unwind of discount as a reduction of interest income						
Changes due to modifications not resulting in derecognition	-	-	(10)	-	**(10)**	
Changes to models used for ECL calculations Note 49.4.4	9	13	45	-	**67**	
Changes to estimated and assumptions used for ECL calculations Note 49.4.4						
Recoveries	-	-	-	-	**-**	
Amounts written off	-	-	(29)	-	**(29)**	
Foreign exchange adjustments	8	3	1	-	**12**	
At 31 December 2018	**208**	**71**	**85**	**-**	**364**	

In 2018, the Bank acquired a residential mortgage lending portfolio of $200 million which resulted in a $3 million increase in the 12-month ECL.

The contractual amount outstanding on financial assets that were written off by the Bank as at 31 December 2018 and that were still subject to enforcement activity was nil (2017: nil). *IFRS 7R.35L*

An element of the increase in ECL of the residential mortgage lending was driven by the decrease in house prices over the course of 2018 and by negative economic outcomes across all operating regions of the Bank over the year. *IFRS 7R.B8D EDTF 28*

EDTF commentary

EDTF 28 IFRS 7R.B8D

EDTF 28 requires entities to, "Provide a reconciliation of the opening and closing balances of non-performing or impaired loans in the period and the allowance for loan losses. Disclosures should include an explanation of the effects of loan acquisitions on ratio trends, and qualitative and quantitative information about restructured loans."

Additionally, IFRS 7R.B8D and EDTF 28 also requires entities to provide a narrative explanation of the changes in the portfolio composition, the volume of financial instruments purchased or originated and the severity of the ECL.

We have provided an example of wording in this section, but for full EDTF compliance, more detailed narrative disclosures would be needed.

32. Loans and advances to customers *continued*

32.1. Impairment allowance for loans and advances to customers *continued*

32.1.5. Impairment allowance as at 31 December 2017

An analysis of the allowance for impairment losses under IAS 39 for loans and advances, by class, for the year to 31 December 2017 is, as follows:

IFRS 7.16

2017 **In $ million**	**Corporate lending**	**Small business lending**	**Consumer lending**	**Residential mortgages**	**Total**	
At 1 January 2017	**292**	**136**	**451**	**311**	**1,190**	
Charge for the year	101	117	96	77	**391**	
Recoveries	33	24	45	14	**116**	
Amounts written off	(129)	(117)	(221)	(166)	**(633)**	
Unwind of discount (recognised in interest income	(17)	(5)	(26)	(17)	**(65)**	
At 31 December 2017	**280**	**155**	**345**	**219**	**999**	
Made up of:						
Individual impairment	142	91	112	68	**413**	
Collective impairment:						
Individually not significant exposures.	-	12	233	151	**396**	
Incurred but not yet identified losses (IBNI)	138	52	-	-	**190**	
Total collective	138	64	233	151	**586**	
	280	**155**	**345**	**219**	**999**	*IFRS 7.IG29(b)*
Gross amount of loans individually determined to be impaired	**415**	**208**	**481**	**302**	**1,406**	*IFRS 7.37(b)* *IFRS 7.IG29(a)*

Commentary

Various banking regulators have highlighted their expectation that in order to assist users to understand reasons for the increase in ECL on the move to IFRS 9, entities need to provide explanations for such increase in their financial statements on a portfolio by a portfolio. Whilst this is most relevant for loans and advances to customers, explanations should also be provided for other balances subject to ECL such as financial guarantees, letters of credit and other undrawn commitments in the applicable jurisdictions where such regulatory expectations exists.

Notes to the Financial Statements

33. Other assets

In $ million	2018	2017 Restated	
			IAS 1.77
Fee and commission receivables	65	85	
Settlement and clearing accounts	81	105	
Prepaid expenses	273	263	
	409	**453**	

As at 1 January 2017, the Bank had fee and commission receivables of $77m.

Commentary

IFRS 15.116 requires the disclosure of the opening balances of receivables, contract assets and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed. Entities are permitted to disclose information about contract balances, and changes therein, as they deem to be most appropriate, which could include a combination of tabular and narrative information.

34. Property and equipment

Disclosures for Property and equipment would need to be inserted here. An illustrative example of such disclosures are available in Good Group (International) Limited 2018.

35. Goodwill and other intangible assets

Disclosures for Goodwill and other intangible assets would need to be inserted here. An illustrative example of such disclosures is available in Good Group (International) Limited 2018.

36. Due to customers

In $ million	2018	2017	IAS 1.77
Large corporate customers:			
Current accounts	13,965	14,052	
Term deposits	15,083	14,820	
	29,048	**28,872**	
Small and medium-sized customers:			
Current accounts	4,485	4,465	
Term deposits	11,879	11,876	
	16,364	**16,341**	
Retail customers:			
Current/saving accounts	2,406	2,494	
Term deposits	8,325	8,470	
	10,731	**10,964**	
	56,143	**56,177**	IFRS 7R.8(g) IFRS 7.8(g)

Deposits of $85 million (2017: $72 million) held as collateral for irrevocable commitments under import letters of credit were included in Due to customers (see Note 25.4). *IFRS 7.15*

37. Other liabilities

In $ million	2018	2017 Restated	
			IAS 1.77
Settlement and clearing accounts	333	379	
Accrued expenses	202	191	
Accounts payable and sundry creditors	604	860	
Unearned fee and commissions	28	17	
Bank levy	48	30	
	1,215	**1,477**	

37. Other liabilities *continued*

As at 1 January 2017, the Bank had unearned fees and commissions of $15m. The increase in contract liabilities in 2018 was mainly due to the increase in unearned custody and other fees and commissions as a result of the increase in the Bank's consumer base. All unearned fees and commissions at the end of the previous year have been recognised as revenue in the current year. *IFRS 15.116(b)* *IFRS 15.118*

Commentary

IFRS 15.116 requires the disclosure of the opening balances of receivables, contract assets and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed. Entities are permitted to disclose information about contract balances, and changes therein, as they deem appropriate, which could include a combination of tabular and narrative information.

38. Provisions

The movement in provisions during 2018 and 2017 is, as follows:

In $ million	Financial guarantees, Letters of credits, Other undrawn commitments	Operational risk	Litigation	Regulatory enforce-ment	Re-structuring	Other	Total	
1 January 2017	**199**	**8**	**-**	**-**	**-**	**19**	**226**	*IAS 37.84(a)*
Arising during the year	14	2	5	-	163	10	194	*IAS 37.84(b)*
Amounts written off	(26)	-	-	-	-	-	(26)	
Utilised	-	(4)	-	-	-	(9)	(13)	*IAS 37.84(c)*
Unwind of discount	(10)	1	1	-	2	1	(5)	*IAS 37.84(e)*
31 December 2017	**177**	**7**	**6**	**-**	**165**	**21**	**376**	*IAS 37.84(a)*
Changes in ECL (Note 38.1)	54						54	
Arising during the year		6	1	9	109	56	181	*IAS 37.84(b)*
Utilised		(4)	(1)	-	(17)	(9)	(31)	*IAS 37.84(c)*
Unwind of discount		1	1	1	2	1	6	*IAS 37.84(e)*
31 December 2018	**231**	**10**	**7**	**10**	**259**	**69**	**586**	*IAS 37.84(a)*

38.1. Financial guarantees, letters of credit and other undrawn commitments

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other commitments to lend. Even though these obligations may not be recognised on the statement of financial position, they contain credit risk and, therefore, form part of the overall risk of the Bank.

Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans. The nominal values of such commitments are listed below:

In $ million	2018	2017
Financial guarantees	3,260	3,084
Letters of credit	523	589
Other undrawn commitments	14,198	13,740
Total	**17,981**	**17,413**

38. Contingent liabilities, commitments *continued*

38.1. Financial guarantees, letters of credit and other undrawn commitments *continued*

38.1.1. Impairment losses on guarantees and other undrawn commitments

An analysis of changes in the gross carrying amount and the corresponding allowance for impairment losses in relation to guarantees and other commitments is set out below:

38.1.1.1. Financial guarantees

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. Details of the Bank's internal grading system are explained in Note 49.4.3.2 and policies on whether ECLs are calculated on an individual or collective basis are set out in Note 49.4.3.6:

IFRS 7R.35
IFRS 7R.35M
IFRS 7.B10(c)
EDTF 26

Outstanding exposure In $ million		**2018**			**2017**
Internal rating grade	**Stage 1 Individual**	**Stage 2 Individual**	**Stage 3**	**Total**	**Total**
Performing					
High grade	1,119			**1,119**	**1,057**
Standard grade	1,677	278	-	**1,955**	**1,861**
Sub-standard grade	-	127	-	**127**	**142**
Past due but not impaired	-	59	-	**59**	**24**
Non-performing					
Individually impaired	-	-	-	**-**	**-**
Total	**2,796**	**464**	**-**	**3,260**	**3,084**

An analysis of changes in the outstanding exposures and the corresponding ECLs are, as follows:

IFRS 7R.35
IFRS 7R.35I(a)-(d)
EDTF 28

In $ million	**Stage 1 Individual**	**Stage 2 Individual**	**Stage 3**	**Total**
Outstanding exposure as at 1 January 2018	**2,561**	**523**	**-**	**3,084**
New exposures	321	-	-	**321**
Exposure derecognised or matured/lapsed (excluding write offs)	(123)	(66)	-	**(189)**
Transfers to Stage 1	30	(30)	-	**-**
Transfers to Stage 2	(25)	25	-	**-**
Transfers to Stage 3	-	-	-	**-**
Changes due to modifications not resulting in derecognition	-	-	-	**-**
Amounts written off	-	-	-	**-**
Foreign exchange adjustments	32	12	-	**44**
At 31 December 2018	**2,796**	**464**	**-**	**3,260**

IFRS 7R.35H(a)-(c)
IFRS 7R.42P
EDTF 26
EDTF 3

In $ million	**Stage 1 Individual**	**Stage 2 Individual**	**Stage 3**	**Total ECL allowance**
ECLs as at 1 January 2018	**87**	**38**	**-**	**125**
New exposures	12	-	-	**12**
Exposures derecognised or matured (excluding write-offs)	(4)	(6)	-	**(10)**
Transfers to Stage 1	2	(2)	-	**-**
Transfers to Stage 2	(1)	1	-	**-**
Transfers to Stage 3	-	-	-	**-**
Impact on year end ECL of exposures transferred between stages during the year	(1)	1	-	**-**
Unwind of discount	8	4	-	**12**
Changes to models and inputs used for ECL calculations Note 49.4.4	2	1	-	**3**
Changes due to modifications not resulting in derecognition	-	-	-	**-**
Amounts written off				**-**
Foreign exchange adjustments	1	1	-	**2**
At 31 December 2018	**106**	**38**	**-**	**144**

38. Contingent liabilities, commitments *continued*

38.1. Financial guarantees, letters of credit and other undrawn commitments *continued*

38.1.1. Impairment losses on guarantees and other commitments *continued*

38.1.1.2. Letters of credit

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. Details of the Bank's internal grading system are explained in Note 49.4.3.2 and policies on whether ECLs s are calculated on an individual or collective basis are set out in Note 49.4.3.6.

IFRS 7R.35
IFRS 7R.35M
EDTF 26

Outstanding exposure In $ million	**2018**				**2017**
Internal rating grade	**Stage 1 Individual**	**Stage 2 Individual**	**Stage 3**	**Total**	**Total**
Performing					
High grade	195	-	-	**195**	**231**
Standard grade	214	60	-	**274**	**291**
Sub-standard grade	-	50	-	**50**	**60**
Past due but not impaired	-	4	-	**4**	**7**
Non- performing					
Individually impaired	-	-	-	**-**	**-**
Total	**409**	**114**	**-**	**523**	**589**

An analysis of changes in the outstanding exposures and the corresponding ECLs is, as follows:

IFRS 7R.35
IFRS 7R.35I(a)-(d)
EDTF 28

In $ million	**Stage 1 Individual**	**Stage 2 Individual**	**Stage 3**	**Total**
Outstanding exposure as at 1 January 2018	**423**	**166**	**-**	**589**
New exposures	102	-	-	**102**
Exposure derecognised or matured/lapsed (excluding write-offs)	(123)	(66)	-	**(189)**
Transfers to Stage 1	20	(20)	-	**-**
Transfers to Stage 2	(25)	25	-	**-**
Transfers to Stage 3	-	-	-	**-**
Changes due to modifications not resulting in derecognition	-	-	-	**-**
Amounts written off	-	-	-	**-**
Foreign exchange adjustments	12	9	-	**21**
At 31 December 2018	**409**	**114**	**-**	**523**

IFRS 7R.35H(a)-(c)
IFRS 7R.42P
EDTF 26
EDTF 3

In $ million	**Stage 1 Individual**	**Stage 2 Individual**	**Stage 3**	**Total ECL allowance**
ECLs as at 1 January 2018	**12**	**20**	**-**	**32**
New exposures	3	-	-	**3**
Exposures derecognised or matured (excluding write-offs)	(4)	(2)	-	**(6)**
Transfers to Stage 1	2	(2)	-	**-**
Transfers to Stage 2	(1)	1	-	**-**
Transfers to Stage 3	-	-	-	**-**
Impact on year end ECL of exposures transferred between stages during the year	(1)	1	-	
Unwind of discount	3	1	-	**4**
Changes to models and inputs used for ECL calculations Note 49.4.4	2	1	-	**3**
Changes due to modifications not resulting in derecognition	-	-	-	**-**
Amounts written off			-	**-**
Foreign exchange adjustments	1	1	-	**2**
At 31 December 2018	**17**	**21**	**-**	**38**

38. Contingent liabilities, commitments *continued*

38.1. Financial guarantees, letters of credit and other undrawn commitments *continued*

38.1.1. Impairment losses on guarantees and other commitments continued

38.1.1.3. Other undrawn commitments

The table below shows the credit quality and the maximum exposure for credit risk based on the Bank's internal credit rating system and year-end stage classification. Details of the Bank's internal grading system are explained in Note 49.4.3.2 and policies on whether ECLs are calculated on an individual or collective basis are set out in Note 49.4.3.6:

In $ million	2018						2017	
Internal rating grade	Stage 1 Individual	Stage 1 Collective	Stage 2 Individual	Stage 2 Collective	Stage 3	Total	Total	*IFRS 7R.35* *IFRS 7R.35M* *EDTF 26*
Performing								
High grade	1,649	3,093	-	-	-	**4,742**	**4,578**	
Standard grade	1,697	3,077	949	1,362	-	**7,085**	**6,981**	
Sub-standard grade	-	-	388	1,102	-	**1,490**	**1,341**	
Past due but not impaired	-	-	161	445	102	**708**	**698**	
Non- performing								
Individually impaired	-	-	-	-	173	**173**	**142**	
Total	**3,346**	**6,170**	**1,498**	**2,909**	**275**	**14,198**	**13,740**	

An analysis of changes in the outstanding exposures and the corresponding ECLs is, as follows:

In $ million	Stage 1 Individual	Stage 1 Collective	Stage 2 Individual	Stage 2 Collective	Stage 3	Total	
Outstanding exposure as at 1 January 2018	**3,123**	**5,907**	**1,531**	**2,912**	**267**	**13,740**	*IFRS 7R.35* *IFRS 7R.35I(a)-(d)* *EDTF 28*
New exposures	371	456	-	-	-	**827**	
Exposure derecognised or matured/lapsed (excluding write-offs)	(116)	(187)	(55)	(21)	(8)	**(387)**	
Transfers to Stage 1	16	12	(16)	(12)	-	**-**	
Transfers to Stage 2	(54)	(32)	54	32	-	**-**	
Transfers to Stage 3	(5)	-	(16)	(6)	27	**-**	
Changes due to modifications not resulting in derecognition	-	-	-	-	(6)	**(6)**	
Amounts written off	-	-	-	-	(6)	**(6)**	
Foreign exchange adjustments	11	14	-	4	1	**30**	
At 31 December 2018	**3,346**	**6,170**	**1,498**	**2,909**	**275**	**14,198**	

In $ million	Stage 1 Individual	Stage 1 Collective	Stage 2 Individual	Stage 2 Collective	Stage 3	Total	*IFRS 7R.35H(a)-(c)*
ECLs as at 1 January 2018	**16**	**32**	**13**	**26**	**34**	**121**	*IFRS 7R.42P* *EDTF 26* *EDTF 3*
New exposures	3	5	-	-	-	**8**	
Exposures derecognised or matured (excluding write-offs)	(1)	(2)	(1)	(1)	(4)	**(9)**	
Transfers to Stage 1	3	2	(3)	(2)	-	**-**	
Transfers to Stage 2	(4)	(3)	4	3	-	**-**	
Transfers to Stage 3	-	-	(2)	-	2	**-**	
Impact on year end ECL of exposures transferred between stages during the year	(1)	(1)	1	1	1	**1**	
Unwind of discount	1	1	1	1	1	**5**	
Changes to models and inputs used for ECL calculations Note 49.4.4	1	1	1	1	1	**5**	
Changes due to modifications not resulting in derecognition	-	-	-	-	(4)	**(4)**	
Amounts written off	-	-	-	-	(6)	**(6)**	
Foreign exchange adjustments	2	1	-	1	1	**5**	
At 31 December 2018	**20**	**36**	**14**	**30**	**26**	**126**	

38. Contingent liabilities, commitments *continued*

38.1. Financial guarantees, letters of credit and other undrawn commitments *continued*

38.1.2. Provisions arising from financial guarantees, letters of credit and other undrawn commitments under IAS 39 and IAS 37:

An analysis of changes the provisions arising from financial guarantees, letters of credit and other undrawn commitments under IAS 39 and IAS 37 is, as follows:

IFRS 7.16
IAS 37.84

2017 **In $ million**	**Financial guarantees**	**Letters of credit**	**Other undrawn commitments**	**Total**
At 1 January 2017	**136**	**51**	**12**	**199**
Charge for the year	5	2	7	**14**
Recoveries	-	-	-	**-**
Amounts written off	(22)	(2)	(2)	**(26)**
Unwind of discount (recognised in interest income)	(6)	(3)	(1)	**(10)**
At 31 December 2017	**113**	**48**	**16**	**177**

38.2. Operational risk

Operational risk provisions exclude litigation and regulatory enforcement and include liabilities arising from the breakdown of internal processes and controls or from external events resulting in economic outflow.

Commentary

Whilst a provision against 'operational risk' is commonly made in financial statements, it can only include a provision against liabilities that arise as a result of a past event. A provision for expected losses is not allowed under IAS 37.

38.3. Litigation

Litigation provisions arise out of current or potential claims or pursuits alleging non-compliance with contractual or other legal or regulatory responsibilities, which have resulted or may arise in claims from customers, counterparties or other parties in civil litigations. As explained in Note 7.28 and Note 8.9, the Bank is of the opinion that if disclosing these events on a case-by-case basis would prejudice their outcome, then such detailed disclosures have not been included in the Bank financial statements. *IAS 37.85(a)*

38.4. Regulatory enforcement

Regulatory enforcement provisions relate to current or potential claims or proceedings for alleged non-compliance with laws and regulations which have resulted, or could result, in levied fines and/or penalties. As explained in Note 7.28 and Note 8.9, the Bank believes that, if disclosing these events on a case-by-case basis would prejudice their outcome, then such detailed disclosures have not been included in the Bank's financial statements. *IAS 37.85(a)* *IAS 37.92*

Commentary

For the purposes of this publication, disclosures of the Bank's case specific litigation and conduct provisions have been kept to a minimum on the basis that Good Bank is a fictitious entity. In general, when fines and/or investigations are widely known to the public, substantially greater detail than is provided here would be required. Although, It is industry practice not to disclose all details of certain litigation and conduct provisions on a case-by-case basis when reporting entities believe that such a move could influence the outcome, a narrative description of the circumstances underlying such decisions should still be provided.

38.5. Restructuring provision

The restructuring provision was created at the end of 2017 for a fundamental reorganisation of the Bank's back office operations including staff, onerous leases of the premises, computer equipment and software associated with its major outsourcing programme. The restructuring started at the end of 2017 and is expected to be completed by July 2019. *IAS 37.85(a)*

38.6. Other provisions

Other provisions include allocated amounts related to onerous contracts. It is expected that the costs will be incurred over the next six months.

39. Retirement benefit plan

IAS 19.46

Commentary

Disclosures for retirement benefit plans would need to be inserted here. An illustrative example of such disclosures are available in Good Group (International) Limited 2018

40. Debt issued and other borrowed funds

IFRS 7.8(f)

In $ million	**2018**	**2017**
Senior notes		
$1.2 billion fixed rate notes due 2020	1,036	-
$1 billion fixed rate notes due 2018	-	998
GBP400 million floating rate notes due 2020	586	534
Issued RMBS bonds ($100 million fixed rate notes due 2022)	92	99
Issued covered bonds ($150 million fixed rate notes due 2024)	139	149
	1,853	**1,780**
Subordinated notes		
USD335 million fixed rate notes due 2023 issued by Credit Card Inc.	322	311
$1.1 billion fixed rate notes due 2023/2024	998	989
$2 billion fixed rate write-down bonds	1,998	-
$270 million floating rate notes due 2024/2026	246	243
	3,564	**1,543**
Convertible financial liabilities		
5% Contingent convertible bonds redeemable due 2026	115	107
3.7% Convertible bonds callable after 2021 due 2038	778	762
	893	**869**
	6,310	**4,192**

IFRS 7.8(f)

Commentary

The disclosure of the nominal amount and due date of the issuances of senior and subordinated notes is not specifically required by IFRS. However, it is best practice to provide it voluntarily.

All of the above liabilities of Good Bank were issued by Good Bank (International) Limited, except when otherwise indicated.

Good Bank has not had any defaults of principal, interest or other breaches with regard to any liabilities during 2018 or 2017. IFRS 7.18

$ 1.2bn fixed rate notes due in 2020

In 2010, the Bank issued notes with a nominal value of $1.2bn and a fixed rate of 5% due in 2020. In 2010, the Bank took out *'pay floating receive fixed interest rate swaps'* to economically hedge the issued bonds and, accordingly, classified the notes as liabilities at fair value to avoid an accounting mismatch. In January 2018, upon application of IFRS 9, the Bank revoked its previous designation of such financial liabilities made under IAS 39, because the interest rate swaps were closed in accordance with the change in the Bank's strategy and there has no longer been a significant accounting mismatch arising from the securities. Refer to transition notes 9 and 28, which also include the impact and effective interest rate upon redesignation. IFRS 9.7.2.10(b)

GBP400 million floating rate notes due 2022

The notes are payable on demand upon a downgrade of the credit rating of Good Bank below Good Rating Agency's "Good rating". IFRS 7.B11F(f)

USD335 million fixed rate notes due 2023 issued by Credit Card Inc.

The Bank may elect to settle the principal amount of the notes by either delivering cash or by delivering as many of Good Bank's ordinary shares as are equal in value to the principal amount outstanding. IFRS 7.B11F(h)

Write-down bonds IFRS 7.20(a)(v)

On 31 March 2018, the Bank issued $2 billion of loss absorbing bonds (the bonds) with a 6% coupon, payable quarterly, and with a maturity of 10 years. The bonds will be written down to 50% of nominal value should the Common Equity Tier 1 (CET1) capital of the Bank fall below 6.5% at the end of a reporting period. IFRS 7.B11F(f)

40. Debt issued and other borrowed funds *continued*

The bonds will be written down to zero should the CET1 capital of the Bank fall below 5.0% at the end of a reporting period. The bonds will be cancelled in the event of liquidation. Any future coupons payable would be based on the new written-down nominal value. The interest paid on the bonds in the year was $90 million.

Contingent convertible bonds

IFRS 7.B11F(h)

On 15 February 2016, the Bank issued 12 million contingent convertible bonds maturing on 15 February 2026. Each bond has a nominal value of $10 and a fixed interest rate of 5%. The bonds are convertible into ordinary shares on a 1 to 1 ratio should Good Banks CET1 ratio fall under 7%.

IAS 32.15
IAS 1.79(a)(v)

The equity component of the contingent convertible bonds is recorded in Other reserves (Note 40).

Convertible bonds

On 15 January 2017, the Bank issued 900 million 3.7% convertible bonds at a nominal value of $1 per bond. The contractual interest rate on the bonds is 3.7% but, excluding the equity conversion option, the EIR is 5.3%. The bonds mature 25 years from the issue date at the nominal value unless converted into the Bank's ordinary shares at the holder's option at the rate of 1 share per $30. The convertible bonds are callable at the option of the Bank at par any time after 2024 provided that the holders have not already exercised their conversion option. The equity component of the convertible bonds is recorded in the Other capital reserve (Note 40).

IAS 32.15
IFRS 7.17
IFRS 7.B11F(h)

IAS 39,AG30(g)

During the year, the effective interest on the bond recorded in Interest expense was $37 million (2017: $37million). The actual interest paid during the year was $33 million (2017: $33 million).

Commentary

From the perspective of the issuer of a convertible debt instrument with an embedded call or put option, the assessment of whether the option is closely related to the host debt instrument is made before separating the equity element in accordance with IAS 32. IFRS B4.3.5 9 (e)]. This provides a specific relaxation from the general guidance on prepayment options above because, for accounting purposes, separate accounting for the equity component results in a discount on recognition of the liability component, which means that the amortised cost and exercise price are unlikely to approximate to each other for much of the term of the instrument.

Notes to the Financial Statements

41. Issued capital and reserves

Authorised

	2018 Thousands	2017 Thousands	
			IAS 1.78(e) *IAS 1.79(a)(i)*
Ordinary shares of $1 each	752,000	752,000	*IAS 1.79(a)(iii),(c)*
	752,000	**752,000**	

Ordinary shares

Issued and fully paid	Thousands	In $ million	*IAS 1.79(a)(ii)*
			IAS 1.79(a)(iv)
At 1 January 2018	673,992	674	*IAS 1.106(d)*
Issued on 1 December 2018	530	1	
At 31 December 2018	**674,522**	**675**	

Treasury shares

	No. thousand	In $ million	*IAS 1.79(a)(vi)*
At 1 January 2017	2,620	15	
Purchase of treasury shares	1,186	7	
Sale of treasury shares	(536)	(3)	
At 31 December 2017	**3,270**	**19**	
Purchase of treasury shares	806	5	
Sale of treasury shares	(308)	(2)	
At 31 December 2018	**3,768**	**22**	

The treasury shares are bought and sold as part of the Bank's Investment Banking operations.

42. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. Trading assets and liabilities including derivatives have been classified to mature and/or be repaid within 12 months, regardless of the actual contractual maturities of the products. With regard to loans and advances to customers, the Bank uses the same basis of expected repayment behaviour that was used for estimating the EIR. Issued debt reflect the contractual coupon amortisations.

IAS 1.77
IAS 1.61
EDTF 20

As at 31 December 2018 **In $ million**	**Within 12 months**	**After 12 months**	**Total**
Assets			
Cash and balances with central bank	3,207	-	3,207
Due from banks	10,618	-	10,618
Cash collateral on securities borrowed and reverse repurchase agreements	7,628	-	7,628
Derivative financial instruments	4,347	3,126	7,473
Financial assets held for trading	12,830	-	12,830
of which pledged as collateral	5,898	2,041	7,939
Financial assets at fair value through profit or loss	1,929	333	2,262
Debt instruments at fair value through other comprehensive income	4,564	2,837	7,401
Equity instruments at fair value through other comprehensive income		447	447
Loans and advances to customers	9,656	38,268	47,924
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	13	473	486
Debt instruments at amortised cost	843	799	1,642
Other assets	201	208	409
Property and equipment	-	990	990
Deferred tax assets	-	257	257
Goodwill and other intangible assets	-	58	58
Total assets	**55,836**	**47,796**	**103,632**
Liabilities			
Due to banks	7,408	-	7,408
Cash collateral on securities lent and repurchase agreements	5,842	2,286	8,128
Derivative financial instruments	4,905	3,160	8,065
Financial liabilities held for trading	4,160	-	4,160
Financial liabilities designated at fair value through profit or loss	2,408	1,212	3,620
Due to customers	9,012	47,131	56,143
Debt issued and other borrowed funds	1,616	4,694	6,310
Current tax liabilities	245	-	245
Other liabilities	859	856	1,715
Provisions	63	23	86
Deferred tax liabilities	90	412	502
Total liabilities	**36,608**	**59,774**	**96,382**
Net	**19,228**	**(11,978)**	**7,250**

42. Maturity analysis of assets and liabilities *continued*

IAS 1.61

As at 31 December 2017 In $ million	Within 12 months	After 12 months	Total
Assets			
Cash and balances with central bank	2,814	-	2,814
Due from banks	10,489	-	10,489
Cash collateral on securities borrowed and reverse repurchase agreements	1,252	6,421	7,673
Derivative financial instruments	3,586	3,558	7,144
Financial assets held for trading	10,368	-	10,368
of which pledged as collateral	3,000	1,003	4,003
Financial assets at fair value through profit or loss	825	416	1,241
Financial investments – available-for-sale	6,342	5,962	12,304
of which pledged as collateral	3,988	-	3,988
Loans and advances to customers	9,134	38,029	47,163
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	10	383	393
Financial investments – held-to-maturity	62	65	127
Other assets	362	91	453
Property and equipment	-	1,006	1,006
Deferred tax assets	-	237	237
Goodwill and other intangible assets	-	78	78
Total assets	**45,244**	**56,246**	**101,490**
Liabilities			
Due to banks	7,319	-	7,319
Cash collateral on securities lent and repurchase agreements	7,092	1,129	8,221
Derivative financial instruments	5,728	2,098	7,826
Financial liabilities held for trading	4,078	-	4,078
Financial liabilities at fair value through profit or loss	2,200	2,336	4,536
Due to customers	8,972	47,205	56,177
Debt issued and other borrowed funds	1,113	3,079	4,192
Current tax liabilities	156	-	156
Other liabilities	1,109	668	1,777
Provisions	40	36	76
Deferred tax liabilities	110	436	546
Total liabilities	**37,917**	**56,987**	**94,904**
Net	**7,327**	**(741)**	**6,586**

Commentary

IAS 1.61 requires disclosure of the two subtotals (less than and greater than 12 months) of expected maturities in addition to the contractual maturity table for financial liabilities required by IFRS 7.B11 (Note 49.5.4)

43. Capital

The Bank maintains an actively managed capital base to cover risks inherent in the business and is meeting the capital adequacy requirements of the local banking supervisor, Central Bank of Goodland. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the National Bank of Goodland in supervising the Bank. *IAS 1.135(a)(ii)*

Good Bank has complied in full with all its externally imposed capital requirements over the reported period. *IAS 1.135(d)*

Commentary

IAS 1.135(e) requires that if the entity has not complied with its externally imposed capital requirements, the consequence of such non-compliance needs to be disclosed.

43.1. Capital management

The primary objectives of the Bank's capital management policy are to ensure that the Bank complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value. *IAS 1.134*

The Bank manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes have been made to the objectives, policies and processes from the previous years. However, they are under constant review by the Board. *IAS 1.135(a)* *IAS 1.135(a)(iii)*

43.2. Regulatory capital

EDTF 9, 11

In $ million	Actual 2018	Required 2018	Actual 2017	Required 2017
Common Equity Tier1 (CET1) capital	6,183	5,041	5,974	5,237
Other Tier 2 capital instruments	4,457	1,401	2,412	1,439
Total capital	**10,640**	**6,442**	**8,386**	**6,676**
Risk weighted assets	**63,742**		**63,553**	
CET1 capital ratio	9.7%		9.4%	
Total capital ratio	17.5%		13.7%	

IAS 1.135(b)

Regulatory capital consists of CET 1 capital, which comprises share capital, share premium, retained earnings including current year profit, foreign currency translation and non-controlling interests less accrued dividends, net long positions in own shares and goodwill. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the Central Bank of Goodland. The other component of regulatory capital is Other Tier 2 Capital Instruments, which includes subordinated long-term debt and contingent convertible bonds. *IAS 1.135(a)(i)*

Commentary

The capital disclosures do not include Basel III requirements or a reconciliation between the IFRS and Regulatory Capital figures. The capital disclosures do not include the additional Pillar 3/Capital Requirements Directive IV (CRD IV) regulatory disclosures that are made by European Economice Area (EEA) Credit institutions.

EDTF commentary

This section would generally include the following Enhanced Dislcosure Task Force (EDTF) recommendations, which, due to Good Bank being a fictitious entity we found impractical to include:

EDTF 9 Provide minimum Pillar 1 capital requirements, including capital surcharges for global systemically important banks (G-SIBs) and the application of counter-cyclical and capital conservation buffers or the minimum internal ratio established by management.

EDTF 10 Summarise information contained in the composition of capital templates adopted by the Basel Committee to provide an overview of the main components of capital, including capital instruments and regulatory adjustments. A reconciliation of the accounting balance sheet to the regulatory balance sheet should be disclosed.

43. Capital *continued*

43.2 Regulatory capital *continued*

EDTF 12 Qualitatively and quantitatively discuss capital planning within a more general discussion of management's strategic planning, including a description of management's view of the required or targeted level of capital and how this will be established.

EDTF 13 Provide granular information to explain how RWAs relate to business activities and related risks.

EDTF 14 Present a table showing the capital requirements for each method used for calculating RWAs for credit risk, including counterparty credit risk, for each Basel asset class as well as for major portfolios within those classes. For market risk and operational risk, present a table showing the capital requirements for each method used for calculating them. Disclosures should be accompanied by additional information about significant models used, e.g. data periods, downturn parameter thresholds and methodology for calculating LGD.

EDTF 15 Tabulate credit risk in the banking book showing average PD and LGD as well as EAD, total RWAs and RWA density for Basel asset classes and major portfolios within the Basel asset classes at a suitable level of granularity based on internal ratings grades. For non-retail banking book credit portfolios, internal ratings grades and PD bands should be mapped against external credit ratings and the number of PD bands presented should match the number of notch-specific ratings used by credit rating agencies.

EDTF 16 Present a flow statement that reconciles movements in RWAs for the period for each RWA risk type.

EDTF 17 Provide a focused narrative putting Basel Pillar 3 back-testing requirements into context, including how the bank has assessed model performance and validated its models against default and loss.

EDTF 18 Provide a narrative putting Basel Pillar 3 back-testing requirements into context, including how the bank has assessed model performance and validated its models against default and loss.

44. Additional cash flow information

IAS 1.77

Cash and cash equivalents

In $ million	**2018**	**2017**	
Cash on hand (Note 23)	180	172	
Current account with the Central Bank of Goodland (Note 23)	2,183	1,868	
Due from banks (Note 24)	8,870	9,350	
	11,233	**11,390**	*IAS 7.45*

The deposits with the Central Bank of Goodland and with other central banks (see Note 23) are not available to finance the Bank's day-to-day operations and, therefore, are not part of cash and cash equivalents. *IAS 7.48-49*

Change in operating assets *IAS 7.22*

In $ million	**2018**	**2017**
Net change in balances with central bank	70	(354)
Net change in financial assets held for trading	2,462	3
Net change in due to banks	617	(251)
Net change in reverse repurchase agreements and cash collateral on securities borrowed	(39)	(163)
Net change in derivative financial instruments and cash settlement balances with clearing houses	563	(9)
Net change in financial assets designated and mandatorily classified at fair value through profit or loss	(742)	25
Net change in loans and advances to customers	2,291	(1,226)
Net changes in the fair value of hedged items in portfolio hedges of interest rate risk	93	
Net change in financial investments – available-for-sale	-	(235)

44. Additional cash flow information *continued*

Change in operating assets *continued*

In $ million	2018	2017	
Net change in Debt instruments at fair value through other comprehensive income	(2,289)	-	IAS 7.22
Net change in Equity instruments at fair value through other comprehensive income	(177)	-	
Net change in financial investments – available-for-sale, pledged as collateral	-	(54)	
Net change in Debt Instruments at amortised cost	17		
Net change in financial investments – held-to-maturity	-	(20)	
Net change in other assets	(44)	(27)	
	2,822	**(2,311)**	*IAS 7.20(a)*

Change in operating liabilities

In $ million	2018	2017	*IAS 7.22*
Net change in due to banks	89	-	
Net change in repurchase agreements and cash collateral on securities lent	(93)	(132)	
Net change in financial liabilities held for trading	82	119	
Net change in financial liabilities designated at fair value through profit or loss	71	(36)	
Net change in due to customers	(34)	1,690	
Net change in derivative financial instruments and cash settlement balances with clearing houses	239	120	
Net change in other liabilities	(516)	355	
	(162)	**2,116**	*IAS 7.20(a)*

Changes in liabilities arising from financing activities *IAS 7.44A*

In $ million	Senior Notes	Subordinated Notes	Convertible financial liabilities
Opening balance	1,780	1,543	869
Cash flow items:			
Issuances	1,036	2,021	-
Repayment	(998)	-	-
Non Cash flow items:			
Movement in accrued interest	35	-	24
Ending balance	**1,853**	**3,564**	**893**

45. Contingent liabilities, commitments and leasing arrangements

45.1. Financial guarantees, letters of credit and other undrawn commitments

The nominal values of Financial guarantees, letters of credit are disclosed together with their ECL impacts in Note 38.1.

45.2. Legal claims

The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent in its operations. As a result, the Bank is involved in various litigation, arbitration and regulatory proceedings, both in Goodland and in other jurisdictions in the ordinary course of its business. The Bank has formal controls and policies for managing legal claims. Based on professional legal advice, the Bank provides and/or discloses amounts in accordance with its accounting policies described in Note 7.28. At year end, the Bank had several unresolved legal claims. *IAS 37.86*

The only significant legal claim against the Bank is in respect of a single customer who has alleged that certain investment advice provided by the Bank has resulted in the client suffering financial loss. The Bank's legal counsel's opinion is that it is possible, but not probable, that the court ruling may be in favour of the claimant. Accordingly, no provision for any claims has been made in these financial statements. The possible outflow which could result from such litigation, based on the current status of the legal proceedings, is estimated to be no more than $0.5 million, while the timing of the outflow is uncertain.

45.3. Operating lease commitments – Bank as lessee

The Bank has entered into commercial leases for premises and equipment. The leases have an average life of between three and five years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases (e.g., such as those concerning dividends, additional debt and further leasing). *IAS 17.35(d)*

Future minimum lease payments under non-cancellable operating leases as at 31 December are, as follows: *IAS 17.35(a)*

	2018	2017	
	$ million	**$ million**	
Within one year	140	145	
After one year but not more than five years	262	268	
More than five years	184	179	
	586	**592**	*IAS 17.35(c)*

45.4. Operating leases – bank as lessor

The Bank acts as lessor of office equipment. These leases have an average life of between three and five years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases (e.g., such as those concerning dividends, additional debt and further leasing).

Future minimum lease payments under non-cancellable operating leases as at 31 December are, as follows:

	2018	2017	
	$ million	**$ million**	*IAS 17.56(a)*
Within one year	4	4	
After one year but not more than five years	10	11	
More than five years	-	-	
	14	**15**	

46. Related party disclosures

Disclosures for Related party disclosures would need to be inserted here. An illustrative example of such disclosures are available in Good Group (International) Limited 2018.

47. Events after reporting date

There are no events after the reporting date that require disclosure in these financial statements. *IAS 10.21*

Commentary

IAS 10.22 gives the following examples that would generally require disclosure:

a) "a major business combination after the reporting period (IFRS 3 *Business Combinations* requires specific disclosures in such cases) or disposing of a major subsidiary;

b) announcing a plan to discontinue an operation;

c) major purchases of assets, classification of assets as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, other disposals of assets, or expropriation of major assets by government;

d) the destruction of a major production plant by a fire after the reporting period;

e) announcing, or commencing the implementation of, a major restructuring (see IAS 37);

f) major ordinary share transactions and potential ordinary share transactions after the reporting period (IAS 33 *Earnings per Share* requires an entity to disclose a description of such transactions, other than when such transactions involve capitalisation or bonus issues, share splits or reverse share splits all of which are required to be adjusted under IAS 33);

g) abnormally large changes after the reporting period in asset prices or foreign exchange rates;

h) changes in tax rates or tax laws enacted or announced after the reporting period that have a significant effect on current and deferred tax assets and liabilities (see IAS 12 *Income Taxes*);

i) entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees; and

j) commencing major litigation arising solely out of events that occurred after the reporting period."

However, entities should also consider other aspects of the standard and the general framework of IFRS such as: paragraphs 2 and 6 of the Framework:

- "The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit."
- "However, general purpose financial reports do not and cannot provide all of the information that existing and potential investors, lenders and other creditors need. Those users need to consider pertinent information from other sources, for example, general economic conditions and expectations, political events and political climate, and industry and company outlooks."

Notes to the Financial Statements

48. Fair value measurement

This note describes the fair value measurement of both financial and non-financial instruments and is structured as follows:

48. Fair value measurement *continued*

Commentary

The Bank does not have liabilities measured at fair value with an inseparable third-party credit enhancement. Entities with such instruments should provide the disclosure required by IFRS 13.98.

48.1. Valuation principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price), regardless of whether that price is directly observable or estimated using a valuation technique. *IFRS 13.9 IFRS 13.24*

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as explained in Note 7.8. *IFRS 13.9*

48.2. Valuation governance

The Bank's fair value methodology and the governance over its models includes a number of controls and other procedures to ensure appropriate safeguards are in place to ensure its quality and adequacy. All new product initiatives (including their valuation methodologies) are subject to approvals by various functions of the Bank including the risk and finance functions. The responsibility of ongoing measurement resides with the business and product line divisions. *IFRS 13.93(g) IFRS 13.IE65*

Once submitted, fair value estimates are also reviewed and challenged by the Risk and Finance functions. The independent price verification process for financial reporting is ultimately the responsibility of the independent price verification team within Finance which reports to the Chief Financial officer.

The IPV team validates fair value estimates by:

- Benchmarking prices against observable market prices or other independent sources
- Re-performing model calculations
- Evaluating and validating input parameters

The independent price verification team also challenges the model calibration on at least a quarterly basis or when significant events in the relevant markets occur.

The independent price verification team works together with the Finance function's accounting policy team and is responsible for ensuring that the final reported fair value figures are in compliance with IFRS and will propose adjustments when needed.

When relying on third-party sources (e.g., broker quotes, or other micro or macro-economic inputs), the independent price verification team is also responsible for:

- Verifying and challenging the approved list of providers
- Understanding the valuation methodologies and sources of inputs and verifying their suitability for IFRS reporting requirements

Valuation techniques and specific considerations for Level 3 inputs are further explained in Notes 48.4 and 48.5.

Commentary

IFRS 13.93 (g) and IFRS 13.IE65 only requires entities to disclose the valuation framework for Level 3 fair value measurements. However, disclosure of an entity's governance in respect of fair value measurements is further encouraged by IFRS, Pillar 3 and/or other listing requirements (e.g., Internal Controls over Financial Reporting) as well as descriptions of their valuations of all assets and liabilities. We, therefore, encourage reporting entities to consider extending these disclosures, even when they fall outside the scope of Pillar 3 disclosures or other similar regulatory requirements. The Bank's valuation is given as an example of meeting IFRS requirements and not as an example of best practice risk management, valuation methodology or corporate governance guidelines.

Notes to the Financial Statements

48. Fair value measurement *continued*

48.3. Assets and liabilities by fair value hierarchy

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

IFRS 13.93(a)
IFRS 13.93(b)

31 December 2018 **In $ million**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value on a recurring basis				
Derivative financial instruments				
Foreign exchange contracts	-	1,757	-	1,757
Interest rate swaps	-	3,778	-	3,778
Interest rate options/futures	28	755	50	833
Credit derivative contracts	-	398	107	505
Commodity futures	500	100		600
	528	6,788	157	7,473
Financial assets held for trading				
Government debt securities	5,468	2,112	-	7,580
Debt securities issued by financial institutions	537	1,203	-	1,740
Asset backed securities	-	151	447	598
Other debt securities	43	124	550	717
Equities	2,070	125	-	2,195
	8,118	3,715	997	12,830
Financial assets at fair value through profit or loss				
Loans and advances to customers (designated)	-	1,066	200	1,266
Loans and advances to customers (mandatory)	-	-	770	770
Asset backed securities	-	-	102	102
	-	1,066	1,072	2,138
Debt instruments at fair value through OCI				
Government debt securities	2,015	117	-	2,132
Other debt securities	1,417	3,182	670	5,269
	3,432	3,299	670	7,401
Equity Instruments at fair value through OCI				
Equity instruments	298	-	149	447
	298	-	149	447
Total assets measured at fair value on a recurring basis	12,376	14,868	3,045	30,289
Total financial assets measured at fair value	**12,376**	**14,868**	**3,045**	**30,289**
Liabilities measured at fair value on a recurring basis				-
Derivative financial instruments				-
Foreign exchange contracts	-	2,794	-	2,794
Interest rate swaps	-	4,236	-	4,236
Interest rate options/futures	78	861	67	1,006
Credit derivative contracts	-	14	4	18
Equity swaps and options	-	-	11	11
	78	7,905	82	8,065
Other financial liabilities held for trading				-
Short positions in listed and actively traded equities	2,897	-	-	2,897
Short positions in listed and actively traded debt securities	1,263	-	-	1,263
	4,160	-	-	4,160
Financial liabilities designated at fair value through profit or loss				
Structured notes	-	3,620	-	3,620
	-	3,620	-	3,620
Total financial liabilities measured at fair value on a recurring basis	4,238	7,905	82	12,225
Total financial liabilities measured at fair value	**4,238**	**7,905**	**82**	**12,225**

Notes to the Financial Statements

48. Fair value measurement *continued*

48.3 Assets and liabilities by fair value hierarchy *continued*

IFRS 13.93(a)
IFRS 13.93(b)

31 December 2017

In $ million	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value on a recurring basis				
Derivative financial instruments				
Foreign exchange contracts	67	1,713	-	1,780
Interest rate swaps	-	3,641	-	3,641
Interest rate options/futures	16	764	38	818
Credit derivative contracts	-	-	405	405
Commodity futures	400	100		500
	483	6,218	443	7,144
Financial assets held for trading				-
Government debt securities	5,574	-	-	5,574
Debt securities issued by financial institutions	726	598	-	1,324
Asset backed securities	-	377	210	587
Other debt securities	65	162	471	698
Equities	1,574	611	-	2,185
	7,939	1,748	681	10,368
Financial assets designated at fair value through profit or loss				-
Loans and advances to customers	-	1,021	220	1,241
	-	1,021	220	1,241
Financial investments available-for-sale				-
Government debt securities	6,411	-	-	6,411
Other debt securities	1,555	3,078	636	5,269
Equity instruments	478	118	28	624
	8,444	3,196	664	12,304
Total assets measured at fair value on a recurring basis	**16,866**	**12,183**	**2,008**	**31,057**
Liabilities measured at fair value on a recurring basis				-
Derivative financial instruments				-
Foreign exchange contracts	175	2,512	-	2,687
Interest rate swaps	-	4,105	-	4,105
Interest rate options/futures	-	983	18	1,001
Credit derivative contracts	-	16	5	21
Equity swaps and options	-	-	12	12
	175	7,616	35	7,826
Other financial liabilities held for trading				-
Short positions in listed and actively traded equities	2,765	-	-	2,765
Short positions in listed and actively traded debt securities	1,313	-	-	1,313
	4,078	-	-	4,078
Financial liabilities designated at fair value through profit or loss				-
Structured notes	-	4,536	-	4,536
	-	4,536	-	4,536
Total Liabilities measured at fair value on a recurring basis	**4,253**	**12,152**	**35**	**16,440**

Commentary

The assessment of which level of the hierarchy financial instruments should be allocated to needs to be re-assessed on an on-going basis.

48. Fair value measurement *continued*

IFRS 13.93(d)
IFRS 13.91

48.4. Valuation techniques

<u>Government debt securities</u> *IFRS 13.93(d)*

Government debt securities are financial instruments issued by sovereign governments and include both long-term bonds and short-term bills with fixed or floating rate interest payments. These instruments are generally highly liquid and traded in active markets resulting in a Level 1 classification. When active market prices are not available, the Bank uses discounted cash flow models with observable market inputs of similar instruments and bond prices to estimate future index levels and extrapolating yields outside the range of active market trading, in which instances the Bank classifies those securities as Level 2. The Bank does not have Level 3 government securities where valuation inputs would be unobservable.

<u>Debt securities issued by financial institutions and other debt securities</u> *IFRS 13.93(d)*

Whilst most of these instruments are standard fixed or floating rate securities, some may have more complex coupon or embedded derivative characteristics. The Bank uses active market prices when available, or other observable inputs in discounted cash flow models to estimate the corresponding fair value including CDS data of the issuer to estimate the relevant credit spreads. Municipal bonds and bonds issued by financial institutions are generally Level 1 and corporate bonds are generally Level 2 instruments as well as convertible bonds where usually there is not sufficient third party trading data to justify Level 1 classification. Level 3 instruments are those where significant inputs cannot be referenced to observable data and, therefore, inputs are adjusted for relative tenor and issuer quality.

<u>Asset backed securities</u> *IFRS 13.93(d)*

These instruments include residential mortgage backed securities (RMBS), commercial mortgage backed securities (CMBS) and other asset-backed securities, including those issued by US government agencies. The market for these securities is not active. Therefore, the Bank uses a variety of valuation techniques to measure their fair values. For certain more liquid instruments, the Bank uses trade and price data updated for movements in market levels between the observed and the valuation dates. Instruments that are less liquid are valued by discounted cash flow models. Expected cash flow levels are estimated by using quantitative and qualitative measures regarding the characteristics of the underlying assets including prepayment rates, default rates and other economic drivers such as loan-to-value ratios, emergence period estimation, indebtedness and rental income levels. The majority of these securities (with no significant unobservable valuation inputs) are classified as Level 2, the remaining instruments, which have no comparable instruments or valuation inputs, and therefore require significant unobservable market inputs, are classified as Level 3.

<u>Commodity futures</u> *IFRS 13.93(d)*

The Bank's commodity portfolio comprises exchange-traded commodity futures in metal (e.g., copper, aluminium) and soft commodities (e.g., coffee, cocoa and sugar). Prices are derived from active market quotes and exchange statements and classified as Level 1. When the quoting convention is undiscounted, the Bank discounts the quoted prices to reflect to fair value. These instruments are classified as Level 1 given the active and highly liquid nature of their markets.

Commentary

Long-term commodity contracts for which the pricing convention is to quote undiscounted prices and where discount curves applied to obtain the IFRS fair value are unobservable, should be reported as Level 3.

<u>Equity instruments</u> *IFRS 13.93(d)*

The majority of equity instruments are actively traded on public stock exchanges with readily available active prices on a regular basis. Such instruments are classified as Level 1. Units held in funds are measured based on their published net asset value (NAV), taking into account redemption and/or other restrictions.

Such instruments are generally Level 2. Equity instruments in non-listed entities included investment in private equity funds are initially recognised at transaction price and re-measured (to the extent information is available) and valued on a case-by-case and classified as Level 3. The Bank does not hold equity investments that are valued at cost due lack of reliable information to value them.

<u>Loans and receivables at fair value through profit or loss</u> *IFRS 13.93(d)*

For loans and receivables designated at FVPL and mandatorily required to be measured at at FVPL (those that did not meet the SPPI criteria), a discounted cash flow model is used based on various assumptions, including current and expected future credit losses, market rates of interest, prepayment rates and assumptions regarding market liquidity, where relevant. The element of fair value attributable to the credit risk is calculated by determining the changes in credit spread implicit in the fair value of bonds issued by entities with similar credit characteristics.

48. Fair value measurement *continued*

48.4 Valuation techniques *continued*

Classification between Level 2 and Level 3 is determined based on whether the assessment of credit quality is based on observable or unobservable data.

Other liabilities designated at fair value through profit or loss (structured notes) *IFRS 13.93(d)*

For unquoted notes issued, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity, adjusted for market liquidity and credit spreads based on observable inputs. The fair value of the call option on the Goodland Top 100 index at a level of 197.3 is valued by option pricing models. Given that all inputs into the both the option valuation model and the bond are observable market data (including the Bank's own credit spread), these instruments are classified as Level 2.

Credit derivatives *IFRS 13.93(d)*

Credit derivative contracts comprise credit default swaps (CDS) and total return swaps (TRS) instruments. These contracts are valued by estimating future default rates using industry standards models on credit spreads, and implied recovery rates to estimate future expected cash flows. The Bank then discounts the cash flows by yields appropriately reflecting the funding costs of the instruments. Single name instruments are generally classified as Level 2 on the basis that model inputs that are significant to their measurement (as a whole) are observable. When unobservable inputs that are significant to the measurement, on the whole, are used in measuring fair value, the Bank classifies those instruments as Level 3. Other valuation adjustments and inputs that may impact the fair value of these instruments are discussed in Note 48.5. *IFRS 13.73 IFRS 13.74)*

Interest rate derivatives *IFRS 13.93(d)*

Interest rate derivatives include interest rate swaps, cross currency interest rate swaps, basis swaps and interest rate forwards (FRAs). The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations by estimating future cash flows and discounting them with the appropriate yield curves incorporating funding costs relevant for the position. These contracts are generally Level 2 unless adjustments to yield curves or credit spreads are based on significant non-observable inputs, in which case, they are Level 3. Interest rate futures are valued using quoted prices and classified as Level 1. Interest rate options are valued by option pricing models. These contracts are generally Level 2 unless adjustments to yield curves or credit spreads are based on significant non-observable inputs, in which case they are classified as Level 3. Other valuation adjustments and inputs that may impact the fair value of these instruments are discussed in Note 48.5.

Foreign exchange contracts *IFRS 13.93(d)*

Foreign exchange contracts include open spot contracts, foreign exchange forward and swap contracts and over-the-counter foreign exchange options. These instruments are valued by either observable foreign exchange rates, observable or calculated forward points and option valuation models. With the exception of contracts where a directly observable rate is available which are disclosed as Level 1, the Bank classifies foreign exchange contracts as Level 2 financial instruments when no unobservable inputs are used for their valuation or the unobservable inputs used are not significant to the measurement (as a whole). Other valuation adjustments and inputs that may impact the fair value of these instruments are discussed in Note 48.5.

48. Fair value measurement *continued*

48.5. Valuation adjustments and other inputs and considerations

The Bank applies the following fair value adjustments to its base valuation procedures to better reflect the individual characteristics of trades that market participants would consider when trading in or setting specific prices for these instruments.

IFRS 13.93(d)
IFRS 13.69
IFRS 13.22
IFRS 13.91(a)

Commentary

It is market practice to calculate credit risk (CVA), own credit risk (DVA) (and, if applicable, funding costs (FVA)) on a portfolio basis and to treat them together with other adjustments as separate top-side overlays to base valuations to reflect characteristics of the trades that market participants would consider when trading in or setting specific prices for these instruments.

<u>Credit and debit valuation adjustments</u>

IFRS 13.93(d)

The Bank calculates CVA/DVA (as defined in Note 7.8 of the Summary of significant accounting policies) on a counterparty basis over the entire life of the exposure. CVA is calculated by multiplying the probability of default (PD), the loss given default (LGD) and the expected exposure (EE) at the time of default. A debit valuation adjustment (DVA) is applied to incorporate the Bank's own credit risk in the fair value of derivatives (i.e., the risk that the Bank might default on its contractual obligations), using the same methodology as for CVA (i.e., applying the Bank's PD and multiplying it with LGD and EE). For most products, the Bank calculates EE using a Monte Carlo simulation at a counterparty level. The model inputs include market values from current market data and model parameters implied from quoted market prices. These are updated at each measurement date. Collateral and netting arrangements are taken into account where applicable. PDs and LGDs are derived from a credit spread simulation that incorporates rating migration and market observable data where available. The Bank estimates and builds an own credit curve from market observable data, such as secondary prices for its traded debt, and the credit spread on credit default swaps and traded debts on itself.

The Bank applies CVA/DVA to all relevant (not fully collateralised) over-the-counter positions with the exception of positions settled through central clearing houses. Based on regular assessment of the extent of the adjustments, the Bank concluded that these adjustments were not significant to the levelling classification of the relevant instruments in 2017 or 2018.

<u>Funding value adjustment</u>

IFRS 13.93(d)
IFRS 13.69

Funding value adjustment reflects the impact of funding associated with collateralised and partly collateralised OTC positions and is calculated as the valuation difference between OIS (Overnight Index Swap) and London Interbank Offered Rate (LIBOR) curves. The Bank calculates the FVA by applying estimated future funding costs to the expected future exposure that the Bank will be required to fund as a result of the uncollateralised component of the over the counter portfolio (i.e., the uncollateralised component of a collateralised portfolio and the entire uncollateralised portfolio) using an applicable simulation methodology. The impact of FVA and DVA is calculated independently. FVA is also applied to positions where the collateral cannot be sold or re-pledged. Based on regular assessment of the extent of the adjustments, the Bank concluded that these adjustments were not significant to the levelling classification of the relevant instruments in 2017 or in 2018.

<u>Bid-offer</u>

IFRS 13.93(d)
IFRS 13.51
IFRS 13.53
IFRS 13.71

The Bank's pricing models initially calculate mid-market prices, which are subsequently adjusted to reflect bid-offer spreads (the difference between prices quoted for sales and purchases).

<u>Day 1 profit</u>

A Day 1 profit, representing the difference between the transaction price and the fair value output of internal models, is recognised when the inputs to the valuation models are observable data market data, as discussed in Note 7.7.3 of the Summary of significant accounting policies.

<u>Model uncertainty</u>

The models applied by the Bank may not always capture all characteristics of the market at a point in time as they cannot be recalibrated at the same pace as new market conditions. Such interim adjustments are reflected in the model uncertainty adjustments until the base models are updated

48. Fair value measurement *continued*

48.6. Impact of valuation adjustments and other inputs

The following table shows the amount recorded in the income statement:

In $ million	2018	2017
Type of adjustment		
Risk related		
Credit value adjustment	(10)	(30)
Debit value adjustment	26	15
Funding value adjustment	(4)	(5)
	12	(20)
Model uncertainty	5	5
Bid-offer adjustment	10	5
Day 1 profit (See below)	19	16
Total	**46**	**6**

Commentary

Disclosing the income statement effect of valuation adjustments is market practice as an interpretation of additional useful information under IFRS 13.92 (d).

48.6.1. Day 1 Profit

The table below shows the movement in the aggregate profit not recognised when financial instruments were initially recognised (Day 1 profit), because of the use of valuation techniques for which not all the inputs were market observable data. *IFRS 7.28(b)*

In $ million	2018	2017
Balance at 1 January	17	15
Deferral of profit on new transactions	23	18
Recognised in the income statement during the year:		
Subsequent recognition due to observability	(9)	(5)
Derecognition of the instruments	(8)	(10)
Exchange differences	(2)	(1)
Balance at 31 December	**21**	**17**

48.7. Transfers between Level 1 and Level 2

The following table shows transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets and liabilities which are recorded at fair value: *IFRS 13.93(c)*

IFRS 13.93(c)

	Transfers from Level 1 to Level 2	
In $ million	**2018**	**2017**
Financial assets held for trading		
Debt securities issued by financial institutions	270	125
Government securities	112	-
Other debt securities	35	12
Equities	125	-
Financial investments available-for-sale		
Equities		45
Government securities		-
Other debt securities		100
Debt instruments at fair value through OCI		
Equities	8	
Government securities	117	
Other debt securities	50	

The above financial assets were transferred from Level 1 to Level 2 as they ceased to be actively traded during the year and fair values were consequently obtained using valuation techniques using observable market inputs. There have been no financial liabilities measured at fair value that were transferred from level 1 to level 2 in 2017 or 2018. Furthermore, the Bank did not have any financial derivatives that were transferred from level 1 to level 2. There have been no transfers of financial assets or liabilities measured at fair value from Level 2 to Level 1 in 2017 and 2018.

48. Fair value measurement *continued*

48.8. Reconciliation of opening balances in Level 3 financial instruments measured at fair value

The following tables show a reconciliation of the closing and opening (after IFRS 9 restatement) amounts of Level 3 financial assets and liabilities which are recorded at fair value. *IFRS 13.93(e)*

In $ million	Note 9 Ref.	Reported balances at 31 December 2017	IFRS 9 Restatement	Restated balances at 01 January 2018
Assets measured at fair value on a recurring basis				
Derivative financial instruments				
Interest rate options / futures		38	-	38
Credit derivative contracts	**A**	405	(234)	171
		443	(234)	209
Financial assets held for trading				
Asset backed securities		210	-	210
Other debt securities		471	-	471
		681	-	681
Financial assets at fair value through profit and loss				
Loans and advances to customers (designated)		220	-	220
Loans and advances to customers (mandatory)	**A**	-	1,307	1,307
Asset backed securities	**D**	-	456	456
		220	1,763	1,983
Financial investments available-for-sale				
Other debt securities	**D/E**	180	(180)	-
Equity instruments	**F**	28	(28)	-
		208	(208)	-
Debt instruments at fair value through OCI				
Other debt securities	**E**	-	180	180
		-	180	180
Equity Instruments at fair value through OCI				
Equity instruments	**F**	-	28	28
		-	28	28
Total financial assets measured at fair value		**1,552**	**1,349**	**2,901**
Liabilities measured at fair value on a recurring basis				
Derivative financial instruments			-	
Interest rate options/futures		18	-	18
Credit derivative contracts		5	-	5
Equity swaps and options		12	-	12
		35	-	35
Total financial liabilities measured at fair value		**35**	**-**	**35**

48. Fair value measurement *continued*

48.9. Movements in Level 3 financial instruments measured at fair value

IFRS 13.93(e)

The following tables show a reconciliation of the opening and closing amounts of Level 3 financial assets and liabilities which are recorded at fair value. Transfers from Level 3 to Level 2 occur when the market for some securities became more liquid, which eliminates the need for the previously required significant unobservable valuation inputs. Since the transfer, these instruments have been valued using valuation models incorporating observable market inputs. Transfers into Level 3 reflect changes in market conditions as a result of which instruments become less liquid. Therefore, the Bank requires significant unobservable inputs to calculate their fair value.

48.9 Movements in Level 3 financial instruments measured at fair value *continued*

The following tables show the reconciliation of the opening and closing amounts of Level 3 financial assets and liabilities measured at fair value:

IFRS 13.93(e)
IFRS 13.93(f)

in $ million	Restated balances at 01 January 2018	Purchase	Sales	Issuances	Settlements	Transfers into Level 3	Transfer from Level 3	Net interest income, net trading income and other income	Other comprehensive income	Exchange rate differences	At 31 December 2018	Unrealised gains and losses related to balances held at the end of the period
Assets measured at fair value on a recurring basis												
Derivative financial instruments												
Interest rate options / futures	38	25	(20)	32	(15)	-	(41)	34	-	(3)	50	3
Credit derivative contracts	171	134	(200)	15	(60)	-	-	54	-	(7)	107	8
	209	159	(220)	47	(75)	-	(41)	88	-	(10)	157	11
Financial assets held for trading												
Asset backed securities	210	234	(45)	-	-	-	-	42	-	6	447	6
Other debt securities	471	35	(23)	-	-	33	(12)	34	-	12	550	8
	681	269	(68)	-	-	33	(12)	76	-	18	997	14
Financial assets at fair value through profit and loss												
Loans and advances to customers (designated)	220	-	-	-	(30)	-	-	10	-	-	200	2
Loans and advances to customers (mandatory)	1,307	-	(110)	23	(260)	-	-	63	-	(6)	1,017	8
Asset backed securities	456	-	(300)	-	-	-	-	(54)	-	-	102	1
	1,983	-	(410)	23	(290)	-	-	19	-	(6)	1,319	11
Debt instruments at fair value through OCI												
Other debt securities	180	520	(45)	-	-	40	(80)	-	45	10	670	-
	180	520	(45)	-	-	40	(80)	-	45	10	670	-
Equity Instruments at fair value through OCI												
Equity instruments	28	128	(20)	-	-	-	(20)	-	23	10	149	-
	28	128	(20)	-	-	-	(20)	-	23	10	149	-
Total financial assets measured at fair value	**3,081**	**1,076**	**(763)**	**70**	**(365)**	**73**	**(153)**	**183**	**68**	**22**	**3,292**	**36**
Liabilities measured at fair value on a recurring basis												
Derivative financial instruments												
Interest rate options/futures	18	-	-	46	-	-	-	3	-	-	67	1
Credit derivative contracts	5	-	-	8	(11)	-	-	2	-	-	4	1
Equity swaps and options	12	-	-	3	(6)	-	-	4	-	(2)	11	1
Total financial liabilities measured at fair value	**35**	**-**	**-**	**57**	**(17)**	**-**	**-**	**9**	**-**	**(2)**	**82**	**3**

Notes to the Financial Statements

48.9 Movements in Level 3 financial instruments measured at fair value *continued*

In $ million	At 01 January 2018	Purchase	Sales	Issuances	Settlements	Transfers into Level 3	Transfer from Level 3	Net interest income, net trading income and other income	Other comprehensive income	Exchange rate differences	At 31 December 2017	Unrealised gains and losses related to balances held at the end of the period
Financial assets measured at FV on recurring basis												
Derivative financial instruments												
Interest rate options/futures	22	9	(21)	9	(10)	20	(2)	9	-	2	38	5
Credit derivatives contracts	444	110	(239)	110	(50)	-	-	36	-	(6)	405	13
Total derivative financial instruments	466	119	(260)	119	(60)	20	(2)	45	-	(4)	443	18
Financial assets held for trading											-	
Asset backed securities	150	56	(45)	-	-	-	-	34	-	15	210	13
Other debt securities	455	34	(67)	-	-	16	-	65	-	(32)	471	3
Total other assets held for trading	605	90	(112)	-	-	16	-	99	-	(17)	681	16
Financial assets designated at fair value through profit or loss (FVPL)											-	
Loans and advances to customers	210	-	-	-	(2)	-	-	12	-	-	220	3
Total financial assets designated at FVPL	210	-	-	-	(2)	-	-	12	-	-	220	3
Financial investments available-for-sale											-	
Other debt securities	623	34	(45)	-	-	43	(55)	-	23	13	636	-
Equities	35	33	(21)	-	-	-	(31)	-	12	-	28	-
Total financial investments available-for-sale	658	67	(66)	-	-	43	(86)	-	35	13	664	-
Total financial assets measured at fair value on a recurring basis	**1,939**	**276**	**(438)**	**119**	**(62)**	**79**	**(88)**	**156**	**35**	**(8)**	**2,008**	**37**
Financial liabilities											-	
Derivative financial instruments											-	
Interest rate options/futures	34	-	-	12	(23)	-	-	(5)	-	-	18	(3)
Credit derivatives contracts	45	-	-	12	(40)	-	-	(7)	-	(5)	5	(2)
Equity swap and options	24	-	-	21	(18)	-	-	(9)	-	(6)	12	(3)
Total derivative financial instruments	103	-	-	45	(81)	-	-	(21)	-	(11)	35	(8)
Total financial liabilities measured at fair value	**103**	**-**	**-**	**45**	**(81)**	**-**	**-**	**(21)**	**-**	**(11)**	**35**	**(8)**

48. Fair value measurement *continued*

48.10. Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The following table summarises the valuation techniques together with the significant unobservable inputs used to calculate the fair value of the Bank's Level 3 assets and liabilities. The range of values indicates the highest and lowest level input used in the valuation technique and, as such, only reflects the characteristics of the instruments as opposed to the level of uncertainty in their valuation. Relationships between unobservable inputs have not been incorporated in this summary.

IFRS 13.93(d)
IFRS 13.93h(i)
IFRS 13.IE63
IFRS 13.91(b)

	31 December 2018				31 December 2018				
	Fair Value of				Range of inputs				
					Full range of inputs		Core range of inputs		
In $ million	**Level 3 Assets**	**Level 3 Liabilities**	**Valuation technique**	**Significant unobservable inputs[1]**	**Low**	**High**	**Low**	**High**	**Unit**
Interest rate options/futures	50	67	Option model	Interest rate volatility	10	87	11	51	%
				Rate-to-rate correlation	81	96	84	92	%
				Intra-curve correlation	23	94	85	91	%
Credit derivatives contracts	107	4	Discounted projected cash flow including defaults and recoveries	Credit spreads	1	967	10	67	Basis points
				Recovery rates	-	92	78	91	%
				Credit index correlation	23	94	72	89	%
				Discount margin/spread	2	67	10	35	%
Equity options		11	Option model	Equity price volatility	2	123	8	32	%
				Equity dividend yields	-	45	2	65	%
Asset backed securities held for trading and fair value through profit and loss	549		Discounted projected cash flow	Prepayment rate	-	17	5	12	%
				Recovery rates	-	89	70	83	%
				Discount margin/spread	1	9	5	7	%
Other debt securities held for trading	550		Market proxy	Equivalent bond price/Market proxy	3	78	60	70	Basis points
Other debt securities classified as fair value through profit and loss	670		Market proxy	Equivalent bond price/Market proxy	4	72	50	62	Basis points
Equities[2]	149		Market proxy	Instrument Price					
Loans and receivables (designated and mandatory)	970		Discounted projected cash flow	Prepayment rate	-	10	4	7	%
				Recovery rates	-	99	89	95	%
				Discount margin/spread	1	18	3	8	%

[1] Description of the individual categories is provided in the following section.
[2] Given the wide range of diverse investments and the correspondingly large differences in prices, the Bank does not disclose the ranges as it believes it would not provide meaningful information without a full list of the underlying investments, which would be impractical.

48. Fair value measurement *continued*

48.10 Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions *continued*

	31 December 2017				31 December 2017				
	Fair Value of				Range of inputs				
					Full range of inputs		Core range of inputs		
In $ million	Level 3 Assets	Level 3 Liabilities	Valuation technique	Significant unobservable inputs	Low	High	Low	High	Unit
Interest rate options	38	18	Option model	Interest rate volatility	11	96	15	45	%
				Rate-to-rate correlation	84	96	84	93	%
				Intra-curve correlation	32	95	75	91	%
Credit derivatives contracts	405	5	Discounted projected cash flow including defaults and recoveries	Credit spreads	2	867	20	67	Basis points
				Recovery rates	-	93	79	91	%
				Credit index correlation	32	95	73	89	%
				Discount margin/spread	-	45	11	33	%
Equity options		12	Option model	Equity price volatility	3	112	11	31	%
				Equity dividend yields	2	65	3	65	%
Asset backed securities	210		Discounted projected cash flow	Prepayment rate	-	16	6	13	%
				Recovery rates	-	93	70	82	%
				Discount margin/spread	1	19	5	12	%
Other debt securities held for trading	471		Market proxy	Equivalent bond price/Market proxy	-	112	63	71	Basis points
Other debt securities classified as available-for-sale	636		Market proxy	Equivalent bond price/Market proxy	-	102	52	61	Basis points
Equities	28		Market proxy	Instrument Price					
Loans and receivables	220		Discounted projected cash flow	Prepayment rate	-	9	4	6	%
				Recovery rates	-	93	84	91	%
				Discount margin/spread	1	21	4	12	%

48. Fair value measurement continued

48.11. Quantitative analysis of significant unobservable inputs

Interest rate/equity price volatility

Volatility measures the expected future variability of a market price. It is generally quoted as a percentage; a higher number represents a more volatile instrument, for which larger swings in price (or interest rate) are expected. Volatility is a key input in option-based models and is used to estimate the future prices for the underlying instrument (e.g., equity or interest rate). Volatility varies per instrument and in time and therefore, it is not viable to make reliable and meaningful general statements about volatility levels. Certain volatilities, generally those relating to longer-term maturities are unobservable and are estimated by the Bank. Therefore, they are considered to be Level 3 inputs.

IFRS 13.92
IFRS 13.93(d)
IFRS 13.93(h)(i)
IFRS 13.IE66

Correlation

Correlation measures the inter-relationship of two variables in a given model. Correlation is expressed as a percentage, where 100% represents perfect correlation. Positive correlation implies the two variables move in the same direction, whilst negative correlation implies the two variables move in the opposite direction.

IFRS 13.92
IFRS 13.93(d)
IFRS 13.93(h)(i)
IFRS 13.IE66

Correlation may be unobservable, in which case, the Bank estimates it based on various inputs, including: consensus pricing services, the Bank's trade prices, proxy correlations and examination of historical price relationships. Proxy correlations are mainly the following:

- Rate-to-rate correlation represents correlation between interest rates in different currencies
- Intra-curve correlation represents correlation between different tenor points of the same curve
- Credit index correlation represents correlation between different indices across the various parts of the benchmark index structure
- Equity-to-equity correlation represents correlation between different equity instruments and is particularly important for equity derivatives where the underlying is unquoted and/or not actively traded

Credit spreads

The Bank differentiates between credit spreads (specific to credit derivative models) and discount margins/spreads (more widely used to any discounted cash flow type modes, as described below). Credit spreads reflect the credit quality of the underlying instrument, by reference to the applicable benchmark reference rates (LIBOR or Treasury/base rates). Credit spreads can be implied from market prices and are usually unobservable for illiquid or complex instruments.

IFRS 13.92
IFRS 13.93(d)
IFRS 13.93(h)(i)
IFRS 13.IE66

Discount margin/spreads

Discount margin/spreads represent the discount rates used when calculating the present value of future cash flows. In discounted cash flow models, such spreads are added to the benchmark rate when discounting the future expected cash flows. Hence, these spreads reduce the net present value of an asset or increase the value of a liability. They generally reflect the premium an investor expects to achieve over the benchmark interest rate to compensate for the higher risk driven by the uncertainty of the cash flows caused by the credit quality of the asset. They can be implied from market prices and are usually unobservable for illiquid or complex instruments.

IFRS 13.92
IFRS 13.93(d)
IFRS 13.93(h)(i)
IFRS 13.IE66

Recovery rates

Recovery rates reflect the estimated loss that the Bank will suffer given expected defaults. The recovery rate is given as a percentage and reflects the opposite of loss severity (i.e., 100% recovery reflects 0% loss severity). In line with general market convention, loss severity is applied to asset-backed securities while recovery rate is more often used as pricing input for corporate or government instruments. Higher loss severity levels / lower recovery rates indicate lower expected cash flows upon the default of the instruments. Recovery rates for complex, less liquid instruments are usually unobservable and are estimated based on historical data.

IFRS 13.92
IFRS 13.93(d)
IFRS 13.93(h)(i)
IFRS 13.IE66

Prepayment rates

Prepayment rates represent the expected future speed at which a loan portfolio will be repaid ahead of the contractual terms of the underlying loans. They are important inputs into valuation of asset-backed securities. When there is insufficient market data to provide observable rates, the Bank uses a variety of evidence such as rates from proxy portfolios or other macroeconomic modelling.

IFRS 13.92
IFRS 13.93(d)
IFRS 13.93(h)(i)
IFRS 13.IE66

48. Fair value measurement *continued*

48.11. Quantitative analysis of significant unobservable inputs *continued*

Equity dividend yields

IFRS 13.92
IFRS 13.93(d)

Equity dividend yields represent the expected future dividends and are usually expressed in annualised percentage terms. They are usually unobservable for less liquid instruments with little historical data.

IFRS 13.93(h)(i)
IFRS 13.IE66

Equivalent bond prices/market proxies

IFRS 13.92
IFRS 13.93(d)

When specific market prices are not available, the Bank uses market proxy pricing, i.e., instruments that have some characteristics in common with the instrument being valued. This may be a specific instrument, but more often the Bank uses inputs derived from evidence from a wider range of instruments. Given the nature of this approach, the actual range of prices used as inputs in a market proxy pricing methodology are usually quite wide. Therefore, the range is not indicative of the uncertainty associated with the fair value of the individual financial instrument.

IFRS 13.93(h)(i)
IFRS 13.IE66

48.12. Sensitivity of fair value measurements to changes in unobservable market data

The table below describes the effect of changing the significant unobservable inputs to reasonable possible alternatives. All changes except for debt instruments classified as available-for-sale would be reflected in the Income statement. Sensitivity data are calculated using a number of techniques, including analysing price dispersion of different price sources, adjusting model inputs to reasonable changes within the fair value methodology.

IFRS 13.93(h)(ii)

The ranges are not comparable or symmetrical as the model inputs are usually not in the middle of the favourable/unfavourable range.

The table below shows data in relation to Level 3 inputs that are already aggregated on the underlying product levels without assuming any potential diversification effect, but including potential off-sets from economic or accounting hedge relationships in place. The Bank is of the opinion that, whilst there may be some diversification benefits, incorporating these would not be significant to the analysis.

IFRS 13.93(h)(ii)

	31 December 2018		31 December 2017	
In $ million	**Favourable changes**	**Unfavourable changes**	**Favourable changes**	**Unfavourable changes**
Interest rate options	5	(8)	4	(7)
Credit derivatives contracts	20	(12)	12	(8)
Equity options	3	(1)	2	(1)
Asset backed securities	56	(97)	45	(87)
Other debt securities held for trading	24	(12)	12	(8)
Other debt securities classified as available-for-sale (reflected in OCI)	86	(52)	43	(34)
Equities	18	(14)	10	(10)
Total	**212**	**(196)**	**128**	**(155)**

Notes to the Financial Statements

48. Fair value measurement *continued*

48.13. Fair value of financial instruments not measured at fair value

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

IFRS 7.25
IFRS 13.97

31 December 2018	Carrying amount	Fair value			
In $ million		**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets:					
Cash and balances with central banks	3,207	2,363	844	-	3,207
Due from banks	10,618	9,060	1,682	-	10,742
Cash collateral on securities borrowed and reverse repurchase agreements	7,628	-	7,640	-	7,640
Loans and advances to customers					
Corporate lending	12,493	-	7,193	8,428	15,621
Small business lending	4,550	-	987	3,326	4,313
Consumer lending	17,816	-	-	16,894	16,894
Residential mortgages	13,065	-	-	11,861	11,861
Total loans and advances	47,924	-	8,180	40,509	48,689
Debt instruments at amortised cost	1,642	-	80	32	112
Total financial assets	**71,019**	**11,423**	**18,426**	**40,541**	**70,390**
Financial liabilities					
Due to banks	7,408	6,349	914	-	7,263
Cash collateral on securities lent and repurchase agreements	8,128	-	7,998	-	7,998
Due to customers	56,143	44,600	11,011	-	55,611
Debt issued and other borrowed funds	6,310	-	6,260	-	6,260
Total financial liabilities	**77,989**	**50,949**	**26,183**	**0**	**77,132**
Off-balance sheet items					
Financial guarantees	3,260	-	-	50	50
Letters of credit for customers	523	-	-	5	5
Other commitments	14,198	-	-	45	45
Total off-balance sheet items	**17,981**	**-**	**-**	**100**	**100**

48. Fair value measurement *continued*

48.13. Fair value of financial instruments not measured at fair value *continued*

IFRS 7.25
IFRS 13.97

31 December 2017	Carrying amount	Fair value			
In $ million		**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets:					
Cash and balances with central banks	2,814	2,040	774	-	2,814
Due from banks	10,489	9,560	961	-	10,521
Cash collateral on securities borrowed and reverse repurchase agreements	7,673	-	7,690	-	7,690
Loans and advances to customers					
Corporate lending	12,296	-	6,952	5,717	12,669
Small business lending	4,597	-	871	5,498	6,369
Consumer lending	17,538	-	-	17,298	17,298
Residential mortgages	12,732	-	-	12,941	12,941
Total loans and advances	47,163	-	7,823	41,454	49,277
Financial investments – held-to-maturity	127	-	76	24	100
Total financial assets	**68,266**	**11,600**	**17,512**	**41,478**	**70,402**
Financial liabilities					
Due to banks	7,319	6,780	151	-	6,931
Cash collateral on securities lent and repurchase agreements	8,221	-	8,156	-	8,156
Due to customers	56,177	47,950	8,000	-	55,950
Debt issued and other borrowed funds	4,192	-	5,128	-	5,128
Total financial liabilities	**75,909**	**54,730**	**21,435**	**-**	**76,165**
Off-balance sheet items					
Financial guarantees	3,084	-	-	45	45
Letters of credit for customers	589	-	-	4	4
Other commitments	13,740	-	-	56	56
Total Off-balance sheet items	**17,413**	**-**	**-**	**105**	**105**

48. Fair value measurement *continued*

48.14. Valuation methodologies of financial instruments not measured at fair value

IFRS 7.25
IFRS 13.97

Below are the methodologies and assumptions used to determine fair values for the above financial instruments which are not recorded and measured at fair value in the Bank's financial statements. These fair values were calculated for disclosure purposes only. The below methodologies and assumptions relate only to the instruments in the above tables and, as such, may differ from the techniques and assumptions explained in Notes 48.4 and 48.5.

Short-term financial assets and liabilities

IFRS 13.97
IFRS 7.29a

For financial assets and financial liabilities that have a short-term maturity (less than three months), the carrying amounts, which are net of impairment, are a reasonable approximation of their fair value. Such instruments include: cash and balances with central banks; due to and from banks; demand deposits; and savings accounts without a specific maturity. Such amounts have been classified as Level 1 on the basis that no adjustments have been made to the balances in the statement of financial position.

Cash collateral paid or received on securities borrowings/lending, repos/reverse-repos and derivative instruments

IFRS 13.97

The fair values of these instruments are estimated by a discounted cash flow model based on contractual cash flows using actual or estimated yields and discounting by yields incorporating the counterparties' credit risk.

Loans and advances to customers

IFRS 13.97

The fair values of loans and receivables are estimated by discounted cash flow models that incorporate assumptions for credit risks, foreign exchange risk, probability of default and loss given default estimates. Credit risk for large corporate and a subset of the small business lending, when appropriate, is derived from market observable data, such as credit default swaps or comparable traded debt. Where such information is not available, the Bank uses historical experience and other information used in its collective impairment models.

Fair values of consumer lending and mortgage portfolios are calculated using a portfolio-based approach, grouping loans as far as possible into homogenous groups based on similar characteristics. The Bank then calculates and extrapolates the fair value to the entire portfolio, using discounted cash flow models that incorporate interest rate estimates considering all significant characteristics of the loans. The credit risk is applied as a top-side adjustment based on the collective impairment model incorporating probability of defaults and loss given defaults.

Held-to-maturity instruments

IFRS 13.97

The fair values financial of held-to-maturity investments are estimated using a discounted cash flow model based on contractual cash flows using actual or estimated yields and discounting by yields incorporating the counterparties' credit risk.

Issued debt

IFRS 13.97

The fair value of issued debt is estimated by a discounted cash flow model incorporating the Bank's own credit risk. The Bank estimates and builds its own credit spread from market-observable data such as secondary prices for its traded debt and the credit spread on credit default swaps and traded debt of itself.

Off-balance sheet positions

IFRS 13.97

Estimated fair values of off-balance sheet positions are based on market prices for similar instruments or on discounted cash flow models, as explained above, which incorporate the credit risk element through the discount factor.

Commentary

IFRS 7.29(a) indicates that the carrying amounts may be a reasonable approximation of fair value for instruments with short-term maturities, especially when credit risk is negligible. We would encourage, in accordance with best market practice, the disclosure of information in accordance with IFRS 13.97 even though it may be argued that IFRS 7.29(a) provides exemption for such disclosures where the carrying amount approximates fair value.

Notes to the Financial Statements

49. Risk Management

This note describes the Bank risk management and is structured, as follows:

Commentary

The risk management disclosures included in these illustrative financial statements concentrate on the key quantitative requirements of IFRS 7 *Financial Instruments: Disclosures* and IFRS 7R. Certain entity-specific qualitative disclosures required by IFRS 7, IFRS 7R and the corresponding EDTF recommendations describing the Bank's corporate governance-, risk management-framework, systems and controls have been reflected in the *"Commentary" and "EDTF Commentary"* sections. Entities need to tailor these disclosures to reflect their circumstances. It is also beyond the mandate of this publication to recommend a best practice risk management framework and CRD IV/Basel 3 disclosures.

In practice, a more detailed explanation of risk management practices including the credit, liquidity, capital and funding, market and operational risk methodology, and the corresponding process and control framework applied by the entity, is required.

Notes to the Financial Statements

49. Risk Management *continued*

49.1. Overview of EDTF Principles

EDTF 1

EDTF Commentary

For a description of EDTF initiative and its key objectives, please refer to the Introduction.

Whilst it would impractical to provide an example for all the EDTF recommendations, the framework below indicates where such disclosures should be included.
EDTF 1 recommends that Banks have a reference table of the location of where the various recommendations are addressed.

49.2. Introduction and risk profile

EDTF Commentary

The following EDTF recommendations would generally be included in the introductory sections of banks' risk disclosures. Whilst we have included EDTF references to the relevant sections, in practice, a more detailed explanation of risk management practices is required, including the corresponding process and control framework applied by the entity including its governance, organisation and committee structure.

EDTF 2 Define the bank's risk terminology and risk measures and present key parameter values used.

EDTF 3 Describe and discuss top and emerging risks, incorporating relevant information in the bank's external reports on a timely basis. This should include quantitative disclosures, if possible, and a discussion of any changes in those risk exposures during the reporting period.

EDTF 4 Once the applicable rules are finalised, outline plans to meet each new key regulatory ratio, e.g. the net stable funding ratio, liquidity coverage ratio and leverage ratio and, once the applicable rules are in force, provide such key ratios.

EDTF 5 Summarise prominently the bank's risk management organisation, processes and key functions.

EDTF 6 Provide a description of the bank's risk culture, and how procedures and strategies are applied to support the culture.

EDTF 7 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.

EDTF 8 Describe the use of stress testing within the bank's risk governance and capital frameworks. Stress testing disclosures should provide a narrative overview of the bank's internal stress testing process and governance.

49. Risk Management *continued*

49.2 Introduction and risk profile *continued*

Good Bank is based in Goodland and has operations in Europe and the Rest of the World, as explained in Note 9 and Note 49.7.1. Whilst risk is inherent in the Bank's activities, it is managed through an integrated risk management framework, including ongoing identification, measurement and monitoring, and subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to country risk and various operating and business risks.

IFRS 7.31-34
IFRS 7.IG15(b)(i)
EDTF 2
EDTF 7

49.2.1. Risk management structure

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

EDTF 5
EDTF 6

The Board has appointed the Supervisory Board which is responsible for monitoring the overall risk process within the Bank and fulfils the responsibilities of the audit committee.

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. The Risk Committee is responsible for managing risk decisions and monitoring risk levels and reports to the Supervisory Board.

The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The unit works closely with and reports to the Risk Committee to ensure that procedures are compliant with the overall framework.

The Risk Controlling Unit is responsible for monitoring compliance with risk principles, policies and limits across the Bank. Each business group has its own unit which is responsible for the control of risks, including monitoring the actual risk of exposures against authorised limits and the assessment of risks of new products and structured transactions. It is the Bank's policy that this unit also ensures the complete capture of the risks in its risk measurement and reporting systems. The Bank's policy also requires that exceptions are reported on a daily basis, where necessary, to the Risk Committee, and the relevant actions are taken to address exceptions and any areas of weakness.

IFRS 7.IG15(c)

The Bank's Treasury is responsible for managing its assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank. The Bank's policy is that risk management processes throughout the Bank are audited annually by the Internal Audit function, which examines both the adequacy of the procedures and the Bank's compliance with them. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Supervisory Board.

49.2.2. Risk mitigation and risk culture

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

IFRS 7.IG15(b)(iii)

In accordance with the Bank's policy, its risk profile is assessed before entering into hedging transactions (as disclosed in Note 49.2), which are authorised by the appropriate level of seniority within the Bank. The effectiveness of hedges is assessed by the Risk Controlling Unit (based on economic considerations rather than the IFRS hedge accounting regulations). The effectiveness of all the hedge relationships is monitored by the Risk Controlling Unit on a monthly basis. It is the Bank's policy that in situations of ineffectiveness, it will enter into a new hedge relationship to mitigate risk on a continuous basis.

IFRS 7.IG15(b)(iv)
EDTF 6

The Bank actively uses collateral to reduce its credit risks (see below).

Commentary

IFRS 7 requires an entity to make both qualitative and quantitative disclosures of the risks arising from its financial instruments. The qualitative disclosures include the types of risk to which the entity is exposed and how they arise, the entity's objectives, policies and processes for managing the risk, the methods used to measure the risks, and any changes from the previous period. The quantitative disclosures include summary data about the exposure to risk as at the reporting date. These disclosures must be either given in the financial statements or incorporated by cross-reference from the financial statements to other disclosed information, such as a management documentary or risk report, that is available to users of the financial statements on the same terms and at the same time as the financial statements.

If, for example, the information is provided in the risk report, then the reporting entity should clarify, in the financial statements, which sections of the risk report form an integral part of the financial statements.

49. Risk Management continued

EDTF Commentary

EDTF 5 and EDTF 6 generally include a detailed picture of the various defence lines of the reporting entity (such as business line, risk, internal audit, external audit, etc.) as well as management and executive committees including credit, asset and liability, independent price verification committees. As set out in the EDTF report, 'Enhancing the risk disclosures of banks', "Listed below are examples of elements that could be included in descriptions of risk culture:

- the Board's role in the oversight of corporate culture;
- a statement of the organisation's objectives for the risk culture it wishes to develop and nurture;
- the inclusion of risk culture goals in key policies such as the organisation's:
- code of conduct;
- code of ethics and employee manual;
- how risk culture is communicated, through both formal and informal channels and how management defines and communicates its desired 'tone from the top';
- risk training;
- examples of challenge mechanisms used by members of the organisation to raise risk issues such as review processes, committee structures, escalation procedures and interactions between business lines and risk officers;
- a description of how the accountability for risk at all levels is promoted within the organisation;
- the treatment of violations or breaches of risk limits, risk tolerance or risk appetite, or of failures to meet risk-culture expectations, and description of the escalation procedures;
- how risk-based compensation policies are used to reinforce the organisation's risk culture; and
- how risk-based Key Performance Indicators (or personnel evaluation criteria) may be used to measure culture, and which types of employees are covered." (*Report of the Enhanced Disclosure Task Force*, 29 October 2012)

49.2.3. Risk measurement and reporting systems

The Bank's risks are measured using a method that reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst-case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur. *IFRS 7.IG15(b)(ii)*

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank's policy is to measure and monitor the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities. *EDTF 2*

Information compiled from all of the businesses is processed in order to analyse, control and identify risks on a timely basis. This information is presented and explained to the Board of Directors, the Risk Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, VaR, liquidity ratios and risk profile changes. On a monthly basis, detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Supervisory Board receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

At all levels of the Bank's operations, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up–to–date information.

49. Risk Management *continued*

It is the Bank's policy to give a daily briefing to the Board of Directors and all other relevant members of the Bank on the utilisation of market limits, analysis of VaR, proprietary investments and liquidity, plus any other risk developments.

Stress testing is a fundamental pillar of the Bank's risk management toolkit, to simulate various economic stress scenarios to help the Bank set and monitor risk appetite and ensure that the Bank maintains a conservative risk profile. The outcome of tests is embedded into the individual credit, liquidity and funding risk profiles through limits and mitigation contingency plans and includes both financial and regulatory measures. *EDTF 8*

EDTF Commentary

In practice, compliance with recommendation EDTF 8 would require further qualitative and quantitative descriptions of the reporting entity's stress testing strategies. "The EDTF recommends that banks, at a minimum, provide narrative disclosures of aspects of their stress testing programmes, including

- explanations of aspects such as:
- stress testing methodologies;
- the process for integrating stress testing with the bank's risk governance and capital
- frameworks;
- scenario selection, including key assumptions related to macroeconomic drivers;
- material portfolios subject to review and portfolio-specific factors subject to stress testing; and
- high level qualitative indication of the results of stress scenarios on the bank's capital ratios (e.g. with a statement such as 'Common equity tier 1 capital levels remained above our regulatory minimum target level in our severe case stress scenario').

The EDTF notes that, as a matter of emerging leading practice, a number of banks have begun to incorporate discussions of stress testing in their annual reports, including high level discussions of regulatory and management scenarios and management frameworks. Some examples of the subject matter for these disclosures are suggested below:

- Banks could describe stress testing scenarios and assumptions across risks, the treatment of large, concentrated exposures, economic value and capital measures, and how these measures are used within the risk governance and economic capital frameworks. Banks could provide such information at a level of detail that is sufficient to convey financial performance under extreme, but plausible events without disclosing commercially sensitive or confidential information.
- Banks could discuss methodologies and the impact of any comprehensive enterprise-wide risk-based stress tests performed simultaneously across all positions (traded, non-traded, pension, other) and interrelated risk categories (funding, liquidity and credit).
- Banks could provide an index or link to the results of the EBA, Federal Reserve or other regulatory stress tests along with their related disclosures under Pillar 3."

(*Report of the Enhanced Disclosure Task Force*, 29 October 2012)

EDTF 6

It is the Bank's policy to ensure that a robust risk awareness is embedded in its organisational risk culture. Employees are expected to take ownership and be accountable for the risks the Bank is exposed to that they decide to take on. The Bank's continuous training and development emphasises that employees are made aware of the Bank's risk appetite and they are supported in their roles and responsibilities to monitor and keep their exposure to risk within the Bank's risk appetite limits. Compliance breaches and internal audit findings are important elements of employees' annual ratings and remuneration reviews.

49.3. Risk governance and risk management strategies and systems

IFRS 7.IG15

Commentary

IFRS 7 requires an entity to make both qualitative and quantitative disclosures of the risks arising from its financial instruments. The qualitative disclosures include: the types of risk to which the entity is exposed and how they arise; the entity's objectives; policies and processes for managing the risk; the methods used to measure the risks; and any changes from the previous period. The quantitative disclosures include summary data about the exposure to risk as at the reporting date. These disclosures must be either given in the financial statements or incorporated by cross-reference from the financial statements to other disclosed information, such as a management documentary or risk report, that is available to users of the financial statements on the same terms and at the same time as the financial statements.

49. Risk Management continued

49.3 Risk governance and risk management strategies and systems *continued*

Commentary *continued*

As explained in the introductory section, these disclosures are entity-specific and may reflect local regulatory and legislative requirements, therefore, we have not provided these for Good Bank's financial statements.

EDTF commentary

EDTF 5
EDTF 6

In the financial statements (potentially under the *Risk governance and risk management strategies and systems* section) ,we would expect entities to address the following EDTF recommendations:

EDTF 5 Summarise prominently the bank's risk management organisation, processes and key functions.

EDTF 6 Provide a description of the bank's risk culture, and how procedures and strategies are applied to support the culture.

EDTF 7 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.

EDTF 8 Describe the use of stress testing within the bank's risk governance and capital frameworks. Stress testing disclosures should provide a narrative overview of the bank's internal stress testing process and governance.

EDTF 5 and EDTF 6 would generally include a detailed picture of the various defence lines of the reporting entity (such as business line, risk, internal audit, external audit, etc.) as well as management and executive committees including credit, asset and liability, independent price verification committees. The EDTF publication listed the following points to be considered:

"Listed below are examples of elements that could be included in descriptions of risk culture:

- the Board's role in the oversight of corporate culture;
- a statement of the organisation's objectives for the risk culture it wishes to develop and nurture;
- the inclusion of risk culture goals in key policies such as the organisation's:
- code of conduct;
- code of ethics and employee manual;
- how risk culture is communicated, through both formal and informal channels and how management defines and communicates its desired 'tone from the top';
- risk training;
- examples of challenge mechanisms used by members of the organisation to raise risk issues such as review processes, committee structures, escalation procedures and interactions between business lines and risk officers;
- a description of how the accountability for risk at all levels is promoted within the organisation;
- the treatment of violations or breaches of risk limits, risk tolerance or risk appetite, or of failures to meet risk-culture expectations, and description of the escalation procedures;
- how risk-based compensation policies are used to reinforce the organisation's risk culture; and
- how risk-based Key Performance Indicators (or personnel evaluation criteria) may be used to measure culture, and which types of employees are covered." (*Report of the Enhanced Disclosure Task Force*, 29 October 2012)

With regard to the new ECL method, EDTF 5 also requires entities to disclose how the risk management organisation, processes and key functions have been organised to run the ECL approach:

- Consider highlighting how credit practices and policies form the basis for ECL calculations.

49. Risk Management continued

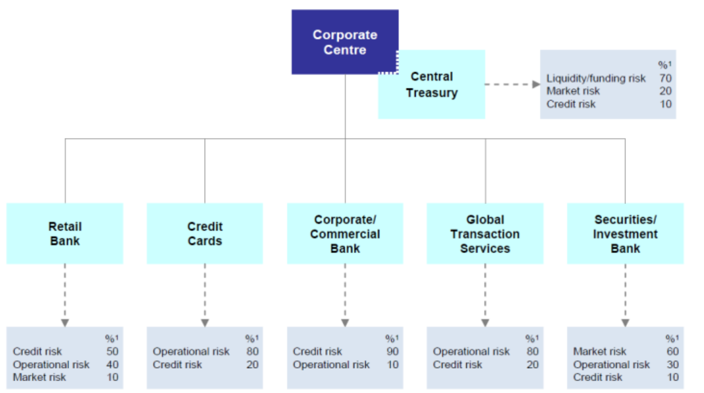
49.3. Risk governance and risk management strategies and systems continued

EDTF 8

EDTF commentary cont'd

When referring to EDTF 7, the EDTF explains that "A business model describes how an organisation creates, delivers, and captures value (economic, social, or other forms of value). The essence of a business model is that it defines the manner by which the business enterprise delivers value to customers and converts that value into profit. It describes how an enterprise is organised to best meet customer needs, be paid for doing so and make a profit." (Report of the Enhanced Disclosure Task Force, 29 October 2012). The report on page 14 provides the following example:

Figure 1. *Example of a business model and the key risks*



This example reflects a bank that addresses all funding and hedging needs in the Central Treasury.

Note:

1 The aim is to provide an indication or relative measure of each key risk for each major element of the business model based on management's view of the risk profile of the business area. Therefore, this indication will vary for each bank. Possible ways of providing the indication or relative measure are based on an allocation of RWAs, regulatory or economic capital.

In their financial statements, entities are required to address EDTF 8 regarding the qualitative and quantitative descriptions of the reporting entity's stress testing strategies. "The EDTF suggests that banks, at a minimum, provide narrative disclosures of aspects of their stress testing programmes, including explanations of aspects such as:

- stress testing methodologies;
- the process for integrating stress testing with the bank's risk governance and capital
- frameworks;
- scenario selection, including key assumptions related to macroeconomic drivers;
- material portfolios subject to review and portfolio-specific factors subject to stress testing; and
- high-level qualitative indication of the results of stress scenarios on the bank's capital ratios (e.g. with a statement such as 'Common equity tier 1 capital levels remained above our regulatory minimum target level in our severe case stress scenario')."

The EDTF notes that, as a matter of emerging leading practice, a number of banks have begun to incorporate discussions of stress testing in their annual reports, including high level discussions of regulatory and management scenarios and management frameworks. Some examples of the subject matter for these disclosures are suggested below:

- Banks could describe stress testing scenarios and assumptions across risks, the treatment of large, concentrated exposures, economic value and capital measures, and how these measures are used within
  the risk governance and economic capital frameworks. Banks could provide such information at a level of detail that is sufficient to convey financial performance under extreme, but plausible events without disclosing commercially sensitive or confidential information.
- Banks could discuss methodologies and the impact of any comprehensive enterprise-wide risk-based stress tests performed simultaneously across all positions (traded, non-traded, pension, other) and interrelated risk categories (funding, liquidity and credit).
- Banks could provide an index or link to the results of the EBA, Federal Reserve or other regulatory stress tests along with their related disclosures under Pillar 3." (*Report of the Enhanced Disclosure Task Force, 29 October 2012*)"

Further recommendations regarding the ECL models are outlined in the EDFT document published on 7 December 2015.

49. Risk Management *continued*

49.3.1. Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. *IFRS 7.IG15(c)*

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Bank to manage risk concentrations at both the relationship and industry levels.

49.4. Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits. *IFRS 7.33(a),(b)*

Credit risk is monitored by the credit risk department of the Bank's independent Risk Controlling Unit. It is their responsibility to review and manage credit risk, including environmental and social risk for all types of counterparties. Credit risk consists of line credit risk managers who are responsible for their business lines and manage specific portfolios and experts who support both the line credit risk manager, as well as the business with tools like credit risk systems, policies, models and reporting.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective actions.

49.4.1. Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the statement of financial position. In the case of credit derivatives, the Bank is also exposed to, or protected from, the risk of default of the underlying entity referenced by the derivative. However, to reflect potential losses, the Bank applies portfolio-based debit and credit value adjustments, as explained in Note 48.5. *EDTF 29*

With gross-settled derivatives, the Bank is also exposed to a settlement risk, being the risk that the Bank honours its obligation, but the counterparty fails to deliver the counter value.

49.4.2. Credit-related commitments risks

The Bank makes available to its customers guarantees that may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

49.4.3. Impairment assessment (Policy applicable from 1 January 2018)

The references below show where the Bank's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the *Summary of significant accounting policies*.

- The Bank's definition and assessment of default and cure (Note 49.4.3.1).
- An explanation of the Bank's internal grading system (Note 49.4.3.2)
- How the Bank defines, calculates and monitors the probability of default, exposure at default and loss given default) (Notes 49.4.3.2,49.4.3.3 and 49.4.3.4 respectively)
- When the Bank considers there has been a significant increase in credit risk of an exposure (Note 49.4.3.5)
- The Bank's policy of segmenting financial assets where ECL is assessed on a collective basis (Note: 49.4.3.6)
- The details of the ECL calculations for Stage 1, Stage 2 and Stage 3 assets (Note: 7.12.2).

49. Risk Management continued

49.4. Credit risk continued

49.4.3. Impairment assessment (Policy applicable from 1 January 2018) continued

49.4.3.1. Definition of default and cure IFRS 7R.35F(b)(d)

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

EDFT 2, 27
IFRS 7R.B8A
IFRS 7R.35G(a),(iii)
IFRS 7 Appendix A
IFRS 9.B5.5.36,37
IFRS 7R.B8A
IFRS 7R.35G(a)(iii)
IFRS 7 Appendix A

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Bank
- The borrower having past due liabilities to public creditors or employees
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Bank
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition. The Bank's criterion for 'cure' for ECL purposes is less stringent than the 24 months requirement for forbearance which is explained in Note 7.15. IFRS 7F.B8.A(c)

Commentary

We only chose six months for the ECL cure period so as to be able to demonstrate the required disclosure of such movements in 2018. In practice, such periods are likely to be longer.

49.4.3.2. The Bank's internal rating and PD estimation process IFRS 7.33(b)

The Bank's independent Credit Risk Department operates its internal rating models. The Bank runs separate models for its key portfolios in which its customers are rated from 1 to 25 using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. Where practical, they also build on information from Good Rating Agency. These information sources are first used to determine the probability of defaults (PDs) within the Bank's Basel III framework. The internal credit grades are assigned based on these Based III grades. PDs are then adjusted for IFRS 9 ECL calculations to incorporate forward looking information and the IFRS 9 Stage classification of the exposure. This is repeated for each economic scenarios as appropriate.

EDTF commentary EDTF 2

To comply with EDTF 2, banks that derive their IFRS 9 PDs from Basel III PDs, need to explain in detail how those PDs are developed. The EDTF guidance on ECL suggests that such differences between the regulatory and financial reporting methods that are likely to be relevant include:

- the use of floors, such as those that may apply to Basel measures to mitigate the risk of underestimating credit losses due to a lack of historical data;
- downturn adjustments, such as those that may apply to Basel measures, consistent with losses expected to be suffered during a severe but plausible economic downturn;
- time horizons, i.e. the differences between 12-month and life time expectations and any differences in the time period and interest rates used for discounting.

49. Risk Management continued

49.4. Credit risk continued

49.4.3. Impairment assessment (Policy applicable from 1 January 2018) continued

49.4.3.2. The Bank's internal rating process continued

Treasury, trading and interbank relationships

The Bank's treasury, trading and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank's credit risk department analyses publicly available information such as financial information and other external data, e.g., the rating of Good Rating Agency, and assigns the internal rating, as shown in the table below.

Corporate and small business lending

For corporate and investment banking loans, the borrowers are assessed by specialised credit risk employees of the Bank. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or CDS prices or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The complexity and granularity of the rating techniques varies based on the exposure of the Bank and the complexity and size of the customer. Some of the less complex small business loans are rated within the Bank's models for retail products.

Consumer lending and retail mortgages

Consumer lending comprises unsecured personal loans, credit cards and overdrafts. These products along with retail mortgages and some of the less complex small business lending are rated by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing
- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing

The Bank's internal credit rating grades

IFRS 7R.IG20C

Internal rating grade	Internal rating description	12 month Basel III PD range	Good Rating Agency's rating (when applicable)
Performing			
1-2	High grade	0.00%-0.06%	Very good+
3	High grade	0.06%-0.1%	Very Good
4	High grade	0.10%-0.50%	Very Good-
5-7	Standard grade	0.50%-0.90%	Good+
8-9	Standard grade	0.90%-1.5%	Good
10-12	Standard grade	1.5%-3.00%	Good-
13-15	Standard grade	3.2%-6.1%	Average+
16	Standard grade	6.1%-11.7%	Average
17-18	Sub-standard grade	11.7%-25.20%	Average-
18-19	Sub-standard grade	25.20%-29.5%	Bad+
20-21	Past due but not impaired	29.5%-50%	Bad
22-24	Past due but not impaired	50%-100%	Bad-
Non- performing			
25	Individually impaired	100%	Very bad

Commentary

IFRS 7R.IG20C

This disclosure would need to be repeated for each asset class and operating segment as appropriate.

49. Risk Management continued

49.4. Credit risk continued

49.4.3. Impairment assessment (Policy applicable from 1 January 2018) continued

49.4.3.2. The Bank's internal rating process continued

EDTF commentary

Following EDTF 15, PDs, LGDs and EADs might not be used by banks for measuring expected credit losses for all of their portfolios. Disclosures consistent with the table above are only relevant for balances where PDs, LGDs and EADs are used to calculate expected credit losses. If other approaches to measuring ECL are used, it would be helpful to analyse the balance sheet total between the different approaches used. Consideration should be given to how best to describe and analyse calculations using other approaches. *EDTF 15*

EDTF 15 requires entities to tabulate credit risk in the banking book, showing average probability of default (PD) and loss given default (LGD) as well as exposure at default (EAD), total Risk-Weighted Assets (RWA) and RWA density for Basel asset classes and major portfolios within the Basel asset classes at a suitable level of granularity based on internal ratings grades. For non-retail banking book credit portfolios, internal ratings grades and PD bands should be mapped against external credit ratings and the number of PD bands presented should match the number of notch-specific ratings used by credit rating agencies. Following EDTF 15 guidelines, PDs, LGDs and EADs might not be used by banks for measuring expected credit losses for all their portfolios. Disclosures consistent with the table above are only relevant for balances where PDs, LGDs and EADs are used to calculate ECLs. If other approaches for measuring ECL are used, it would be helpful to analyse the balance sheet total between the different approaches used. Consideration should be given to how best to describe and analyse calculations using other approaches. *EDTF 15*

The table below is an example of how an entity could provide credit quality disclosures for accounting purposes on a similar basis to those in recommendation 15 of the EDTF 2012 report. The example is taken from the EDTF ECL Guidance (page 17).

31 December 2018 *EDTF 15*

Internal rating grade under IFRS 9	Internal rating classification under IAS 39	12 month Basel III PD range	External rating equivalent	Exposure at default	Average 12 month Basel III PDs	Average LGD	RWAs	Average risk weighting
				$ million	%	%	$ million	%
Performing								
1-2	High grade	0.00%-0.06%	Very good+	X	X	X	X	X
				X	X	X	X	X
3	High grade	0.06%-0.1%	Very Good	X	X	X	X	X
4	High grade	0.10%-0.50%	Very Good-	X	X	X	X	X
5-7	Standard grade	0.50%-0.90%	Good+	X	X	X	X	X
8-9	Standard grade	0.90%-1.5%	Good	X	X	X	X	X
10-12	Standard grade	1.5%-3.00%	Good-	X	X	X	X	X
13-15	Standard grade	3.2%-6.1%	Average+	X	X	X	X	X
16	Standard grade	6.1%-11.7%	Average	X	X	X	X	X
17-18	Sub-standard grade	11.7%-25.20%	Average-	X	X	X	X	X
18-19	Sub-standard grade	25.20%-29.5%	Bad+	X	X	X	X	X
20-21	Past due but not impaired	29.5%-50%	Bad	X	X	X	X	X
22-24	Past due but not impaired	50%-100%	Bad-	X	X	X	X	X
				X			**X**	
Non- performing								
25	Individually impaired	100%	Very bad	X	X	X	X	X
Total				**X**			**X**	

49. Risk Management continued

49.4. Credit risk continued

49.4.3. Impairment assessment (Policy applicable from 1 January 2018) continued

49.4.3.3. Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. EAD for credit cards and other revolving facilities is set out in Note 7.12.5.

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

49.4.3.4. Loss given default

For corporate and investment banking financial instruments, LGD values are assessed at least every three months by account managers and reviewed and approved by the Bank's specialised credit risk department. The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the group. The Bank estimates regulatory and IFRS 9 LGDs on a different basis. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI IFRS 9 segment of each asset class. The inputs for these LGD rates are *IFRS 7R.35F(c)*
estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

49.4.3.5. Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a *IFRS 7R.35F (f)*
portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant *IFRS 9.5.5.9*
increase in credit risk since initial recognition. The Bank considers an exposure to have significantly increased in credit risk when the IFRS 9 lifetime PD has doubled since initial recognition and has increased by more than 20 bps a year.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Bank may also consider that events explained in Note 49.4.3.5 are a significant increase in credit *IFRS 9.5.5.11*
risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets (as set out in Note 49.4.3.6), the Bank *EDTF 2*
applies the same principles for assessing whether there has been a significant increase in credit risk since initial *IFRS 9.B5.5.3*
recognition.

Commentary
Banks could also elect to identify the presence of a significant increase in credit risk of an exposure differently based on their circumstances and risk management policies.

49. Risk Management continued

49.4. Credit risk continued

49.4.3. Impairment assessment (Policy applicable from 1 January 2018) continued

49.4.3.6. Grouping financial assets measured on a collective basis

EDTF 3

IFRS 7R.35F(c)

As explained in Note 7.12.1 dependant on the factors below, the Bank calculates ECLs either on a collective or an individual basis.

Asset classes where the Bank calculates ECL on an individual basis include:

- All Stage 3 assets, regardless of the class of financial assets
- The Corporate lending portfolio
- The large and unique exposures of the Small business lending portfolio
- The treasury, trading and interbank relationships (such as Due from Banks, Cash collateral on securities borrowed and reverse repurchase agreements and debt instruments at amortised cost/FVOCI
- Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result of a credit driven debt restructuring

Asset classes where the Bank calculates ECL on a collective basis include:

- The smaller and more generic balances of the Bank's Small business lending
- Stage 1 and 2 Retail mortgages and Consumer lending
- Purchased POCI exposures managed on a collective basis

The Bank groups these exposure into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, as described below:

For retail mortgages these are:

EDFT 2
EDTF 5

- Product type (buy to let/owner occupied)
- Property type (prime, standard grade, low grade)
- Geographic location
- Loan-to-value ratios
- Internal grade
- Exposure value

For consumer lending these are:

- Product type (overdraft, unsecured personal loan, credit card, etc.)
- Internal grade
- Geographic location/residence of the borrower
- Utilisation
- In the case of credit cards, whether or not borrowers repay their balances in full every month
- Exposure value

For small business lending these are:

- Borrower's industry
- Internal credit grade
- Geographic location
- Exposure value
- Collateral type

Commentary/EDTF commentary

We would expect entities to disclose reasonably detailed information about their practice of grouping financial assets into smaller homogenous portfolios. The example provided above is for illustrative purposes only and needs to be tailored to reflect to reporting entity's risk management policies particularly entities wishing to comply with EDTF 2 and 5.

49. Risk Management continued

49.4. Credit risk continued

49.4.4. Analysis of inputs to the ECL model under multiple economic scenarios per geographic regions

An overview of the approach to estimating ECLs is set out in Note 7.12 and in Note 8.1. To ensure completeness and accuracy, the Bank obtains the data used from third party sources (Good Rating Agency, Goodland Economist Society, etc.) and a team of economists within its Credit Risk Department verifies the accuracy of inputs to the Bank's ECL models including determining the weights attributable to the multiple scenarios. The following tables set out the key drivers of expected loss and the assumptions used for the Bank's base case estimate, ECLs based on the base case, plus the effect of the use of multiple economic scenarios for each of the four geographical segments, as at 31 December 2017 and 2018. *IFRS 7R.35G(a)*

The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations. The figures for "Subsequent years" represent a long-term average and so are the same for each scenario.

Commentary

For sensitivity and multiple scenario analysis, we have only provided disclosures for one geographic segment and generic examples/considerations for key drivers/inputs to the models. Entities will need to tailor disclosures to their circumstances and replicate disclosure for multiple geographic segments and/or industries.

Some of the informationpresented in this section may also be presented, as permitted by IFRS 7.35C, in the Director's Report or in the Management Discussion and Analysis (MD&A) part of the Annual Report, provided that the information is audited and adequately cross-referenced in the financial statements.

49.4.4.1. Goodland

31 December 2018

IFRS 7R.35G(a)
EDTF 2
EDTF 3

Key drivers	ECL Scenario	Assigned Probabilities	2019	2020	2021	2022	2023	Subsequent years
		%	%	%	%	%	%	%
GDP growth %								
	Upside	30	2.6	2.8	2.8	2.38	2.9	2.3
	Base case	40	2.2	2.3	2.3	2.8	2.4	2.3
	Downside 1	15	2.1	1.6	0.9	1.2	1.7	2.3
	Downside 2	15	0.5	(0.5)	(1.0)	0.0	1.4	2.3
Unemployment rates %								
	Upside	30	4.1	4.2	4.3	4.3	4.4	4.8
	Base case	40	5.5	5.8	5.6	5.4	5.2	4.8
	Downside 1	15	6.1	7.2	6.8	6.1	5.3	4.8
	Downside 2	15	7.0	8.3	7.8	7.3	5.5	4.8
Central Bank base rates %								
	Upside	30	2.79	2.8	2.56	2.4	2.3	2.2
	Base case	40	2.5	2.50	2.40	2.31	2.20	2.20
	Downside 1	15	2.30	2.10	2.00	2.10	2.10	2.20
	Downside 2	15	2.10	1.80	1.90	2.00	2.10	2.20
House price index %								
	Upside	30	0.9	1.5	2.3	3.0	2.84	2.7
	Base case	40	0.5	1.06	1.5	2.0	2.4	2.7
	Downside 1	15	(0.5)	(0.6)	0.7	1.9	2.3	2.7
	Downside 2	15	(1.5)	(1.4)	(0.6)	1.5	2.5	2.7

Commentary

Figures in the entire section are provided for illustrative purposes. There is no specific requirement in the standard to provide this level of detail, but by giving it, users of the financial statements will have a better understanding of the Bank's key judgements. In practice, further indicators such as commodity prices currency rates, government budget deficits, or consumer price indices, may be appropriate in some circumstances.

The Bank has projected economic indicators for five years ahead before reverting to a long-term average.

49. Risk Management continued

49.4. Credit risk continued

49.4.4. Analysis of inputs to the ECL model under multiple economic scenarios per geographic regions cont'd

49.4.4.1. Goodland continued

1 January 2018

IFRS 7R.35G(a)
EDTF 2
EDTF 3

Key drivers	ECL Scenario	Assigned Probabilities	2018	2019	2020	2021	2022	Subsequent years
		%	%	%	%	%	%	%
GDP growth								
	Upside	30	3.1	2.9	2.8	2.6	2.5	2.3
	Base case	40	0,7	1.0	1.5	1.7	1.9	2.3
	Downside 1	15	0.2	0.5	2.1	2.1	2.3	2.3
	Downside 2	15	(0.40)	(1.70)	(1.0)	1.2	2.0	2.3
Unemployment rates								
	Upside	30	4.6	4.4	4.3	4.5	4.7	4.8
	Base case	40	5.4	5.2	5.1	4.9	4.9	4.8
	Downside 1	15	6.0	6.3	6.0	5.7	5.3	4.8
	Downside 2	15	6.5	7.3	7.0	6.2	5.7	4.8
Central Bank base rates								
	Upside	30	2.80	2.70	2.60	2.40	2.30	2.20
	Base case	40	2.60	2.50	2.40	2.30	2.20	2.20
	Downside 1	15	2.50	2.00	1.90	2.00	2.10	2.20
	Downside 2	15	2.30	2.21	2.10	2.00	2.10	2.20
House price index								
	Upside	30	1.4	1.9	3.3	3.1	2.9	2.7
	Base case	40	1.0	1.5	1,9	2.2	2.5	2.7
	Downside 1	15	0.0	0.8	1,5	1.9	2.3	2.7
	Downside 2	15	(0.5)	0.5	1.0	1.7	2.1	2.7

Commentary

IFRS is silent on the level of disclosure that should be provided for the opening balances on the adoption of IFRS 9 on 1 January 2018. However, providing similar disclosures for the opening balances would provide useful information for the users of the financial statements, to show how forecasts can change over the course of the year and to help explain the movement in ECLs for the year. The inclusion of four different scenarios is not mandated by the standard.

Since the beginning of the year, as the Bank has reassessed the key economic indicators used in its ECL models, the expected GDP growth rate over the next few years has been revised downwards, given the slowdown of Goodland's economy. Unemployment and house price assumptions follow a similar trend. Central Bank base rates have also been revised downwards for the short term, as part of the governmental response. Long-term expectations remain unchanged.

IAS 1.129
IFRS 7.35G(c)

49. Risk Management continued

49.4. Credit risk continued

49.4.4. Analysis of inputs to the ECL model under multiple economic scenarios per geographic regions continued

49.4.4.1. Goodland continued

The following tables outline the impact of multiple scenarios on the allowance: *IAS 1.125 EDTF 3*

31 December 2018 In $ million	Due from Banks	Debt instruments at FVOCI	Debt instruments at amortised cost	Corporate lending	Small business lending	Consumer lending	Retail mortgages	Financial guarantees	Letters of credit	Undrawn commitments to lend	Total
Upside (30%)	13	6	7	89	57	107	90	32	7	23	**431**
Base case (40%)	24	14	15	196	125	232	132	55	15	48	**856**
Downside 1 (15%)	12	7	7	94	60	102	57	24	7	22	**392**
Downside 2 (15%)	20	11	13	162	105	147	85	33	9	33	**618**
Total	**69**	**38**	**42**	**541**	**347**	**588**	**364**	**144**	**38**	**126**	**2,297**

1 January 2018 In $ million	Due from Banks	Debt instruments at FVOCI	Debt instruments at amortised cost	Corporate lending	Small business lending	Consumer lending	Retail mortgages	Financial guarantees	Letters of credit	Undrawn commitments to lend	Total
Upside (30%)	12	11	6	84	53	103	80	31	7	23	**410**
Base case (40%)	24	23	11	155	92	227	113	44	13	46	**748**
Downside 1 (15%)	11	10	6	76	47	99	43	22	6	21	**341**
Downside 2 (15%)	14	12	9	122	78	137	70	28	6	31	**507**
Total	**61**	**56**	**32**	**437**	**270**	**566**	**306**	**125**	**32**	**121**	**2,006**

Commentary

The above format is not mandated by the standard. In this presentation, the contribution of each scenario is shown multiplied by the corresponding probability weighting. An alternative presentation might show the ECLs based on the base scenario multiplied by a 100% weighting and the marginal contributions to the total due to each of the three alternative scenarios.

In relation to the sensitivity analysis disclosures required by IAS 1.125 and 1.129, in its ECL publication, the EDTF highlights the following:

"Sensitivity disclosures can provide useful quantitative information when they are meaningful and relevant to understanding how credit losses can change materially. This is most likely to be for portfolios where an individual risk parameter has a significant impact on the overall credit risk of the portfolio, particularly where these sensitivities are included in information that is used for internal decision making and risk management purposes by key management, the board or the board's risk committee. *EDTF 8 EDTF 3 IAS 1.125 IAS 1.129*

"The complexity of ECL calculations means that a change in any individual parameter is often associated with correlated changes in other factors. Banks should consider whether it is helpful to disclose sensitivities to individual parameters if correlated changes in other factors would render the disclosure less informative. An alternative would be to model a different reasonably possible economic scenario, which would include changes in multiple underlying parameters. Modelling such an alternative economic scenario would require a much broader and more complex analysis of interrelated factors. This would be more akin to a stress test. Related considerations in relation to stress testing disclosures under an ECL approach are set out under EDTF recommendation 8."

49. Risk Management continued

49.4. Credit risk continued

49.4.4. Analysis of inputs to the ECL model under multiple economic scenarios continued

Commentary

The disclosures given for Goodland's economy above would need to be provided for all geographic regions in which the Bank operates. At a minimum, these should mirror the segment disclosures (for Good Bank these are: Europe, Americas, Asia Pacific). However, in certain circumstances, further breakdown may be necessary. For the purpose of this publication, we have only provided illustrative disclosures for Goodland.

49.4.4.2. Europe

Commentary

The disclosures on the previous pages would need to be replicated here for Europe.

49.4.4.3. Americas

Commentary

The disclosures on the previous pages would need to be replicated here for the Americas.

49.4.4.4. Asia Pacific

Commentary

The disclosures on the previous pages would need to be replicated here for Asia Pacific.

49. Risk Management continued

49.4. Credit risk continued

49.4.5. Vintage analysis *EDTF 26*

EDTF commentary

EDTF 26 requires the entity to provide a vintage analysis, in which it enhances the understanding of the credit risk exposures, particularly when there is a lending portfolio with heightened credit risk, and the period in which it was originated has a bearing on the extent of that credit risk and the resulting ECLs.

49.4.6. Quantitative analysis of the reliability of the information used to calculate the ECL allowance *EDTF 24*

EDTF commentary

Banks are encouraged to provide disclosures for the ECL calculations similar to those recommended by EDTF 24 for market risk. EDTF 24 encourages entities to provide qualitative and quantitative disclosures that describe significant market risk measurement model limitations, assumptions, validation procedures, use of proxies, changes in risk measures and models through time, along with back-testing and the reasons for back-testing exceptions, and how these results are used to enhance the parameters of the model.

For ECLs, back testing should focus on the models' calibration to changes in key parameters, such as the effect of a 1% increase in unemployment, as opposed to how accurately the entity has estimated the future economy.

49.4.7. Model adjustments

EDTF commentary *EDTF 2*

EDTF 2 recommends entities to provide an explanation of the use and nature of material additional adjustments which are used to capture factors not specifically embedded in the models used. While many adjustments are part of the normal modelling process (e.g., to adjust PDs as defined for capital purposes to accounting requirements or to incorporate forward-looking information), management may determine that additional, post-modelling adjustments are needed to reflect macro-economic or other factors which are not adequately addressed by the current models. Such adjustments would result in an increase or decrease in the overall ECLs.

49.4.8. Impact on regulatory capital *EDTF 8* *EDTF 9*

EDTF commentary

The new ECL approach will affect regulatory capital resources and, hence, regulatory capital ratios. Banks should consider disclosing the impact that the revised accounting allowance for credit losses has on regulatory capital, including any strategic changes expected by management, to the extent the impact is material.

EDTF 8 states that Banks should describe the use of stress testing of their regulatory capital adequacy within the bank's risk governance and capital frameworks. Stress testing disclosures should provide a narrative overview relevant to the reporting entity. Additionally, entities may need to describe the relationship, if any, between regulatory stress testing and the implementation of ECL accounting requirements. Given the significant developments in stress testing in certain jurisdictions over the last few years, banks are encouraged by the EDTF to re-evaluate the disclosures in their annual reports and consider how they could be linked to other disclosures made around credit risk and regulatory capital requirements, to help users better understand the risk factors to which the business is exposed. Any links between the regulatory stress testing methodology, assumptions and those used within the ECL models also need to be explained. *EDTF 8*

An example of a comparison between the PDs, LGDs and overall capital requirements and ECLs is shown below:

	Corporate lending		Small business lending		Consumer lending		Residential mortgages	
	Capital	ECL	Capital	ECL	Capital	ECL t	Capital	ECL
PD average %	x	X	x	x	x	x	x	x
LGD average %	x	X	x	x	x	x	x	x
Allowance	x	X	x	x	x	x	x	x

EDTF 4 also recommends entities to outline plans to meet each new key regulatory ratio (i.e., how the business will be run differently) the net stable funding ratio, liquidity coverage ratio and leverage ratio and, once the applicable rules are in force, such key ratios need to be provided. *EDTF 4* *EDTF 12*

In addition, entities need to disclose the quantitative impact that ECLs will have on regulatory capital.

EDTF 12 recommends entities to qualitatively and quantitatively discuss capital planning, including:

- An explanation of how ECL requirements are anticipated to have an impact on capital planning
- Any strategic changes expected by management to the extent the impact is material (in particular, in meeting capital adequacy requirements)
- For unclear or not yet fully determined regulatory requirements, the effects of such uncertainty and the effects of any regulatory capital transition reliefs.

49. Risk Management continued

49.4. Credit risk continued

49.4.9. Overview of modified and forborne loans

Commentary

'Forbearance' is not an IFRS term, although its concept is based on IAS 39.59(c) and IFRS 9.5.5.12. As a result of the technical guidance published by the European Banking Authority (EBA), Banks with significant European operations started to use the terminology in their financial statements. Detailed disclosures on the next two pages are beyond the requirements of IFRS 9, IAS 39, and IFRS 7. However, given the EBA requirements, we have included disclosures by class, which may be analysed further by geographical region or industry sector.

From a risk management point of view, once an asset is forborne or modified, the Bank's special department for distressed assets continues to monitor the exposure until it is completely and ultimately derecognised.

IFRS 7R.35F (f)(i)-(ii)
IFRS 7R.B8B

The table below includes Stage 2 and 3 assets that were modified and, therefore, treated as forborne during the period, with the related modification loss suffered by the Bank.

IAS 1.77
IFRS 7R.35J(a)

In $ million	**2018**
Amortised costs of financial assets modified during the period	231
Net modification loss	(9)

The table below shows the gross carrying amount of previously modified financial assets for which loss allowance has changed to 12mECL measurement during the period:

IFRS 7R.35J(b)
IFRS 7R.35F (f)(i)-(ii)
IFRS 7R.B8B

31 December 2018

In $ million	**Post modification**		**Pre-modification**	
	Gross carrying amount	**Corresponding ECL**	**Gross carrying amount**	**Corresponding ECL**
Facilities that have cured since modification and are now measured using 12mECLs (Stage 1)	98	2	120	6
Facilities that reverted to (Stage 2/3) LTECLs having once cured	23	1	22	2

Commentary

IFRS 7.B8B states, "To assist users of financial statements in evaluating an entity's restructuring and modification policies, paragraph 35F(f)(ii) of IFRS7R requires the disclosure of information about how an entity monitors the extent to which the loss allowance on financial assets previously disclosed in accordance with paragraph 35F(f)(i) are subsequently measured at an amount equal to lifetime expected credit losses in accordance with paragraph 5.5.3 of IFRS 9. Quantitative information that will assist users in understanding the subsequent increase in credit risk of modified financial assets may include information about modified financial assets meeting the criteria in paragraph 35F(f)(i) for which the loss allowance has reverted to being measured at an amount equal to lifetime expected credit losses (i.e., a deterioration rate)." The paragraph is complemented by IFRS 7R.35J(b), which requires disclosure of the gross carrying amount of assets that have been modified when measured using LTECLs and, for which, the loss allowance has changed during the reporting period to 12mECLs.

In 2018, given that the Bank only implemented the new approach as of the beginning of the year, we would not normally expect significant amounts arising from the above sources and any discussion may be better addressed by a narrative disclosure. However, the Bank has elected to provide the information in the tabular illustrated format above.

49. Risk Management continued

49.4. Credit risk continued

49.4.9. Overview of modified and forborne loans continued

The following tables provide a summary of the Bank's forborne assets. Accounting policies for forbearance are described in Note 7.16.

EDTF 28

31 December 2018

In $ million	Gross carrying amount	Stage 2: Temporary modification to T&Cs[1]	Stage 2: Permanent modification to T&Cs	Stage 2: Refinancing	Stage 2: Total performing forborne loans	Stage 3: Temporary modification to T&Cs	Stage 3: Permanent modification to T&Cs	Stage 3: Refinancing	Stage 3: Total non-performing forborne loans	Total forborne loans	Forbearance ratio[2]
Due from banks	**10,687**	-	-	-	-	-	-	-	-	-	**0%**
Loans and advances to customers											
Corporate lending	12,883	842	168	65	1,075	324	130	168	622	1,697	**13.17%**
Small business lending	4,787	158	32	12	202	61	24	32	117	319	**6.66%**
Consumer lending	18,402	806	161	62	1,029	310	124	161	595	1,624	**8.83%**
Residential mortgages	13,692	620	124	48	792	238	95	124	457	1,249	**9.12%**
Total loans and advances to customers	**49,764**	**2,426**	**485**	**187**	**3,098**	**933**	**373**	**485**	**1,791**	**4,889**	**9.82%**

EDTF 28

31 December 2018

In $ million	Gross amount of forborne loans: Stage 2	Gross amount of forborne loans: Stage 3	Gross amount of forborne loans: Total	ECLs of forborne loans: Stage 2 Individual	ECLs of forborne loans: Stage 2 Collective	ECLs of forborne loans: Stage 3 Individual	ECLs of forborne loans: Stage 3 Collective	ECLs of forborne loans: Total
Due from banks	-	-			-	-		**-**
Loans and advances to customers								
Corporate lending	1,075	622	1,697	34	-	56	-	**90**
Small business lending	202	117	319	7	16	23	22	**68**
Consumer lending	1,029	595	1,624	-	3	-	4	**7**
Residential mortgages	792	457	1,249	-	42	-	5	**47**
Total loans and advances to customers	**3,098**	**1,791**	**4,889**	**41**	**61**	**79**	**31**	**212**

[1] Terms and conditions.

[2] Total forborne loans/Gross Carrying amount.

49. Risk Management continued

49.4. Credit risk continued

49.4.9. Overview of forborne loans continued

The following tables provide a summary of the Bank's forborne assets as of 31 December 2017. Accounting policies for forbearance are described in Note 7.16.

EDTF 28

31 December 2017

In $ million	Gross carrying amount	Performing portfolio: Temporary modification to T&Cs[1]	Performing portfolio: Permanent modification to T&Cs	Performing portfolio: Refinancing	Performing portfolio: Total performing forborne loans	Non-performing portfolio: Temporary modification to T&Cs	Non-performing portfolio: Permanent modification to T&Cs	Non-performing portfolio: Refinancing	Non-performing portfolio: Total non-performing forborne loans	Total forborne loans	Forbearance ratio[2]
Due from banks	**10,542**	-	-	-	-	-	-	-	-	-	**0%**
Loans and advances to customers											
Corporate lending	12,452	933	166	64	1,163	318	187	166	671	1,834	**14.59%**
Small business lending	4,752	154	31	12	197	59	24	36	119	316	**6.65%**
Consumer lending	17,883	790	158	61	1,009	304	122	172	598	1,607	**8.83%**
Residential mortgages	13,075	605	121	47	773	267	93	121	481	1,254	**9.47%**
Total loans and advances to customers	**48,162**	**2,482**	**476**	**184**	**3,142**	**948**	**426**	**495**	**1,869**	**5,011**	**10.28%**

31 December 2017

In $ million	Gross amount of forborne loans: Performing	Gross amount of forborne loans: Non-performing but not impaired	Gross amount of forborne loans: Non-performing and impaired	Gross amount of forborne loans: Total	Impairment allowance of forborne loans: Specific allowance	Impairment allowance of forborne loans: Collective allowance	Impairment allowance of forborne loans: Total
Due from banks	-	-			-	-	-
Loans and advances to customers							
Corporate lending	1,163	427	244	1,834	34	52	86
Small business lending	197	-33	152	316	22	42	64
Consumer lending	1,009	562	36	1,607	5	4	9
Residential mortgages	773	194	287	1,254	39	5	44
Total loans and advances to customers	**3,142**	**1,150**	**719**	**5,011**	**100**	**103**	**203**

[1] Terms and conditions.
[2] Total forborne loans/Gross carrying amount.

49. Risk Management continued

49.4. Credit risk continued

49.4.10. Analysis of risk concentration

The Bank's concentrations of risk are managed by client/counterparty, geographical region (see Note 49.7.1) and industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2018 was $352 million (2017: $373 million), before taking into account collateral or other credit enhancements and $97 million (2017: $102 million) net of such protection.

IFRS 7.IG18(d)
IFRS 7.36(b)
IFRS 7.B8

Commentary

IFRS 7.34 requires certain quantitative disclosures on concentrations of risk similar to information provided internally to the key management personnel of an entity (as defined in IAS 24) if not apparent within the other IFRS 7 disclosures. The Bank provides disclosures on concentration of risk by industry below, and also by geography within its Country Risk disclosure in Note 49.7.

The following table shows the risk concentration by industry for the components of the statement of financial position. Additional disclosures for credit quality and the maximum exposure for credit risk per categories based on the Bank's internal credit rating system and year-end stage classification are further disclosed in Notes 24.1, 25.2, 32.1, 31.1 and 38.1.1.

IFRS 7.34

49.4.10.1. Industry analysis

31 December 2018 **In $ million**	**Financial Services**	**Government**	**Consumers**	**Retail and Wholesale**	**Const-ruction**	**Oil and Gas**	**Services**	**Total**
Financial assets								
Cash and Balances with Central Banks	-	3,207	-	-	-	-	-	**3,207**
Due from banks	8,604	2,014	-	-	-	-	-	**10,618**
Cash collateral on securities borrowed and reverse repurchase agreements	7,628	-	-	-	-	-	-	**7,628**
Derivative financial instruments	6,154	-	326	-	242	644	107	**7,473**
Financial assets held for trading	1,753	6,178	-	-	-	286	-	**8,217**
Financial assets designated at fair value through profit or loss	1,139	-	-	-	-	127	-	**1,266**
Debt instruments at fair value through OCI	3,311	2,132	431	86	342	643	456	**7,401**
Debt instruments at amortised cost	-	1,642	-	-	-	-	-	**1,642**
Loans and advances to customers								
Corporate lending	624	-	-	-	6,096	3,748	1,874	**12,342**
Small business lending	227	-	-	3,077	272	455	409	**4,440**
Consumer lending	1,782	-	16,032	-	-	-	-	**17,814**
Residential mortgages	1,306	-	12,022	-	-	-	-	**13,328**
	3,939	-	28,054	3,077	6,368	4,203	2,283	**47,924**
	32,528	**15,173**	**28,811**	**3,163**	**6,952**	**5,903**	**2,846**	**95,376**
Financial guarantees	-	-	-	1,201	848	1,211	-	**3,260**
Letters of credit for customers	-	-	-	221	102	200	-	**523**
Other commitments	89	1,211	1,011	1,341	3,786	5,621	1,139	**14,198**
	89	**1,211**	**1,011**	**2,763**	**4,736**	**7,032**	**1,139**	**17,981**
	32,617	**16,384**	**29,822**	**5,926**	**11,688**	**12,935**	**3,985**	**113,357**

49. Risk Management continued

49.4. Credit risk continued

49.4.10. Analysis of risk concentration continued

49.4.10.1. Industry analysis continued

31 December 2017 In $ million	Financial Services	Government	Consumers	Retail and Wholesale	Const-ruction	Oil and Gas	Services	Total
Financial assets								
Cash and balances with Central Bank	-	2,814	-	-	-	-	-	**2,814**
Due from banks	10,489	-	-	-	-	-	-	**10,489**
Cash collateral on securities borrowed and reverse purchase agreements	6,138	1,535	-	-	-	-	-	**7,673**
Derivative financial instruments	6,129	-	-	-	305	609	101	**7,144**
Financial assets held for trading	1,743	6,161	-	-	-	279	-	**8,183**
Financial investments available-for-sale	3,241	6,411	1,136	268	-	-	-	**11,056**
Financial assets designated at fair value through profit or loss	1,116	-	-	-	-	125	-	**1,241**
Loans and advances to customers								**-**
Corporate lending	614	-	-	-	6,025	3,689	1,844	**12,172**
Small business lending	230	-	-	3,218	276	460	413	**4,597**
Consumer lending	1,754	-	15,784	-	-	-	-	17,538
Residential mortgages	1,273	-	11,583	-	-	-	-	**12,856**
	3,871	-	27,367	3,218	6,301	4,149	2,257	**47,163**
Financial investments held-to-maturity	102	-	-	-	-	25	-	**127**
	32,829	**16,921**	**28,503**	**3,486**	**6,606**	**5,187**	**2,358**	**95,890**
Financial guarantees	-	-	-	1,151	813	1,120	-	**3,084**
Letters of credit for customers	-	-	-	197	159	233	-	**589**
Other commitments	89	1,211	1,011	1,341	3,786	5,163	1,139	**13,740**
	89	**1,211**	**1,011**	**2,689**	**4,758**	**6,516**	**1,139**	**17,413**
	32,918	**18,132**	**29,514**	**6,175**	**11,364**	**11,703**	**3,497**	**113,303**

49 Risk Management continued

49.4. Credit risk continued

49.4.10. Analysis of risk concentration continued

49.4.10.2. Credit quality per segments, industry and asset classes

EDTF commentary

In connection with EDTF 26, Banks are recommended to provide information that facilitates users' understanding of the bank's credit risk profile, including any significant risk concentrations. "This should include a quantitative summary of aggregate credit risk exposures that reconciles to the balance sheet, including detailed tables for both retail and corporate portfolios that segment them by relevant factors. The disclosure should also incorporate credit risk likely to arise from off-balance sheet commitments by type".

As highlighted in the EDTF publication on ECL application:

"On an ongoing basis, disclosures could break down portfolios by geography, line of business, product, credit quality and vintage.

As specific risks emerge, banks should consider providing separate disclosures segmented for the affected lending. Such emerging risks could relate to a specific territory, industry or type of lending. Any disclosure provided should be designed to highlight the relevant risks. Banks should ensure that such disclosures are removed as the identified risks diminish."

Credit risk exposure analysis

IFRS 7R.35M
IFRS 7R.B8H
EDTF 26

December 31 2018	Stage 1 Individual	Stage 1 Collective	Stage 2 Individual	Stage 2 Collective	Stage 3	POCI	Total
Per portfolio							
Debt instruments at FVOCI	x	x	x	x	x	x	x
Debt instruments at amortised cost	x	x	x	x	x	x	x
Due from banks	x	x	x	x	x	x	x
Cash collateral on securities borrowed and reverse repurchase agreements	x	x	x	x	x	x	x
Loans and advances	x	x	x	x	x	x	x
corporate lending	x	x	x	x	x	x	x
small business lending	x	x	x	x	x	x	x
consumer lending	x	x	x	x	x	x	x
residential mortgages	x	x	x	x	x	x	x
Financial guarantees	x	x	x	x	x	x	x
Letters of credit	x	x	x	x	x	x	x
Undrawn commitments to lend	x	x	x	x	x	x	x
Per industry segment(*)							
Financial services	x	x	x	x	x	x	x
Government	x	x	x	x	x	x	x
Consumers	x	x	x	x	x	x	x
Retail and wholesale	x	x	x	x	x	x	x
Construction	x	x	x	x	x	x	x
Oil and gas	x	x	x	x	x	x	x
Services	x	x	x	x	x	x	x
Per region							
Goodland	x	x	x	x	x	x	x
Europe	x	x	x	x	x	x	x
Americas	x	x	x	x	x	x	x
Asia	x	x	x	x	x	x	x

(*) Includes financial assets measured at FVOCI and also financial assets measured amortised cost.

49. Risk Management continued

49.4. Credit risk continued

49.4.11. Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. *EDTF 30* *IFRS 7R.B8G*

The main types of collateral obtained are, as follows: *IFRS 7.36(b)*

- For securities lending and reverse repurchase transactions, cash or securities *IFRS 7.IG22(b)*
- For corporate and small business lending, charges over real estate properties, inventory and trade receivables and, in special circumstances, government guarantees
- For retail lending, mortgages over residential properties

The Bank also obtains guarantees from parent companies for loans to their subsidiaries. *IFRS 7.IG22(c)*

Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement. *IFRS 7.IG22(a)*

In its normal course of business, the Bank engages external agents to recover funds from repossessed properties or other assets in its retail portfolio, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the balance sheet and not treated as non-current assets held for sale. *IFRS 7.38(a)-(b)*

For its derivative portfolio, the Bank also makes use of master netting agreements and other arrangements not eligible for netting under IAS 32 *Financial Instruments: Presentation* with its counterparties. Such arrangements provide for single net settlement of all financial instruments covered by the agreements in the event of default on any one contract. Although, these master netting arrangements do not normally result in an offset of balance-sheet assets and liabilities (as the conditions for offsetting under IAS 32 may not apply), they, nevertheless, reduce the Bank's exposure to credit risk, as shown in the tables on the following pages. *IFRS 7.IG22(b)* *IFRS 7.B11F* *IAS 32.50*

Although master netting arrangements may significantly reduce credit risk, it should be noted that the credit risk is eliminated only to the extent of amounts due to the same counterparty. *IFRS 7.36(b)*

It is the Bank's policy to maximise the use of the services of Goodland Clearing House, in which case, balances are derecognised as explained in Note 7.9.

EDTF 30

EDTF commentary

EDTF 30 requires to provide qualitative information on credit risk mitigation, including collateral held for all sources of credit risk and quantitative information where meaningful. Collateral disclosures should be sufficiently detailed to allow an assessment of the quality of collateral. Disclosures should also discuss the use of mitigants to manage credit risk arising from market risk exposures (i.e., the management of the impact of market risk on derivatives counterparty risk) and single name concentrations.

The EDTF highlighted in its 29 October 2012 report that:

"The tools available to manage credit risk include hedging and sales activities, forbearance, netting arrangements, guarantees and collateral. Banks could explain how they use these and other tools with reference to their appetite for credit risk in general and to quantitative limits in particular.

Banks could disclose the use of mitigants (collateral, guarantees, swaps, insurance, etc.) to manage credit risk arising from market risk and credit risk exposures (such as single name concentrations). For example, certain risk mitigants such as CDSs can be used to reduce primary exposure to a sovereign or large corporate borrower while increasing exposure to the financial institution providing the mitigant. Where relevant, this could be discussed. Derivatives disclosure could also include a discussion of how the operational risk of collateralisation is managed.

Qualitative disclosure could address banks' practices for obtaining collateral, the frequency of valuation for different types of collateral, whether an inhouse or an external valuer is employed, the use of indices and how future cash flows are estimated. Examples might include whether the collateral is property, secured against sub-prime property, real-estate development or income-producing real estate, or first or second lien, if the loan is a mortgage. Significant market risk inherent within assets held as collateral could also be disclosed."

49. Risk Management continued

49.4. Credit risk continued

49.4.11. Collateral and other credit enhancements continued

IFRS 7.36(a)-(b)
IFRS 7R.35K(a)-(b)
IFRS 7R.B9-B10

EDTF commentary

IFRS 7.36(a) and IFRS 7R.35K(a) clarify that further disclosure of the amount that represents the maximum exposure to credit risk is needed only for financial assets whose carrying amount does not already reflect the maximum exposure to credit risk. This would generally mean that financial instruments such as financial guarantees and letters of credit may be required to be disclosed, but other financial assets such as derivatives and loans and advances may not require disclosure.

Furthermore, IFRS 7.36(b) and IFRS 7R.35K(b) require, for all financial assets, disclosure of the financial effect of collateral held as security and other credit enhancements (i.e., a quantification of the extent to which collateral mitigates credit risk).

The Bank has disclosed both of the above in the same table to show the full effect of the financial asset's related collateral for each class of financial asset, including financial assets that have no collateral.

The 'collateral and credit enhancements held' format below is the most informative and includes the fair value of all collateral on a gross basis (i.e., including the fair value of collateral even where it exceeds the maximum credit risk of the asset to which it relates, with a further column to show the surplus collateral (i.e., the excess fair value over the maximum credit risk on individual assets)). Other formats that may be appropriate include showing only the effect of collateral by asset class net of any surplus collateral. Furthermore, the requirement to disclose the effect of collateral is understood by some banks as not necessarily requiring a quantitative measure. This approach is likely to be more common where the Bank does not expect to rely upon the collateral in order to recover the asset. In either case, the Bank should also describe its methodology for determining the fair value of collateral somewhere within the notes of the accounts. The Bank discloses this information in Note 49.4.11. Please also refer to the EDTF 30 commentary below.

For 2018 disclosures, IFRS 7R.B8F, IFRS 7R.B8G and IFRS 7R.B9-B10 provide additional guidance.

Disclosure of credit quality and the maximum exposure for credit risk per categories based on the Bank's internal credit rating system and year-end stage classification are further disclosed in Notes 24.1, 25.2, 32.1, 31.1 and 38.1.1.

IFRS 7.36(a)

The tables on the following pages show the maximum exposure to credit risk by class of financial asset. They also show the total fair value of collateral, any surplus collateral (the extent to which the fair value of collateral held is greater than the exposure to which it relates), and the net exposure to credit risk.

49. Risk Management continued

49.4. Credit risk continued

49.4.11. Collateral and other credit enhancements continued

IFRS 7R35K(a)-(c)
IFRS 7.36(a)-(b)
IFRS 7R.B9-10

Type of collateral or credit enhancement		**Fair value of collateral and credit enhancements held**									
31 December 2018 **In $ million**	**Maximum exposure to credit risk**	**Cash**	**Securities**	**3rd party/gov guarantees**	**Property**	**Other**	**Offsetting agreements**	**Surplus collateral**	**Total collateral**	**Net exposure**	**Associated ECLs**
Financial assets											
Cash and balances with central banks	3,207	-	-	-	-	-	-	-	-	**3,207**	**-**
Due from banks	10,618	-	-	-	-	-	1,871	-	1,871	**8,747**	**69**
Cash collateral on securities borrowed and reverse repurchase agreements	7,628	-	8,321	-	-	-	-	(693)	7,628	**-**	**6**
Loans and advances to customers											
Corporate lending	12,342	-	2,044	410	7,508	1,433	1,587	(1,480)	11,502	**840**	**541**
Small business lending	4,440	-	-	380	3,789	1,500	299	(2,489)	3,479	**961**	**347**
Consumer lending	17,814	-	-	-	-	3,205	2,465	(328)	5,342	**12,472**	**588**
Residential mortgages	13,328	-	-	-	14,970		1,190	(6,900)	9,260	**4,068**	**364**
	47,924	-	2,044	790	26,267	6,138	5,541	(11,197)	29,583	**18,341**	**1,840**
Debt instruments at amortised cost	1,642	-	-	-	-	-	-	-	-	**1,642**	**42**
Total financial assets at amortised cost	**71,019**	**-**	**10,365**	**790**	**26,267**	**6,138**	**7,412**	**(11,890)**	**39,082**	**31,937**	**1,957**
Derivative financial instruments	7,473	3,305	-	-	-	-	3,325	-	6,630	**843**	**N/A**
Financial assets held for trading[1]	10,531	-	-	-	300	218	-	-	518	**10,013**	**N/A**
Financial assets at fair value through profit or loss[1]	1,966	-	-	-	-	420	-	-	420	**1,546**	**N/A**
Total financial instruments at fair value through profit or loss[1]	**19,970**	**3,305**	**-**	**-**	**300**	**638**	**3,325**	**-**	**7,568**	**12,402**	**N/A**
Debt instruments at fair value through OCI	7,401		-	-	-	-	-	-	-	**7,401**	**38**
Total debt instruments at fair value through OCI	7,401	-	-	-	-	-	-	-	-	**7,401**	**38**
	98,390	**3,305**	**10,365**	**790**	**26,567**	**6,776**	**10,737**	**(11,890)**	**46,650**	**51,740**	**1,995**
Financial guarantees	3,260	-	-	-	-	-	-	-	-	**3,260**	**144**
Letters of credit for customers	523	85	-	-	-	-	-	-	85	**438**	**38**
Other commitments	14,198	-	-	-	-	-	-	-	-	**14,198**	**126**
	17,981	**85**	**-**	**-**	**-**	**-**	**-**	**-**	**85**	**17,896**	**308**
	116,371	**3,390**	**10,365**	**790**	**26,567**	**6,776**	**10,737**	**(11,890)**	**46,735**	**69,636**	**2,303**

[1] Excluding equity instruments

49. Risk Management continued

49.4. Credit risk continued

49.4.11. Collateral and other credit enhancements continued

The below tables provide an analysis of the current fair values of collateral held and credit enhancements for stage 3 assets. Dependent on the level of collateral, some Stage 3 exposures may not have individual ECLs when the expected value of the collateral is greater than the LGD, even in if the future value of collateral is forecast using multiple economic scenarios. However, the Stage 3 ECL can be higher than net exposure show below when the future value of collateral, measured using multiple economic scenarios, is expected to decline. *IFRS 7R.35K(b)(iii)*

IFRS 7R35K(c)

Type of collateral or credit enhancement		Fair value of collateral and credit enhancements held under the base case scenario								
31 December 2018 In $ million	**Maximum exposure to credit risk**	**Securities**	**3rd party/gov guarantees**	**Property**	**Other**	**Offsetting agreements**	**Surplus collateral**	**Total collateral**	**Net exposure**	**Associated ECL**
Due from banks	64	-	-	-	-	12	-	12	**52**	**56**
Loans and advances to customers										
Corporate lending	343	12	8	89	52	36	(12)	185	**158**	**167**
Small business lending	205	-	2	65	31	12	(2)	108	**97**	**109**
Consumer lending	567	-	-	-	187	23	-	210	**357**	**101**
Residential mortgages	415	-	-	389	-	-	(54)	335	**80**	**85**
	1,530	12	10	543	270	71	(68)	838	**692**	**462**
Debt instruments at amortised cost	38	-	-	-	-	-	-	-	**38**	**5**
Total financial assets at amortised cost	**1,632**	**12**	**10**	**543**	**270**	**83**	**(68)**	**850**	**782**	**523**
Debt instruments at fair value through OCI	52	-	-	-	-	-	-	-	**52**	**23**
	1,684	**12**	**10**	**543**	**270**	**83**	**(68)**	**850**	**834**	**546**
Other commitments	275	-	-	-	-	-	-	-	**275**	**26**
	1,959	**12**	**10**	**543**	**270**	**83**	**(68)**	**850**	**1,109**	**572**

IFRS 7R35K(c)

Type of collateral or credit enhancement		Fair value of collateral and credit enhancements held under the base case scenario								
1 January 2018 In $ million	**Maximum exposure to credit risk**	**Securities**	**3rd party/gov guarantees**	**Property**	**Other**	**Offsetting agreements**	**Surplus collateral**	**Total collateral**	**Net exposure**	**Associated ECL**
Due from banks	63	-	-	-	-	12	-	12	**51**	**52**
Loans and advances to customers										
Corporate lending	415	12	8	124	96	36	(12)	264	**151**	**142**
Small business lending	208	-	2	82	31	12	(2)	125	**83**	**89**
Consumer lending	481	-	-	-	177	33	-	210	**271**	**112**
Residential mortgages	302	-	-	288	-	-	(50)	238	**64**	**68**
	1,406	12	10	494	304	81	(64)	837	**569**	**411**
Debt instruments at amortised cost	51	-	-	-	-	-	-	-	**51**	**5**
Total financial assets at amortised cost	**1,520**	**12**	**10**	**494**	**304**	**93**	**(64)**	**849**	**671**	**468**
Debt instruments at fair value through OCI	70	-	-	-	-	-	-	-	**70**	**40**
	1,590	**12**	**10**	**494**	**304**	**93**	**(64)**	**849**	**741**	**508**
Other commitments	267	-	-	-	-	-	-	-	**267**	**34**
	1,857	**12**	**10**	**494**	**304**	**93**	**(64)**	**849**	**1,008**	**542**

49. Risk Management continued

49.4. Credit risk *continued*

49.4.11. Collateral and other credit enhancements continued

IFRS 7.36(a)-(b)

Type of collateral or credit enhancement

31 December 2017 In $ million	Maximum exposure to credit risk	Fair value of collateral and credit enhancements held: Cash	Securities	3rd party/gov guarantees	Property	Other*	Offsetting agreements	Surplus collateral	Total collateral	Net exposure
Financial assets										
Cash and balances with central banks	2,814	-	-	-	-	-	-	-	-	**2,814**
Due from banks	10,489	-	-	-	-	-	1,787	-	1,787	**8,702**
Cash collateral on securities borrowed and reverse repurchase agreements	7,673	-	8,847	-	-	-	-	(1,174)	7,673	**-**
Loans and advances to customers										
Corporate lending	12,172	-	2,023	310	7,608	1,409	1,555	(1,490)	11,415	**757**
Small business lending	4,597	-	-	390	2,590	1,623	302	(2,409)	2,496	**2,101**
Consumer lending	17,538	-	-	-	-	3,109	2,465	(346)	5,228	**12,310**
Residential mortgages	12,856	-	-	-	14,023	-	1,186	(6,750)	8,459	**4,397**
	47,163	-	2,023	700	24,221	6,141	5,508	(10,995)	27,598	**19,565**
Total loans and receivables	**68,139**	**-**	**10,870**	**700**	**24,221**	**6,141**	**7,295**	**(12,169)**	**37,058**	**31,081**
Derivative financial instruments	7,144	3,105	-	-	-	-	3,296	-	6,401	**743**
Financial assets held for trading[1]	8,183	285	-	-	285	201	-	-	771	**7,412**
Financial assets at fair value through profit or loss[1]	1,241	-	-	-	-	309	-	-	309	**932**
Total financial instruments at fair value through profit or loss[1]	**16,568**	**3,390**	**-**	**-**	**285**	**510**	**3,296**	**-**	**7,481**	**9,087**
Financial investments – available for sale	12,304	3,890	-	-	-	-	-	-	3,890	**8,414**
Total financial investments – available for sale	**12,304**	**3,890**	**-**	**-**	**-**	**-**	**-**	**-**	**3,890**	**8,414**
Financial investments held to maturity	127	-	-	-	-	-	-	-	-	**127**
Total financial investments held to maturity	127	-	-	-	-	-	-	-	-	**127**
	97,138	**7,280**	**10,870**	**700**	**24,506**	**6,651**	**10,591**	**(12,169)**	**48,429**	**48,709**
Financial guarantees	3,084	-	-	-	-	-	-	-	-	**3,084**
Letters of credit for customers	589	72	-	-	-	-	-	-	72	**517**
Other commitments	13,740	-	-	-	-	-	-	-	-	**13,740**
	17,413	**72**	**-**	**-**	**-**	**-**	**-**	**-**	**72**	**17,341**
	114,551	**7,352**	**10,870**	**700**	**24,506**	**6,651**	**10,591**	**(12,169)**	**48,501**	**66,050**

[1] Excluding equity instruments

49. Risk Management continued

49.4. Credit risk continued

49.4.11.1. Credit exposure loan to value ratios of consumer lending and mortgage portfolios

The tables below summarise the Bank's retail portfolio (gross values of mortgages and consumer lending) loan-to-value (LTV) ratios :

IFRS 7.33

31 December 2018

In $ million	0-30%	30-60%	60-90%	90-100%	100-120%	120-%	Total
Owner Occupied Mortgages	567	2,537	5,221	2,541	31	26	**10,923**
Buy-to-Let Mortgages	-	1,487	906	376	-	-	**2,769**
Consumer Lending	15,677	1,334	1,391	-	-	-	**18,402**
	16,244	**5,358**	**7,518**	**2,917**	**31**	**26**	**32,094**

IFRS 7.33
IFRS 7.IG23(d)

31 December 2017

In $ million	0-30%	30-60%	60-90%	90-100%	100-120%	120-%	Total
Owner Occupied Mortgages	467	1,500	3,212	4,781	245	29	**10,234**
Buy-to-Let Mortgages	-	1,235	1,221	385	-	-	**2,841**
Consumer Lending	15,201	1,336	1,346	-	-	-	**17,883**
	15,668	**4,071**	**5,779**	**5,166**	**245**	**29**	**30,958**

Commentary

Disclosure of the LTV distributions of the portfolio is not specifically mandated by IFRS 7, but it is industry best practice to disclose LTV distributions for the retail portfolio.

49. Risk Management continued

49.5. Liquidity risk and funding management

IFRS 7.39(c)
IFRS 7.B11F(c)
IFRS 7.11F(e)
IFRS 7.33(a),(b)

Liquidity risk is defined as the risk that the Bank does not have sufficient liquid financial resources to meet obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due as a result of mismatches in the timing of the cash flows under both normal and stress circumstances. Such scenarios could occur when funding needed for illiquid asset positions is not available to the Bank on acceptable terms. To limit this risk, management has arranged for diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The Bank has developed internal control processes and contingency plans for managing liquidity risk. The ALCO is responsible for managing the Bank's liquidity risk through comprehensive policies, governance and review procedures, stress testing, monitoring of limit sets to ensure these are in line with the overall liquidity risk appetite and strategy of the Bank. The treasury department of the bank is responsible for working with other departments within the Bank to ensure the liquidity risk strategy is executed. This incorporates an assessment of expected cash flows and the availability of high-grade collateral which could be used to secure additional funding, if required.

IFRS 7.B11F(a)
IFRS 7.B11F(b)
EDTF 18

The Bank maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption in cash flow. The Bank also has lines of credit that it can access to meet liquidity needs. Net liquid assets consist of cash, short–term bank deposits and liquid debt securities available for immediate sale, less deposit for banks and other issued securities and borrowings due to mature within the next month. The ratios during the year were, as follows:

49.5.1. Liquidity ratios

Advances to deposit ratios

EDTF 19

	2018	**2017**
Year-end	88.8%	86.0%
Maximum	94.1%	93.2%
Minimum	80.2%	79.9%
Average	86.5%	82.4%

The Bank stresses the importance of current accounts and savings accounts as sources of funds to finance lending to customers. They are monitored using the advances to deposit ratio, which compares loans and advances to customers as a percentage of core customer current accounts and savings accounts, together with term funding with a remaining term to maturity in excess of one year. Loans to customers that are part of reverse repurchase arrangements, and where the Bank receives securities which are deemed to be liquid, are excluded from the advances to deposits ratio.

Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)

The Bank also uses the LCR and NSFR to monitor liquidity as prescribed by the Basel Committee on Banking Supervision to monitor and promote a robust liquidity profile. The Bank calculates the LCR on a daily basis which measures the adequacy of High Quality Liquid Assets to survive an acute stress scenario over a period of 30 days. The Bank calculates the NSFR on a monthly basis which measures the available amount of stable funding that exceeds the required amount of stable funding required for a 12-month period of extended stress conditions in the market. The LCR and NSFR for the bank at year-end is 105.2% (2017: 105.1%) and 110.3% (2017: 110.1%)% respectively.

Commentary

Disclosure of liquidity ratios should be given if this is the way the Bank manages its liquidity risk. If a bank manages liquidity risk on the basis of expected maturity dates, it might disclose a maturity analysis of the expected maturity dates of both financial liabilities and financial assets. IFRS 7.34 also requires disclosure of quantitative data about concentrations of risk, if applicable.

Any other central bank liquidity requirements, if applicable, should also be reported here. Such requirements could include the liquidity coverage ratio (LCR), net stable funding ratio (NFSR) or other regulatory ratios required in the relevant jurisdictions.

49. Risk Management continued

49.5 Liquidity risk and funding management *continued*

EDTF Commentary

Reflecting on:

EDTF18 Describe how the bank manages its potential liquidity needs and provide a quantitative analysis of the components of the liquidity reserve held to meet these needs, ideally by providing averages as well as period-end balances. The description should be complemented by an explanation of possible limitations on the use of the liquidity reserve maintained in any material subsidiary or currency.

We note that whilst, some of these requirements are covered in this note, additionally, EDTF recommends that the Bank's disclosures also include:

"Regulatory ratios

While disclosure of regulatory liquidity ratios would aid comparability, disclosure of liquidity reserve components using regulatory definitions would be challenging given that those definitions are not final and there is uncertainty around their implementation across jurisdictions. The BCBS (Basel Committee on Banking Supervision) is currently working on its recommendations for disclosures in this area. Therefore, in common with other regulatory ratios, the EDTF does not recommend that these ratios are disclosed until the requirements are finalised and in force. Nevertheless, users find it very helpful if banks outline their plans to meet each new key regulatory ratio once finalised.

Stress testing

Management could explain their liquidity stress testing practices and their linkage to the bank's broader liquidity management framework.

Legal entity restrictions

Management could also discuss material liquidity maintained in subsidiaries that is not available for use in other entities and or the availability of excess liquidity at the group level."
(Report of the Enhanced Disclosure Task Force, 29 October 2012)

EDTF Commentary

This section would also include:

EDTF 21 Discuss the bank's funding strategy, including key sources and any funding concentrations, to enable effective insight into available funding sources, reliance on wholesale funding, any geographical or currency risks and changes in those sources over time.

EDTF recommends to include additional disclosures with regards to:

- "Funding plan: the types of funding sources to be used and the access of the bank to each source.
- Funding concentrations: material concentrations in funding sources, with specific attention to wholesale funding and its distribution across different jurisdictions and different currencies.
- Funding sources: how the funding sources of the bank have changed over time.
- Internal funding process: how the bank's internal funding of legal entities operates within the bank's internal funding dynamic.
- Stress testing as for funding stress testing practices and their link to the bank's broader liquidity and funding management framework."

(Report of the Enhanced Disclosure Task Force, 29 October 2012).

49.5.2. Stress Testing

In accordance with the Bank's policy, the liquidity position is assessed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. Additionally stress testing is performed for a combination of both the market and specific stress factors relating to the Bank. Liquidity mismatch reporting and stress testing results are reported regularly and reviewed by the Risk Management Committee and periodically reviewed by the Asset and Liability Committee (ALCO), Executive Committee and Risk Committee.

49. Risk Management continued

49.5 Liquidity risk and funding management continued

49.5.3. Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarises the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December. Trading derivatives are shown at fair value in a separate column. All derivatives used for hedging purposes are shown by maturity, based on their contractual undiscounted payment obligations. Gross settled, non-trading derivatives are shown separately, by contractual maturity at the foot of the note. *IFRS 7.B11D*

Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date it could be required to pay and the table does not reflect the expected cash flows indicated by its deposit retention history.

49. Risk Management *continued*

49.5 Liquidity risk and funding management *continued*

49.5.4. Contractual maturities of undiscounted cash flows of financial assets and liabilities

IFRS 7.39(a)(b)
IFRS 7.B11E

As at 31 December 2018 In $ million	On demand	Trading derivatives	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total	*IFRS 7.B11* *IFRS 7.B11D* *EDTF 20*
Financial assets								*IFRS 7.B11E*
Cash and balances with central bank	2,242	-	121	294	550	-	3,207	
Of which restricted balance	(844)	-	-	-	-	-	(844)	
Due from banks	110	-	8,760	1,748	-	-	10,618	
Cash collateral on securities borrowed and reverse repurchase agreements	-	-	5,588	1,900	140	-	7,628	
Net settled derivative instruments	-	3,435	1,309	843	607	879	7,073	*IFRS 7.B11B(a)*
Financial assets held for trading	-	-	5,890	3,665	3,275	-	12,830	
Financial assets held for trading pledged as collateral	-	-	3,547	2,123	2,179	90	7,939	
Financial assets at fair value through profit or loss	-	-	950	574	720	18	2,262	
Loans and advances to customers	2,530	-	7,679	5,562	20,303	11,850	47,924	
Financial instruments at fair value through other comprehensive income	-	-	553	3,691	2400	1,204	7,848	
Debt instruments at amortised cost	-	-	-	-	1,603	39	1,642	
Other assets	-	-	632	582	955	31	2,200	
Total undiscounted financial assets*	**4,882**	**3,435**	**31,482**	**18,859**	**30,553**	**14,021**	**103,232**	
Financial liabilities								
Due to banks	2,159	-	4,910	55	175	200	7,499	
Cash collateral on securities lent and repurchase agreements	-	-	3,510	4,994	-	-	8,504	
Net settled derivative liabilities	-	4,884	949	634	888	879	8,234	*IFRS 7.B11B(a)*
Financial liabilities held for trading	100	-	2,075	563	1,480	-	4,218	
Financial liabilities designated at fair value through profit or loss	-	-	401	247	1,541	1,980	4,169	
Due to customers	28,171	-	14,754	7,580	4,442	4,028	58,975	
Debt issued and other borrowed funds	-	-	267	1,383	2,267	3,020	6,937	
Of which								*EDTF 20*
Senior unsecured	-	-	125	550	865	280	1820	
Covered bond	-	-	2	25	111	0	138	
RMBS	-	-	5	28	121	0	154	
Subordinated	-	-	90	650	950	1980	3670	
Convertible	-	-	45	130	220	760	1155	
Other financial liabilities	-	-	-	843	992	863	2,698	
Total undiscounted financial liabilities*	**30,430**	**4,884**	**26,866**	**16,299**	**11,785**	**10,970**	**101,234**	
Net liquidity position *	**(25,548)**	**(1,449)**	**4,616**	**2,560**	**18,768**	**3,051**	**1,998**	*IFRS 7.B11(d)*
Gross settled derivatives not held for trading:								
Financial assets								
Contractual amounts receivable	-	-	28,710	17,855	17,330	32,405	96,300	
Contractual amounts payable	-	-	(28,700)	(17,700)	(18,000)	(31,500)	(95,900)	
	-	**-**	**10**	**155**	**(670)**	**905**	**400**	
Financial liabilities								
Contractual amounts receivable	-	-	23,160	17,855	73,300	96,010	210,325	
Contractual amounts payable	-	-	(27,400)	(18,500)	(80,000)	(97,000)	(222,900)	
	-	**-**	**(4,240)**	**(645)**	**(6,700)**	**(990)**	**(12,575)**	
Total gross settled derivatives assets/(liabilities) not held for trading	**-**	**-**	**(4,230)**	**(490)**	**(7,370)**	**(85)**	**(12,175)**	
Total net financial assets/(liabilities)	**(25,548)**	**(1,449)**	**386**	**2,070**	**11,398**	**2,966**	**(10,177)**	

* Excludes gross settled derivatives not held for trading.

49. Risk Management *continued*

49.5 Liquidity risk and funding management *continued*

49.5.4. Contractual maturities of undiscounted cash flows of financial assets and liabilities continued

As at 31 December 2017 **In $ million**	**On demand**	**Trading derivatives**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**	
								IFRS 7.B11 *IFRS 7.B11D*
Financial assets								*IFRS 7.B11E*
Cash and balances with central bank	1,019	-	1,021	-	774	-	2,814	
Of which restricted balance	(774)						(774)	
Due from banks	183	-	9,167	1,139	-	-	10,489	
Cash collateral on securities borrowed and reverse repurchase agreements	-	-	5,120	1,648	905	-	7,673	
Net settled derivative assets	-	2,566	1,603	1,653	906	200	6,928	*IFRS 7.B11B(a)*
Financial assets held for trading	-	-	3,803	1,496	4,546	523	10,368	
Financial assets held for trading pledge as collateral	-	-	1,250	1,099	1,639	15	4,003	
Financial assets designated at fair value through profit or loss	-	-	103	809	310	19	1,241	
Loans and advances to customers	2,873	-	9,968	6,065	22,500	5,757	47,163	
Financial investments available-for-sale	-	-	4,599	3,471	2,634	1,600	12,304	
Financial investments available-for-sale pledged as collateral	-	-	1,652	1,863	473	-	3,988	
Financial investments held-to-maturity	-	-	32	24	45	41	142	
Other assets	209	-	599	785	563	11	2,167	
Total undiscounted financial assets *	**4,284**	**2,566**	**36,015**	**17,090**	**33,183**	**8,151**	**101,289**	
Financial liabilities								
Due to banks	2,974		3,900	701			7,575	
Cash collateral on securities lent and repurchase agreements	-	-	4,504	3,984	-	-	8,488	
Net settled derivative liabilities	-	3,604	1,104	1,248	834	924	7,714	*IFRS 7.B11B(a)*
Financial liabilities held for trading	977	-	1,057	1,408	879	-	4,321	
Financial liabilities designated at fair value through profit or loss	-	-	411	253	1,887	2,105	4,656	
Due to customers	29,167	-	18,629	4,386	3,776	2,653	58,611	
Debt issued and other borrowed funds	-	-	191	1,093	1,178	2,723	5,185	
Of which								*EDTF 20*
Senior unsecured	-	-	134	850	550	338	1,872	
Covered bond	-	-	2	25	130	0	157	
RMBS	-	-	5	28	138	0	171	
Subordinated	-	-	30	60	240	1535	1865	
Convertible	-	-	20	130	120	850	1120	
Other financial liabilities	-	-	-	1,792	727	58	2,577	
Total undiscounted financial liabilities	**33,118**	**3,604**	**29,796**	**14,865**	**9,281**	**8,463**	**99,127**	
Net undiscounted financial assets/(liabilities) *	**(28,834)**	**(1,038)**	**6,219**	**2,225**	**23,902**	**(312)**	**2,162**	
Gross settled derivatives not held for trading:								*IFRS 7.B11D(d)*
Financial assets								
Contractual amounts receivable	-	-	25,640	59,571	25,300	61,045	171,556	
Contractual amounts payable	-	-	(25,340)	(60,000)	(25,000)	(61,000)	(171,340)	
	-	**-**	**300**	**(429)**	**300**	**45**	**216**	
Financial liabilities								
Contractual amounts receivable	-	-	21,600	67,080	17,030	61,010	166,720	
Contractual amounts payable	-	-	(23,240)	(68,500)	(19,000)	(62,000)	(172,740)	
	-	**-**	**(1,640)**	**(1,420)**	**(1,970)**	**(990)**	**(6,020)**	
Total gross settled derivatives assets/ (liabilities) not held for trading	**-**	**-**	**(1,340)**	**(1,849)**	**(1,670)**	**(945)**	**(5,804)**	
Total net undiscounted financial assets/(liabilities)	**(28,834)**	**(1,038)**	**4,879**	**376**	**22,232**	**(1,257)**	**(3,642)**	

* Excludes gross settled derivatives not held for trading.

49. Risk Management *continued*

49.5 Liquidity risk and funding management *continued*

49.5.4 Contractual maturities of undiscounted cash flows of financial assets and liabilities continued

Commentary

IFRS 7.B11D requires the maturity analysis of liabilities to be based on undiscounted contractual cash flows. It also requires that derivative cash flows are shown gross where settlement will be gross. IFRS 7 permits the exclusion of derivatives from the contractual maturity table if they are "not essential for an understanding of the timing of cash flows". The guidance implies that this is likely to be the case if the derivatives are used for trading purposes. The Bank has included trading derivatives in a separate column for information purposes. It has decided to show the gross cash inflows from non-trading derivatives, as it considers this is necessary to communicate its liquidity position.

The amount receivable or payable that is not fixed is determined by reference to the conditions existing at the end of the reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed is based on the level of the index at the end of the period.

IFRS 7 B11E requires the disclosure of the contractual maturities of financial assets held for managing liquidity risk (e.g., financial assets that are readily saleable or expected to generate cash inflows to meet cash outflows on financial liabilities), if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. Hence, the Bank has disclosed financial assets in the maturity table. However, IFRS 7 does not specify whether assets should be presented on a discounted or undiscounted basis. Financial assets are presented at the carrying amount consistent with the balance sheet at the end of the period. This takes into consideration the impact of impairment and discounting, therefore, represents the Bank's liquidity expectations. Therefore, Good Bank has decided to present the discounted amounts including the impairment charges for financial assets as presented on the balance sheet.

The time bands applied in the maturity table are merely for illustrative purposes. Under IFRS 7.B11 an entity has to use its judgement to determine an appropriate number of time bands in preparing the maturity analyses required by IFRS 7.39(a) and (b). Therefore, in practice, depending on the specific circumstances, more granularity might be expected.

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. *IFRS 7.B11C(b)* *IFRS 7.B11C(c)*

IFRS 7.B11C(b),(c) *IFRS 7.B11B(b)* *IFRS 7.B11D(e)*

As at 31 December 2018 In $ million	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial guarantees	1,750	1,395	115	-	-	3,260
Letters of credit	322	179	22	-	-	523
Other undrawn commitments to lend	7,462	1,749	2,433	1,670	-	13,314
Other commitments and guarantees	-	-	2	203	679	884
Total commitments and guarantees	**9,534**	**3,323**	**2,572**	**1,873**	**679**	**17,981**

IFRS 7.B11C(b),(c) *IFRS 7.B11B(b)* *IFRS 7.B11D(e)*

As at 31 December 2017 In $ million	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial guarantees	1,822	1,190	72	-	-	3,084
Letters of credit	373	198	18	-	-	589
Other undrawn commitments to lend	7,244	1,806	1,612	2,033	327	13,022
Other commitments and guarantees	-	-	-	-	718	718
Total commitments and guarantees	**9,439**	**3,194**	**1,702**	**2,033**	**1,045**	**17,413**

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

49.5.5. Analysis of encumbered and unencumbered assets

Below is the analysis of the Bank's encumbered and unencumbered assets that would be available to obtain additional funding as securities. For this purpose, encumbered assets are: *EDTF 19*

49. Risk Management *continued*

49.5 Liquidity risk and funding management *continued*

49.5.5. *Analysis of encumbered and unencumbered assets continued*

- Assets which have been pledged as collateral (e.g., which are required to be separately disclosed under IFRS 7)

Or

- Assets that an entity believes it is restricted from using to secure funding, for legal or other reasons, which may include market practice or sound risk management. Restrictions related to the legal position of certain assets, for example, those held by consolidated securitisation vehicles or in pools for covered bond issuances, may vary in different jurisdictions.

Unencumbered assets are the remaining assets that The Bank owns.

EDTF 19

As at 31 December 2018 In $ million	Encumbered Pledged as collateral	Encumbered Other	Unencumbered Available as collateral	Unencumbered Other	Total
Asset type					
Cash and balances with central banks		844	2,363		3,207
Due from banks				10,618	10,618
Derivative financial instruments	4,500		2,973		7,473
Financial assets held for trading	7,939		4,239	652	12,830
Financial assets at fair value through profit or loss				2,262	2,262
Loans and advances to customers	228			47,696	47,924
Debt instruments at fair value through other comprehensive income			2,440	4,961	7,401
Other assets				11,917	11,917
Total	**12,667**	**844**	**12,015**	**78,106**	**103,632**

As at 31 December 2017 In $ million	Encumbered Pledged as collateral	Encumbered Other	Unencumbered Available as collateral	Unencumbered Other	Total
Asset type					
Cash and balances with central banks		774	2,040		2,814
Due from banks				10,489	10,489
Derivative financial instruments	4,820		2,324		7,144
Financial assets held for trading	4,003			6,365	10,368
Financial assets at fair value through profit or loss				1,241	1,241
Financial investments – available-for-sale	3,988		8,316		12,304
Loans and advances to customers	246			46,917	47,163
Other assets				9,967	9,967
Total	**13,057**	**774**	**12,680**	**74,979**	**101,490**

EDTF Commentary

EDTF 19 Summarise encumbered and unencumbered assets in a tabular format by balance sheet categories, including collateral received that can be re-hypothecated or otherwise redeployed. This is to facilitate an understanding of available and unrestricted assets to support potential funding and collateral needs

This EDTF recommendation requires more detailed disclosures than that provided by the Bank. The objective of this disclosure is to differentiate assets that are used to support funding or collateral needs at the balance sheet date from those assets that are available for potential funding needs. The disclosure is not designed to identify assets which would be available to meet the claims of creditors or to predict assets that would be available to creditors in the event of a resolution or bankruptcy.

49. Risk Management *continued*

49.5 Liquidity risk and funding management *continued*

49.5.6 Analysis of encumbered and unencumbered assets continued

Such quantitative disclosure could provide the basis for a discussion of the assets available to support potential funding and collateral needs. It is acknowledged that, in some circumstances, information about assets pledged to central banks as part of emergency liquidity assistance may be particularly sensitive and, as a result, would not be separately provided.

The commentary for EDTF 19 provides further clarification and explains that the unencumbered assets include:

- Assets that are readily available in the normal course of business to secure funding or meet collateral needs: banks need to evaluate which assets they consider to be readily available in the light of their own circumstances. For example, banks may define 'readily available' assets as those that are accepted by central banks or in the repo markets at the balance sheet date.
- Other unencumbered assets are not subject to any restrictions on their ability to secure funding or be offered as collateral, but the bank would not consider them to be readily available for these purposes in the normal course of business. This category may include wider classes of unencumbered assets not readily accepted as collateral by central banks or other lenders in the provision of support outside the normal course of business. It could also include non-financial instruments such as un-mortgaged property.

Other information banks could disclose in this connection is, as follows:

- A description of the nature of the other assets which are considered to be encumbered and unencumbered where such transactions are material to the bank, including explaining the characteristics of securities with a lien on a whole or part of a portfolio of assets.
- The ratio of encumbered assets to total assets, excluding items that may gross up such metrics, such as matched-book repo transactions and grossed up derivative assets and liabilities.

49.6. Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. *IFRS 7.33(a)* *IFRS 7.IG15(a),(b)*

The Bank classifies exposures to market risk into either trading (the Trading book) or non-trading (the Banking book) portfolios and manages each of those portfolios separately.

The market risk for the trading portfolio is managed and monitored using value at risk (VaR), that reflects the interdependency between risk variables as set out in Note 49.6.2. *IFRS 7.33(a),(b)*

The Bank's risk management strategy for its Banking book is different for each of the following categories of market risk and is set out in the subsequent subsections of these financial statements, as follows: *IFRS 7.33(a),(b)*

- Interest rate risk in Note 49.6.3.1.
- Prepayment risk in Note 49.6.3.2.
- Currency risk in Note 49.6.3.3.
- Equity price risk in Note 49.6.4.

Market risk limits are set and continuously reviewed by the market risk department of the Bank's independent Risk Controlling Unit. As a part of their established market risk management process, the market risk department also monitors early signs of possible changes in market conditions such as: anticipated and actual changes to interest rates; socio-economic factors driving mortgage prepayment behaviours; and economic and geopolitical factors driving currency and equity price movements. Market risk limits are ultimately approved by the Board.

At an operational level, market risk is primarily managed by the Bank's treasury department, which is responsible for ensuring that the Bank's exposures are in compliance with market risk limits approved by the Board and to take adequate actions when necessary.

The Bank's risk management strategies in relation to market risks are explained under the corresponding subheadings on the following pages.

Commentary

In disclosing market risk for securities, the Bank needs to aggregate information to display the overall picture, but not so that it combines information from significantly different economic environments with different risk characteristics. The Bank has reported its securities in two sections: trading and non-trading (IFRS 7.B17) representing whether they are managed within the trading or banking book.

IFRS 7.34(c) also requires disclosure of quantitative data about concentrations of risk, if applicable.

49. Risk Management continued

49.6 Market risk *continued*

EDTF 22

49.6.1. Total market risk exposure

In $ million	Carrying amount 2018	Traded risk 2018	Non-traded risk 2018	Carrying amount 2017	Traded risk 2017	Non-traded risk 2017	Primary risk sensitivity
Assets							
Cash and balances with central banks	3,207	-	3,207	2,814	-	2,814	Interest rate
Due from banks	10,618	-	10,618	10,489	-	10,489	Interest rate FX[1]
Cash collateral on securities borrowed and reverse repurchase agreements	7,628	-	7,628	7,673	-	7,673	Interest rate FX Equity prices
Derivative financial instruments	7,473	4,382	3,091	7,144	4,859	2,285	Interest rate FX Commodity Equity prices Credit Spread
Financial assets held for trading	12,830	12,830	-	10,368	10,368	-	Interest rate FX Equity price
Financial assets at FVPL	2,262	-	2,262	1,241	-	1,241	Interest rate
Financial investments – AFS	-	-	-	12,304	-	12,304	Interest rate FX Equity price
Debt instruments at FVOCI	7,401	-	7,401	-	-	-	Interest rate
Equity instruments at FVOCI	447	-	447	-	-	-	FX Equity price
Loans and advances to customers	47,924	-	47,924	47,163	-	47,163	Interest rate FX
Debt instruments at amortised cost	1,642	-	1,642	-	-	-	Interest rate FX
Financial investments – HTM	-	-	-	127	-	127	Interest rate
Liabilities							
Due to banks	7,408	-	7,408	7,319	-	7,319	Interest rate FX
Cash collateral on securities lent and repurchase agreements	8,128	-	8,128	8,221	-	8,221	Interest rate FX Equity prices
Derivative financial instruments	8,065	5,662	2,403	7,826	5,577	2,249	Interest rate FX Commodity Equity prices Credit Spread
Financial liabilities held for trading	4,160	4,160	-	4,078	4,078	-	Interest rate FX Equity price
Financial liabilities at FVPL	3,620	-	3,620	4,536	-	4,536	Interest rate
Due to customers	56,143	-	56,143	56,177	-	56,177	Interest rate FX
Debt issued and other borrowed funds	6,310	-	6,310	4,192	-	4,192	Interest rate
Other liabilities	1,215	-	1,215	1,477	-	1,477	Interest rate FX

[1]:Foreign Exchange Rates

49. Risk Management *continued*

49.6 Market risk *continued*

49.6.2. Market risk – trading (trading book) (including financial assets and financial liabilities designated at fair value through profit or loss) *IFRS 7.33(a) IFRS 7.41(a) IFRS 7.B17(a) EDTF 23*

Objectives and limitations of the VaR methodology

The Bank uses simulation models to assess possible changes in the market value of the trading portfolio based on historical data from the past five years. The VaR models are designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The distribution is calculated by using exponentially weighted historical data. Due to the fact that VaR relies heavily on historical data to provide information and does not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under- or over-estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level. *IFRS 7.41(b)*

In practice, the actual trading results will differ from the VaR calculation. In particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR calculation.

VaR assumptions

The VaR that the Bank measures is an estimate, using a confidence level of 99%, of the potential loss that is not expected to be exceeded if the current market risk positions were to be held unchanged for one day. The use of a 99% confidence level means that, within a one-day horizon, losses exceeding the VaR figure should occur, on average under normal market conditions, not more than once every hundred days. *IFRS 7.41(a) EDTF 23*

Since VaR is an integral part of the Bank's market risk management, VaR limits have been established for all trading operations and exposures are required to be reviewed daily against the limits by management.

Year – Value	Foreign exchange $ million	Interest rate $ million	Equity $ million	Credit spread risk $ million	Effects of correlation $ million	Total $ million
2018 – 31 December	8	10	3	9	(3)	27
2018 – Average daily	7	9	3	11	(4)	26
2018 – Highest	9	12	4	18	(4)	39
2018 – Lowest	4	6	2	6	(3)	15
2017 – 31 December	7	8	2	5	(3)	19
2017 – Average daily	6	8	2	10	(4)	22
2017 – Highest	7	10	3	12	(4)	28
2017 – Lowest	4	6	1	4	(4)	11

EDTF Commentary

In relation to:

EDTF 23 *Provide further qualitative and quantitative breakdowns of significant trading and no trading market risk factors that may be relevant to the bank's portfolios beyond interest rates, foreign exchange, commodities and equity measures.*

Banks could also consider disclosing:

"Relevant shift and/or shock scenarios and their particular effects on earnings, net interest income, capital and/or other risk measures could be presented to the extent that they are consistent with the way the bank manages its risk.

A quantitative analysis showing the effect of changes in significant market risk factors on unfunded pension liabilities as well as how pension liability risk is managed over the long-term could also be presented.

Such disclosures would provide users with more specific information about a bank's exposures and enable them to evaluate how business models vary from bank to bank. This should help to improve transparency and comparability across banks."

(*Report of the Enhanced Disclosure Task Force*, 29 October 2012)

49. Risk Management continued

49.6 Market Risk continued

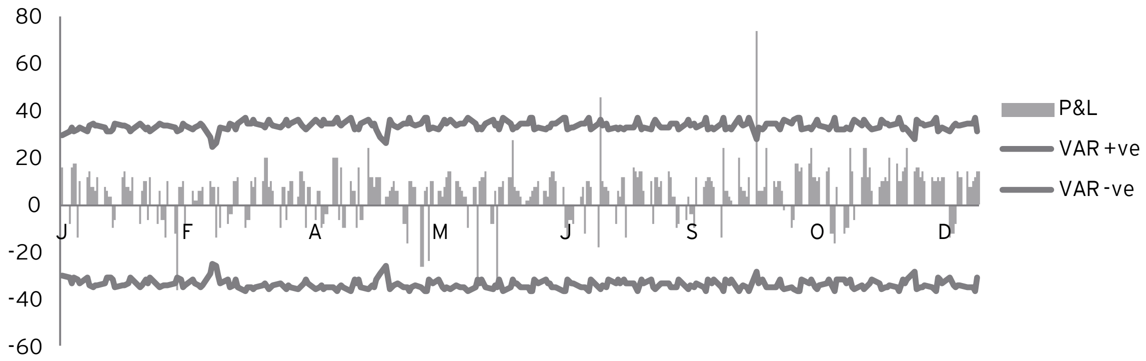
49.6.2 Market risk – trading (trading book) (including financial assets and financial liabilities designated at fair value through profit or loss) continued

Back testing

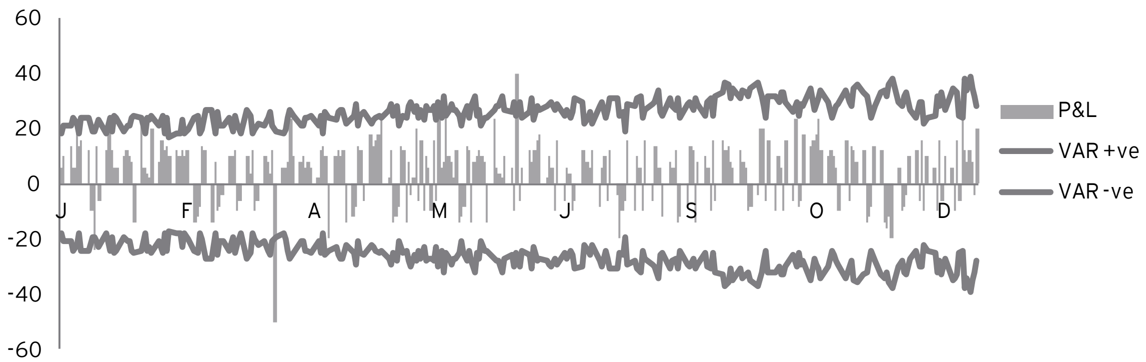
It is the Bank's policy to perform regular back-testing to validate the Bank's VaR calculations. When back-testing, the Bank compares daily profits and losses with the estimates derived from the Bank's VaR model. The Board discusses the back-testing results of the Bank on a monthly basis. *EDTF 24*

During 2018, the Bank recorded five back-testing exceptions (2017: four exceptions), when actual losses exceeded daily VaR limits.

Var Backtesting – VaR (1-Day, 99% in millions of Goodland dollars ($) – 2018)



Var Backtesting – VaR (1-Day, 99% in millions of Goodland dollars ($) – 2017)



49. Risk Management *continued*

49.6 Market Risk *continued*

49.6.2 Market risk – trading (trading book) (including financial assets and financial liabilities designated at fair value through profit or loss) continued

EDTF Commentary

EDTF 24 Provide qualitative and quantitative disclosures that describe significant market risk measurement model limitations, assumptions, validation procedures, use of proxies, changes in risk measures and models through time and descriptions of the reasons for back-testing exceptions, and how these results are used to enhance the parameters of the model.

EDTF recommends that Banks consider providing further information on:

Model methodology

- Banks could describe significant model assumptions, validation procedures, limitations and usage of proxies, along with risks not captured in VaR and other market risk measurement models such as economic capital and stress testing.
- Banks could disclose the quantitative effects of significant changes to risk models under previous and revised methodologies together with a description to help users understand the extent of the changes. Similarly, banks could describe model limitations and any model-related provisions or reserves as partof their risk management policies, procedures and practices.

Period-on-period variance analysis

- Banks could discuss significant trends and/or period-on-period fluctuations in risk measures. For example, a significant reduction in VaR may be the result of the disposal of a certain portfolio or line of business, changes in portfolio composition, changes in market risk factors, or a combination thereof.

VaR backtesting

- Banks could describe back-testing results and exceptions, including root causes and related actions. The discussion of exceptions could include both profits and losses, and focus on instances where the number of exceptions exceeds that predicted by the reported VaR confidence interval.
- Banks could describe trading revenue components such as intra-day positions, net income, fees, spreads and commissions along with the types of positions included in trading revenue. They could also describe the use of back-testing as a measure of VaR model performance. A graphical comparison of daily VaR to the related daily P&L for the period could enhance clarity and help financial statement users.

These enhancements would add context and clarity to the graphical comparison of daily VaR to daily P&L that many banks currently disclose.

In relation to

EDTF 25 Provide a description of the primary risk management techniques employed by the bank to measure and assess the risk of loss beyond reported risk measures and parameters, such as VaR, earnings or economic value scenario results, through methods such as stress tests, expected shortfall, economic capital, scenario analysis, stressed VaR or other alternative approaches. The disclosure should discuss how market liquidity horizons are considered and applied within such measures.

EDTF encourages banks to consider providing supplementary analysis that includes:

- "Tail risk: Banks could provide disclosures that describe the methods for measuring tail risk through measures such as expected shortfall, stress tests, scenario analysis and Basel 3 stressed VaR. Banks could discuss how these measures relate to one another, as well as how they are evaluated and used by management.
- Market liquidity horizon: Banks could discuss how they manage illiquid positions. For example, banks could describe how market liquidity horizons are assessed and applied within market risk measures such as VaR and stress testing, with quantitative results presented as appropriate. The liquidity horizon in this context is defined as the amount of time required to hedge or otherwise neutralise the risk of loss in positions. Reported VaR figures generally assume a one or 10-day horizon, which may not correspond to the time required to neutralise the risk of large or illiquid positions. A one-day horizon may be appropriate for highly liquid positions such as spot yen/dollar, but may be inappropriate for illiquid positions such as certain structured credit instruments.
- Other analyses: Other analyses, such as stressed VaR and expected shortfall, could be described to the extent that they are calculated and used by management.

49. Risk Management continued

49.6 Market Risk continued

49.6.2 Market risk – trading (trading book) (including financial assets and financial liabilities designated at fair value through profit or loss) continued

Banks could describe how their disclosed market risk measures relate to the methodology, usage and allocation of economic and regulatory capital, how stress testing is used within the economic capital frameworks applicable to the bank, and the underlying risk aggregation assumptions. A description of how these measures are used within the broader risk governance and capital management frameworks would further enhance disclosures.

Banks could also provide a qualitative discussion of the assumptions used for economic capital measures, including risk aggregation assumptions (e.g., correlation assumptions). This would give users a more holistic view of the bank's full market risk management programme."

(*Report of the Enhanced Disclosure Task Force*, 29 October 2012)

49.6.3. Market risk - Banking book

49.6.3.1. Interest rate risk

The Bank's primary business model is to collect deposits, and use these funds to provide loans and other funding products and debt instruments to its customers. Interest rate risk is the impact that changes in interest rates could have on the Bank's margins, profit or loss, and equity. Interest risk arises from the mismatch of interest payable on the Bank's liabilities and the interest earned on its assets.

IFRS 7.B17(a)
IFRS 7.B22
IFRS 7.33(a)
EDTF 23

The Bank's asset-liability profile of its banking book is such that:

- Interest on deposits is primarily either floating or their maturities are so short term that their behaviour is similar to floating rate instruments
- Interest rates payable on issued debt are primarily fixed
- The Bank's loan portfolio is a mixture of fixed and floating rates instruments

As a part of the Bank's risk management strategy, the Board has established limits on the non–trading interest rate gaps for the interest rate sensitivities, as set out in Note 49.6.2 . These limits are consistent with the Bank's enterprise risk appetite and the Bank aligns its hedge accounting objectives to keep exposures within those limits.

IFRS 7R.22A
IFRS 7.22

The Bank's policy is to monitor positions on a daily basis. The banking book interest rate risk is monitored using various interest rate shock scenarios, including sensitivity of profit or loss and equity, both of which incorporate the effect of existing hedging activities, but do not include any management actions that could arise as the markets change. The sensitivity of profit or loss is the effect of the assumed changes in interest rates on the profit or loss over a 12-month horizon and measures sensitivities to short-term interest rate changes.

IFRS 7.40(b)
EDTF 23

The Bank employs hedging activities, utilising derivative instruments, investments in debt securities, and other funding instruments, to ensure positions are maintained within the established limits. The details of the Bank's hedging activities are described in the following paragraphs.

49. Risk Management *continued*

49.6 Market Risk *continued*

49.6.3 Market risk - Banking book continued

49.6.3.1 Interest rate risk continued

49.6.3.1.1. Fair value hedges

To protect itself against changes in the fair value of financial assets and financial liabilities due to movements in interest rates, the Bank enters into micro and portfolio fair value hedge relationships as described in Note 7.18.1. The Bank primarily designates the benchmark rate as the hedged risk and, accordingly, enters into interest rate swaps whereby the fixed legs represent the economic risks of the hedged items. For hedges of the fixed rate mortgage portfolio, the Bank also manages the prepayment risk, as discussed in Note 49.6.3.2. *IFRS 7R.22A IFRS 7R.22B IFRS 7.22 EDTF 23*

In the table below, the Bank sets out the accumulated fair value adjustments arising from the corresponding continuing hedge relationships, irrespective of whether or not there has been a change in hedge designation during the year.

Commentary

IFRS 7R.24B(a)(v) requires separate disclosure of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses. This has been interpreted to include only fair value adjustments for hedged items that are no longer part of an ongoing hedge relationship at all. To interpret it otherwise would mean that, for dynamic hedge relationships such as the portfolio fair value hedges, only the accumulated fair value hedge adjustments for the final month would be reported as part of the requirements of IFRS 7R.24B(a)(ii), which would not provide the most useful information.

IFRS 7R.24B IFRS 7R.22A(c)

31 December 2018		**Carrying amount of hedged items**		**Accumulated amount of fair value adjustments on the hedged items**	
In $ million		**Assets**	**Liabilities**	**Assets**	**Liabilities**
Micro fair value hedges					
Fixed rate corporate loans	A	952	-	36	-
Fixed rate small business loans	A	1,002	-	122	-
Fixed rate FVOCI debt instruments	B	316	-	10	-
Fixed rate customer deposits	C	-	2,100	-	(231)
		2,270	**2,100**	**168**	**(231)**
Portfolio fair value hedges					
Fixed rate mortgages	D	7,642	-	253[E]	-
		7,642	**-**	**253**	**-**
		9,912	**2,100**	**421**	**(231)**

The corresponding *Statement of financial position line items,* where the hedged item and the cumulative fair value changes are recorded, include:

A Loans and advances to customers

B Debt instruments at fair value through other comprehensive income

C Debt issued and other borrowed funds

D Fixed rate mortgages included in *Loans and advances to customers*. The associated cumulative fair value changes are recorded in the *Changes in the fair value of hedged items in portfolio hedges of interest rate risk*

E In addition to the cumulative fair value adjustments of $253m (2017: $ 190), the *Changes in the fair value of hedged items in portfolio hedges of interest rate risk* balance sheet line of $486m (2017:$393m) also includes the accumulated unamortised fair value hedge adjustments of $233m (2017: $200m) related to hedges that have been discontinued and are now amortised, as outlined in Note 7.18.1.2. *IFRS 7R.24B(a)(v)*

Sensitivities relevant for prepayment risk are disclosed in Note 49.6.3.2. *IFRS 7.40(a) IAS 1.129*

49. Risk management continued

49.6. Market risk continued

49.6.3 Market risk - Banking book continued

49.6.3.1 Interest rate risk continued

49.6.3.1.1.Fair value hedges continued

The following table provides information about the hedging instruments included in the derivative financial instruments line items of the Bank's consolidated statement of financial position:

31 December 2018	Notional amount	Carrying amount		
		Assets (Note 29)	Liabilities (Note 29)	EDTF 29 IFRS 7R.24A
Micro fair value hedges				IFRS 7R.24C(a)
Interest rate swaps	4,330	328	163	
	4,330	**328**	**163**	
Portfolio fair value hedges				
Interest rate swaps	7,642	139	487	
	7,642	**139**	**487**	
	11,972	**467**	**650**	

Commentary

In the year of initial application, IFRS 7R.44Z does not require entities to provide comparative disclosures for their hedge accounting activities in accordance with the more detailed IFRS 7R requirements. Hedging activities for the year prior to adoption of IFRS 9 need only be disclosed in accordance with the previous IFRS 7 requirements.

The below table sets out the outcome of the Bank's hedging strategy, set out in Notes 7.18.1 and 49.6.3.1, in particular, to changes in the fair value of the hedged items and hedging instruments in the current year and the comparative year, used as the basis for recognising ineffectiveness:

IFRS 7R.24C(a)
IFRS 7.24(a)(i)
IFRS 7.24(a)(ii)

In $ million		2018			2017		
		Gains/(losses) attributable to the hedged risk		Hedge ineffectiveness	Gains/(losses) attributable to the hedged risk		Hedge ineffectiveness
Hedged items	**Hedging instruments**	**Hedged items**	**Hedging instruments**		**Hedged items**	**Hedging instruments**	
Micro fair value hedge relationships hedging assets							
Fixed rate corporate loans	Interest rate swaps	36	(29)	7	28	(24)	4
Fixed rate small business loans	Interest rate swaps	70	(80)	(10)	52	(42)	10
Fixed rate FVOCI debt instruments	Interest rate swaps	10	(11)	(1)	6	(7)	(1)
		116	**(120)**	**(4)**	**86**	**(73)**	**13**
Micro fair value hedge relationships hedging liabilities							
Fixed rate customer deposits	Interest rate swaps	(156)	186	30	(204)	250	46
		(156)	**186**	**30**	**(204)**	**250**	**46**
Total micro fair value relationships		**(40)**	**66**	**26**	**(118)**	**177**	**59**
Related to portfolio fair value hedge relationships							
Fixed rate mortgages	Interest rate swaps	155	(157)	(2)	109	(116)	(7)
Total portfolio fair value relationships		**155**	**(157)**	**(2)**	**109**	**(116)**	**(7)**
Total		**115**	**(91)**	**24**	**(9)**	**61**	**52**

49. Risk management continued

49.6. Market risk continued

49.6.3 Market risk - Banking book continued

49.6.3.1 Interest rate risk continued

49.6.3.1.1.Fair value hedges continued

The maturity profile of the Bank's hedging instruments used in micro fair value hedge relationships is, as follows: *IFRS 7R.23B*

As at 31 December 2018 **In $ million (Notional amounts)**	**Less than 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Fixed rate corporate loans						
Interest rate swaps	10	25	70	600	237	942
Fixed rate small business loans						
Interest rate swaps	15	30	100	420	427	992
Fixed rate FVOCI debt instruments						
Interest rate swaps	5	10	30	150	111	306
Fixed rate customer deposits						
Interest rate swaps	100	250	440	1,050	250	2,090
Total	**130**	**315**	**640**	**2,220**	**1,025**	**4,330**

Commentary

IFRS 7R.23A requires information that allows users to evaluate the terms and conditions of the hedging instruments and how they affect the amount, timing and uncertainty of future cash flows. If applicable, IFRS 7R.23B(b) also requires entities to show "the average price or rate" of the hedging instruments.

Within the context of a fair value hedge, disclosing the weighted average rate of the fixed leg of the interest rate swaps used as hedging instruments, is a way of fulfilling the requirements of IFRS 7R,23B(b) in respect of the hedging instruments' "average price rate". However, it might also be argued that such a rate is not applicable to a fair value hedge and, hence, is not required to be disclosed as per IFRS 7R.23B(b).

IFRS 7R.23C provides an exemption of the IFRS 7R.23A and IFRS 7R.23B disclosures for portfolio fair value hedges and requires quantitative information such as that set out Note 7.18.1.2, instead.

49.6.3.1.2. Cash flow hedges

For the Bank's macro cash flow hedge accounting relationships hedge (as described in Note 7.18.2), the hedged risk is the variability in future interest cash flows due to changes in market interest rates. *IFRS 7R.22A IFRS 7R.22B IFRS 7.22 EDTF 23*

The Bank considers the hedge of euro-denominated floating rate notes as a combined hedge of currency risk and interest rate risk and follows a micro cash flow hedge with the currency risk element further described in Note 49.6.3.3. The Bank also enters into portfolio cash flow hedges to protect itself against changes in the variability of future interest payments on non-trading variable rate financial liabilities on a portfolio basis. The Bank uses interest rate swaps as hedging instruments where the variable legs are based on the benchmark rates of the hedged items.

The Bank's financial assets and financial liabilities designated as hedged items in continuing cash flow hedge relationships are: *IFRS 7R.24B(b)*

31 December 2018 **In $ million**		**Change in fair value of hedged item in the year used for ineffectiveness measurement**	**Cash flow hedge reserve** **Continuing hedges**	**Discontinued hedges**
Micro cash flow hedges				
Floating rate EUR notes	A	33	87	-
		33	**87**	**-**
Portfolio cash flow hedges				
Gross floating rate liabilities	B	162	547	-
		162	**547**	**-**
		195	**634**	**-**

The corresponding line item in the Statement of financial position, where the hedged item is recorded:

A Debt issued and other borrowed funds

B Future highly probably cash flows arising from *Due to customers*

Commentary

The column with nil values in the above table is intended to illustrate that entities may have fact patterns that give rise to such disclosures.

49. Risk management continued

49.6. Market risk continued

49.6.3 Market risk - Banking book continued

49.6.3.1 Interest rate risk continued

49.6.3.1.2.Cash flow hedges continued

The below table sets out the outcome of the Bank's hedging strategy, set out in Notes 7.18.2, 49.6.3.1.2 and 49.6.3.3, in particular, the notional and the carrying amounts of the derivatives the Bank uses as hedging instruments and the their changes in fair values used for measuring hedge ineffectiveness separately showing the effective and ineffective portions: *IFRS 7R.24A*

EDTF 29
IFRS 7R.24A
IFRS 7R24C(b)

31 December 2018				Changes in fair value of hedging instruments used for measuring hedge ineffectiveness				
In $ million		Carrying value		In Total	Effective portion	Hedge ineffectiveness	Reclassified into income statement as	
	Notional amount	Assets (Note 29)	Liabilities (Note 29)		Recognised in OCI	Recognised in the income statement in Net trading income	Interest expense calculated using the effective interest method	Net trading income
Micro cash flow hedges								
Cross currency interest rate swaps	980	267	-	45	33	12	4	8
	980	**267**	**-**	**45**	**33**	**12**	**4**	**8**
Portfolio cash flow hedges								
Interest rate swaps	4,382	612	58	201	162	39	18	-
	4,382	**612**	**58**	**221**	**162**	**39**	**18**	**-**
	5,362	**879**	**58**	**266**	**195**	**51**	**22**	**8**

The gross (gain)/loss on cash flow hedges reclassified to the income statement for the prior year was, as follows:

In $ million	2017
Interest expense[1] arising from micro cash flow hedges	(6)
Interest expense[1] from portfolio cash flow hedges	(17)
Net trading income (foreign exchange losses) arising from micro cash flow hedges	(2)
Gross (gain)/loss on cash flow hedges reclassified to the income statement	**(25)**

IFRS 7.23(c)-(d)

[1]Recorded within Interest expense calculated using the effective interest method

Included in the 2017 Interest expense, calculated using the effective interest method, are losses of $3m and $12m arising from hedge ineffectiveness on micro and portfolio cash flow hedges, respectively. *IFRS 7.24(b)*

Commentary

The Bank uses cross currency interest rate swaps to hedge the fluctuations in cash flows on its floating rate foreign currency bonds. Ineffectiveness is recorded in *Net trading income*. Recycled amounts are differentiated between *Net trading income*, representing the amounts attributable to the foreign exchange risk component, and the *Interest and similar expense* line, representing amounts related to the interest component.

A description of any forecast transactions for which hedge accounting had previously been used, but which is no longer expected to occur, must be provided. (IFRS 7.23(b)). A history of forecast hedged cash flows not occurring potentially taints the entity's ability to demonstrate that future cash flows on forecast transactions will be highly probable. The Bank did not have such hedged forecast cash flows.

49. Risk management continued

49.6. Market risk continued

49.6.3 Market risk - Banking book continued

49.6.3.1 Interest rate risk continued

49.6.3.1.2.Cash flow hedges continued

The following table shows the maturity and interest rate risk profiles of the Bank's hedging instruments used in its cash flow hedges. As the Bank applies one-to-one hedging ratios, the below table effectively shows the outcome of the cash flow hedges: *IFRS 7R.23B*

As at 31 December 2018 In $ million	**Less than 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Micro cash flow hedges						
Cross currency interest rate swaps						
Notional principal	-	-	120	300	560	980
Average fixed rate	3%	3%	3%	3%	3%	
Average EUR/$ rate	1.2456	1.2581	1.2833	1.2961	1.3091	
Micro cash flow hedges						
Interest rate swaps						
Notional principal	340	230	560	890	2,362	4,382
Average fixed rate	5.23%	5.23%	5.23%	5.23%	5.23%	

Below is a schedule indicating, as at 31 December, the periods when the hedged forecast cash flows are expected to occur and when they are expected to affect profit or loss: *IFRS 7.22(a)* *IFRS 7.22(c)*

IFRS 7.23(a)

As at 31 December 2017 In $ million	**Within 1 Year**	**1-3 years**	**3-8 years**	**Over 8 years**
Micro cash flow hedges				
Cash outflows	(47)	(98)	(97)	(31)
Portfolio cash flow hedges				
Cash outflows	(33)	(67)	(63)	(32)
Net cash outflows from portfolio cash flow hedges	**(80)**	**(165)**	**(160)**	**(63)**

Commentary

The requirement in IFRS 7.23(a) to disclose the periods when the cash flows are expected to occur and when they are expected to affect profit or loss is no longer required by IFRS 7R.

49. Risk management continued

49.6. Market risk continued

49.6.3 Market risk - Banking book continued

49.6.3.1 Interest rate risk continued

49.6.3.1.3. Interest rate repricing profile

The following table provides an analysis of the Bank's interest rate risk exposure on non-trading financial assets and liabilities. The Bank's assets and liabilities are included at carrying amount and categorised by the earlier of contractual repricing or maturity dates.

IFRS 7.34(a)

2018 In $ million	Carrying amount	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and balances with central banks	3,207	2,207	-	-	-	1,000
Due from banks	10,618	9,180	1,438	-	-	-
Cash collateral on securities borrowed and reverse repurchase agreements	7,628	5,211	1,245	1,172	-	-
Derivatives held as hedges	1,346	212	678	132	324	-
Debt instruments at fair value through other comprehensive income	7,401	1,367	1,562	1,382	3,090	-
Loans and advances to customers	47,924	24,671	9,871	7,831	5,551	-
Debt instruments at amortised cost	1,642	761	642	239	-	-
	79,766	**43,609**	**15,436**	**10,756**	**8,965**	**1,000**
Liabilities						
Due to banks	7,408	5,672	1,736	-	-	-
Cash collateral on securities lent and repurchase agreements	8,128	4,781	1,873	1,474	-	-
Derivatives held as hedges	708	174	387	104	43	-
Due to customers	56,143	38,721	8,541	6,542	2,339	-
Debt issued and other borrowed funds	6,310	145	231	1,645	4,289	-
	78,697	**49,493**	**12,768**	**9,765**	**6,671**	**-**
Total interest sensitivity gap	**1,069**	**(5,884)**	**2,668**	**991**	**2,294**	1,000
Derivatives used for risk management	50	3,231	(567)	(821)	(1,793)	-
Total interest sensitivity gap after risk management	**1,119**	**(2,653)**	**2,101**	**170**	**501**	**1,000**

IFRS 7.34(a)

2017 In $ million	Carrying amount	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and balances with central bank	2,814	1,714	-	-	-	1,100
Due from banks	10,489	8,912	1,577	-	-	-
Cash collateral on securities borrowed and reverse repurchase agreements	7,673	5,016	1,482	1,175	-	-
Derivatives held as hedges	1,121	236	583	172	130	-
Loans and advances to customers	47,163	23,981	9,612	7,613	5,957	-
Financial investments–available-for-sale	12,304	3,861	2,671	2,761	3,011	-
Financial investments–held-to-maturity	127	34	21	72	-	-
	81,691	**43,754**	**15,946**	**11,793**	**9,098**	**1,100**
Liabilities						
Due to banks	7,319	5,913	1,406	-	-	-
Cash collateral on securities lent and repurchase agreements	8,221	4,378	1,673	2,170	-	-
Derivative held as hedges	719	231	121	281	86	-
Due to customers	56,177	39,542	8,243	5,322	3,070	-
Debt issued and other borrowed funds	4,192	175	231	1,652	2,134	-
Total	**76,628**	**50,239**	**11,674**	**9,425**	**5,290**	**-**
Total interest sensitivity gap	**5,063**	**(6,485)**	**4,272**	**2,368**	**3,808**	**1,100**
Derivatives used for risk management	596	2,931	(2,345)	(1,231)	1,241	-
Total interest sensitivity gap after risk management	**5,659**	**(3,554)**	**1,927**	**1,137**	**5,049**	**1,100**

49. Risk management continued

49.6. Market risk continued

49.6.3. Market risk -Banking book continued

49.6.3.1.Interest rate risk continued

Commentary

IFRS 7.34(a) requires an entity to disclose a summary of the quantitative data for its exposure to each type of risk at the reporting date, which must be based on the information provided internally to the management. IFRS 7 does not explicitly specify whether an entity needs to provide disclosure of contractual re-pricing of its interest rate exposures. The above information is disclosed as it is provided to the Bank's management as well.

49.6.3.1.4. Interest rate sensitivity analysis

The Bank's equity sensitivity to changes in interest rates is a measure of the sensitivities of its asset and liability mismatches to longer-term interest rate changes. The sensitivities include assumptions for product maturities and renewals along with certain customer behaviours (including prepayments and redemptions). The Bank calculates these measures as the change in the present value of its asset and liability portfolios, including off-balance sheet instruments, resulting from an immediate and sustained interest rate shocks. *IFRS 7.40(b) EDTF 23*

The following table demonstrates the sensitivity to a reasonably possible parallel changes in interest rates (all other variables being constant) of the Bank's income statement and equity by currency for those currencies where the Bank has a material exposure: *EDTF 23 EDTF 25 IAS. 1.129*

IFRS 7.40(a) IFRS 7.IG32(a) IFRS 7.IG34 IFRS 7.IG33(a)

2018 In $ million	Increase/(decrease) in basis points	Sensitivity of profit or loss	Risk limit set for profit or loss	Sensitivity of equity	Risk limit set for equity
Currency of borrowing/advance					
Goodland $	+ 100/(15)	(90)/10	±110	60/(62)	±80
USD	+ 100/(20)	104/(20)	±130	(96)/95	±110
GBP	+ 100/(15)	57/(5)	±90	(30)/31	±50
EUR	+100/(15)	75/(17)	±220	(63)/60	±80
Others	+100/(25)	(14)/(6)	±20	18/(17)	±30

IFRS 7.40(a) IFRS 7.IG32(a) IFRS 7.IG34 IFRS 7.IG33(a)

2017 In $ million	Increase/(decrease) in basis points	Sensitivity of profit or loss	Risk limit set for profit or loss	Sensitivity of equity	Risk limit set for equity
Currency of borrowing/advance					
Goodland $	+100/(15)	(13)/15	±110	64/(64)	±80
USD	+100/(20)	32/(32)	±130	(98)/100	±110
GBP	+100/(15)	4/(5)	±90	(25)/27	±50
EUR	+100/(15)	18/(20)	±220	(59)/60	±80
Others	+100/(25)	(2)/2	±20	11/(10)	±30

Commentary

For each relevant risk variable, the entity should determine the reasonably possible change based on the economic environment in which the entity operates over the period to the next reporting date. The reasonably possible change should not include remote scenarios (IFRS 7.B19)

Goodland's current macroeconomic environment, similar to that of other countries, is such that base rates are at historically low values. The Bank's economists expect interest rates to increase rather than decrease. Therefore, the Bank assigned asymmetrical values to interest rates changes in its sensitivity analysis.

49.6.3.2. Prepayment risk

Prepayment risk primarily relates to the Bank's loan portfolio and is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected. It includes its borrowers that repay or refinance their fixed rate mortgages when interest rates fall or the corporate and small business customers with prepayment options with zero or low penalties that refinance their loans when their credit quality improves to a point that they can obtain lower rates. *EDTF 23*

The Bank uses the same models and inputs that it also uses for ECL models to projectthe impact of varying levels of prepayment on its net interest income and distinguishes between the different reasons for repayment (e.g., relocation, refinancing and renegotiation). When estimating the prepayment rates, the Bank also takes into account the effect of any prepayment penalties, when applicable, and other socio-economic factors (interest rates-, house price movements, unemployment rates, ageing population, etc.) on a forward-looking basis. The model is back-tested against actual outcomes. *IFRS 7.40(b) EDTF 23*

Within its risk management framework, the Bank has introduced various measures to limit its economic losses arising from prepayment risk. *IFRS 7R.22A IFRS 7.22 EDTF 23*

49. Risk management continued

49.6. Market risk continued

49.6.3. Market risk -Banking book continued

49.6.3.2. Prepayment risk continued

For its corporate and small business loans, the risk is primarily managed through product design and development, and by setting the costs of prepayment options to a level that does not encourage prepayments.

For the Bank's mortgage portfolio, the prepayment risk also has a significant operational impact on its hedging strategy and is the primary reason for the Bank applying a dynamic hedging strategy for its mortgage portfolio, as explained in Note 7.18.1.2 Portfolio (macro) fair value hedges. The Bank applies a dynamic model to its designated mortgage portfolio and associated hedging derivatives and segments them into different buckets, based on their maturity and prepayment profiles. The Bank seeks to minimise ineffectiveness arising from early repayments or changes in market conditions by modelling the prepayment risk of its fixed rate mortgages and entering into derivative instruments.

IFRS 7R.22A
IFRS 7R.22B
IFRS 7.22
EDTF 23

If 20% of repayable financial instruments were to prepay at the beginning of the year following the reported period, with all other variables held constant, the profit before tax for the year would be reduced by $19 million (2017: $11 million) and OCI would be reduced by $9 million (2017: $4 million).

IFRS 7.40(a),(b)
IAS 1.129(b)

If the current year's actual prepayment rates of the fixed rates mortgages in a dynamic hedging strategy had been 5% higher/lower, the impact on profit before tax through higher hedge ineffectiveness would have been a loss of $34m /$31m; (2017: loss of $33m/$31m).

IFRS 7.40(a),(b)
IAS 1.129(b)

49.6.3.3. Currency risk

IFRS 7.B23

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on the net positions the Bank can hold in each currency, including foreign exchange positions of subsidiaries and both accounting and economic hedges.

IFRS 7.33)
EDTF 23

The limits for net positions the Bank can hold in each main currency as well as the individual limit for any other currency are set out, as follows:

In million currency units	2018	2017
EUR	150	145
GBP	120	115
USD	160	155
Other	90	85

The Bank's strategy is to monitor positions on a daily basis and apply hedging strategies to ensure it manages itself against currency risk. Positions are maintained within established limits by either balancing the assets and liabilities in the relevant currencies, or taking out foreign currency swaps and converting the exposures into the Goodland dollar.

IFRS 7R.22A
IFRS 7.22
EDTF 23

The Bank applies cash flow hedge accounting to the foreign currency element of its issued floating rate euro-denominated notes and associated cross currency interest rate swaps. The Bank converts the notes into fixed rate Goodland dollar exposures with the floating rate and principal of the hedged item matched by those of the hedging instrument. As set out in Note 7.18.3.1, the Bank considers the hedge as a hedge of more than one risk and does not split the interest rate from the principal for hedge accounting purposes.

IFRS 7R.22A
IFRS 7.22
EDTF 23

The Bank also has exposure to foreign currency risk through its subsidiaries that have a functional currency other than the Goodland dollar. Fluctuation of the spot exchange rates will cause the Bank's reported net investment in subsidiaries to vary.

IAS 39.102
IFRS 7R.22A
IFRS 7R.22B
IFRS 7.22
EDTF 23

The Bank applies hedge accounting, as set out Note 7.18.4, when it hedges its investments in fully consolidated foreign operations whose functional currency is US dollars.

With the exception of the above, the Bank does not apply hedge accounting as defined by IAS 39 to instruments designed to manage foreign currency risk, but treats them as "economic hedges" as set out in Note 29.3.

IFRS 7R.22A
IFRS 7.22
EDTF 23

49.6.3.3.1. Hedge of net investment in foreign operations

The Bank hedges the currency risk of its net investment in its US dollar foreign operations in the Americas using US dollar borrowings. Included in Debt issued and other borrowed funds at 31 December 2018 was a borrowing of USD335 million (equivalent to 322 million Goodland dollars) (2017: USD315 million, equivalent to 333 million Goodland dollars).

IFRS 7.22(a)

49. Risk management continued

49.6. Market risk continued

49.6.3. Market risk -Banking book continued

49.6.3.3. Currency risk continued

49.6.3.3.1. Hedge of net investment in foreign operations

The effective portion of the gains or losses on the retranslation of this borrowing due to exchange rate risks is transferred to equity to offset any gains or losses on translation of the net investments in the subsidiaries. The ineffectiveness in these hedges was nil both in 2018 and 2017. *IFRS 7.22(b) IFRS 7.22(c) IFRS 7.24(c)*

Commentary

The requirement of IFRS 7.22(b) to disclose the fair values of hedging instruments at end of the reporting periods is no longer required by IFRS 7R.

Details of the Bank's activities in relation to hedges of its net investment in foreign operations against foreign exchange movements are, as follows: *IFRS 7R.24B*

31 December 2018 **In $ million**	**Change in fair value of hedged item for ineffectiveness assessment**	**Translation reserve**	**Balances remaining in the Translation reserve for hedge accounting is no longer applied**
Investment in US subsidiaries	(13)	(42)	-
	(13)	**(42)**	**-**

Information regarding the foreign currency borrowings used as hedging instruments and hedge effectiveness is, as follows:

IFRS 7R.24A

31 December 2018	**Carrying value**		**Changes in fair value of hedging instruments used for measuring hedge ineffectiveness**			
In $ million				**Effective portion**	**Hedge ineffectiveness recognised in the income statement in**	**Reclassified into income statement into**
	Notional amount	**Liabilities**	**In Total**	**Recognised in OCI**	**Other interest expense**[1]	**Net trading income**
Micro net investment hedges						
Issued USD debt (recognised in Debt issued and other borrowed funds)	322	322	13	13	-	-
	322	**322**	**13**	**13**	**-**	**-**

Commentary

The columns with nil values in the above table are intended to illustrate that entities may have fact patterns that give rise to such disclosures.

The following table shows the maturity of the hedging instruments: *IFRS 7R.23B*

As at 31 December 2018 **In $ million**	**Less than 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Borrowings in USD	20	302	-	-	-	322

49. Risk Management continued

49.6. Market risk continued

49.6.3. Market risk -Banking book continued

49.6.3.4. Currency sensitivities

The table below indicates the currencies to which the Bank had significant exposure at the end of the reported periods on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Goodland dollar (all other variables being constant) on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges). A negative amount in the table reflects a potential net reduction in the income statement or equity, while a positive amount reflects a net potential increase. An equivalent decrease in each of the currencies below against the Goodland dollar would have resulted in an equivalent but opposite impact. *IFRS 7.B23 IFRS 7.40(b) EDTF 23*

IFRS 7.40(a) IFRS 7.34 IFRS 7.IG32(b) IFRS 7.IG33(b)

	2018			2017		
	Change in currency rate	Effect on profit before tax	Effect on equity	Change in currency rate	Effect on profit before tax	Effect on equity
	%	$ million	$ million	in %	$ million	$ million
Currency						
USD	+10	(7)	17	+10	(12)	15
GBP	+10	(6)	3	+10	(16)	2
EUR	+10	(8)	(2)	+10	(4)	4

IFRS 7.B24

49.6.3.5. Hedging activities impact on equity *IFRS 7R.24E(a) IFRS 7R.24F-F*

In $ million	**Cash flow hedging reserve**	**Translation reserve**
Opening balance as at 1 January 2018	**324**	**51**
Cash flow hedges		
Effective portion of changes in fair value arising from:		
Cross currency interest rate swaps	33	
Interest rate swaps	162	
Net amount reclassified to profit or loss into		
Other interest expense	(22)	
Net trading income	(8)	
Net loss on hedge of net investment in foreign operations		
Foreign currency revaluation of issued USD debt		13
Foreign currency revaluation on the hedged net foreign operations		(13)
Foreign currency revaluation on the un-hedged net foreign operations		(5)
Tax impact of the above	(52)	
Closing balance as at 1 January 2018	**437**	**46**

The $5m revaluation loss represents the revaluation of a number of smaller foreign investments of the Bank that the Bank decided not to hedge (2017: loss of $56m)

Commentary

IFRS 7R.24E(b)-(c) are only relevant to entities applying IFRS 9 for hedge accounting, therefore these requirements are not addressed in this publication.

49.6.4. Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. The non-trading equity price risk exposure arises from equity securities classified as available-for-sale. A 10 per cent increase in the value of the Bank's equities at FVOCI at 31 December 2018 would have increased equity by $62 million (2017 for available-for-sale equities: $61 million). An equivalent decrease would have resulted in an equivalent but opposite impact and would cause a potential impairment, which would reduce profit before tax by approximately $40 million (2017 for available-for-sale equities: $14 million). *IFRS 7.40(a)*

49. Risk Management continued

49.6. Market risk continued

49.6.4. Equity price risk continued

EDTF Commentary

EDTF 23 Provide further qualitative and quantitative breakdowns of significant trading and non-trading market risk factors that may be relevant to the bank's portfolios beyond interest rates, foreign exchange, commodities and equity measures

In addition to the above disclosures, in its publication EDTF recommends:

"Banks might consider providing additional information.

Primary risk management measures, such as VaR, could be analysed into risk factors, providing:

- a breakdown of relevant trading market risk factors beyond interest rates, foreign exchange rates and commodity and equity prices to support qualitative disclosures which discuss the nature, significance, measurement and control of these and other risk factors. For example, mortgage risks such as prepayment/extension risk could be included as an additional risk factor for a bank with a significant residential mortgage portfolio. Significant issuer credit exposures, credit spread, migration and jump-to-default measures and credit and/or debit valuation adjustments could also be included to reflect trading portfolio credit risk;
- market risk factors and related measures supporting an analysis of non-trading portfolio to the extent they are relevant, including:
- interest rate risk in the banking book: significant risk factors analysed, for example, by currency or benchmark curve, re-pricing risk, yield curve risk, prepayment risk and basis risks;
- foreign exchange risk: significant currency exposures in non-functional currencies analysed by type, such as net investment structural exposures and non-structural balance sheet exposures; and
- equity price risk: significant equity exposures analysed by core risk factor (e.g. regional or sector equity index).

Relevant shift and/or shock scenarios and their particular effects on earnings, net interest income, capital and/or other risk measures could be presented to the extent that they are consistent with the way the bank manages its risk.

A quantitative analysis showing the effect of changes in significant market risk factors on unfunded pension liabilities as well as how pension liability risk is managed over the long-term could also be presented.

Such disclosures would provide users with more specific information about a bank's exposures and enable them to evaluate how business models vary from bank to bank. This should help to improve transparency and comparability across banks"

(*Report of the Enhanced Disclosure Task Force*, 29 October 2012)

49.7.Country risk

Country risk is the risk that an occurrence within a country could have an adverse effect on the Bank, directly by impairing the value of the Group or indirectly through an obligor's ability to meet its obligations to the Bank. Generally, these occurrences relate, but are not limited, to: sovereign events such as defaults or restructuring; political events such as contested elections or referendums; restrictions on currency movements; non–market currency convertibility; regional conflicts; economic contagion from other events such as sovereign default issues or regional turmoil; banking and currency crisis; and natural disasters.

The Bank's risk management framework incorporates a number of measures and tools to monitor this risk. These measures include: stress testing of concentrated portfolios; various limits by country; country risk management committee (meets quarterly or as necessary to review and re-assess guidance for each country and region); and a risk rating by country which determines the frequency of a country's review (weekly, bi–weekly, monthly, or quarterly). The country risk is generally identified with the domicile of the legal entity which is the Group's counterparty, unless the majority of assets or revenues of such entity are located in another country, in which case reference is made to such different country. The following tables provides a summary of exposures by country of risk:

Notes to the Financial Statements

49. Risk Management continued

49.7. Country risk continued

49.7.1. Geographical analysis

Commentary

Badland reflects the disclosure requirements when macro-economic factors of a country show severe deterioration in credit quality to the extent separate disclosures are required for the true and fair presentation of the entity's risk exposure. It is not intended to represent a specific sovereign entity or country.

31 December 2018	**Goodland**	**Badland**	**Europe**	**Americas**	**Asia**	**Total**
Financial Assets	**$ million**	**$ million**	**$ million**	**$ million**	**$ million**	**$ million**
Sovereign debt						
Financial assets held for trading	1,176	152	1,216	357	230	3,131
Debt instruments at fair value through other comprehensive income	801	93	744	333	161	2,132
Equity instruments at fair value through other comprehensive income	418	1	8	13	7	447
Total sovereign debt	**2,395**	**246**	**1,968**	**703**	**398**	**5,710**
Financial assets held for trading *of which pledged as collateral*	6,410	105	859	350	215	7,939
Other assets						
Financial assets held for trading	6,681	97	779	1,323	819	9,699
Debt instruments at fair value through other comprehensive income	1,570	119	955	1,621	1,004	5,269
Debt instruments at amortised cost	1,583	2	15	26	16	1,642
Cash and balances with central bank	659	82	658	1,117	691	3,207
Due from banks	3,996	214	1,709	2,902	1,797	10,618
Cash collateral on securities borrowed and reverse purchase agreement	2,864	154	1,229	2,088	1,293	7,628
Derivative financial instruments	2,806	151	1,204	2,045	1,267	7,473
Other assets	409	-	-	-	-	409
Financial assets at fair value through profit or loss	1471	26	204	347	214	2,262
Loans and advances to customers	17,995	966	7,726	13,117	8,120	47,924
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	462	-	12	12	-	486
Non-financial assets	236	47	377	640	5	1,305
Total other assets	**40,732**	**1,858**	**14,868**	**25,238**	**15,226**	**97,922**
Total assets	**43,127**	**2,104**	**16,836**	**25,941**	**15,624**	**103,632**
Commitments and guarantees	**9,752**	**362**	**2,899**	**4,922**	**3,046**	**20,981**

49. Risk Management *continued*

49.7. Country risk *continued*

49.7.1 Geographical analysis continued

31 December 2017	Goodland	Badland	Europe	Americas	Asia	Total
Financial Assets	**$ million**	**$ million**	**$ million**	**$ million**	**$ million**	**$ million**
Sovereign debt						
Financial assets held for trading	1,172	174	1,392	254	129	3,121
Financial investments – Available for sale	981	142	1,132	215	143	2,613
Held-to-maturity	15	1	6	11	8	41
Total sovereign debt	**2,168**	**317**	**2,530**	**480**	**280**	**5,775**
Financial assets held for trading *of which pledged as collateral*	2,471	127	1,018	271	116	4,003
Financial investments – Available for sale *of which pledged as collateral*	1,626	210	1,679	340	143	3,988
	2,347	**337**	**2,697**	**611**	**259**	**7,991**
Other assets						
Other financial investments held for trading	4,253	97	772	1,312	813	7,247
Other financial investments available-for-sale	6,011	119	950	1,613	998	9,691
Other financial investments held-to-maturity	32	2	14	24	14	86
Cash and balances with central bank	1,127	54	436	740	457	2,814
Due from banks	3,938	211	1,691	2,871	1,778	10,489
Cash collateral on securities borrowed and reverse purchase agreement	2,881	155	1,237	2,100	1,300	7,673
Derivative financial instruments	2,682	144	1,152	1,955	1,211	7,144
Other assets	453	-	-	-	-	453
Financial assets at fair value through profit or loss	466	25	200	340	210	1,241
Loans and advances to customers	17,709	950	7,604	12,909	7,991	47,163
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	371	-	11	11	-	393
Non-financial assets	728	47	374	2	170	1,321
Total other assets	40,651	1,804	14,441	23,877	14,942	95,715
Total assets	**42,819**	**2,121**	**16,971**	**24,357**	**15,222**	**101,490**
Commitments and guarantees	**6,538**	**351**	**2,807**	**4,766**	**2,951**	**17,413**

49. Risk Management *continued*

49.8. Operational and business risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, such as the use of internal audit. *EDTF 31* *EDTF 32*

49.9. Compliance risk

Compliance risk encompasses regulatory and legal compliance risk. Compliance risk is the risk that the Bank incurs financial or reputational risk through imposition of penalties or fines as a result of not adhering to applicable laws; rules and regulations and good market practise (including ethical standards). The Bank's compliance function proactively seeks to enhance compliance risk management and the supporting control framework. The Bank operates in a market where there is a significant level of regulatory change activity, therefore compliance risk is a key area of focus for Senior. The compliance function monitors this risk through reference to metrics relevant to the Bank, review of incident reports and assessments, risk and control assessments pertaining to the first and second lines of defence functions, results of regulatory assessments, and review of results internal audit and external audit reports. Remediation of controls is conducted in a timely manner.

Commentary

IFRS 7 does not require any disclosures on operational risk. The narrative on operational risk is included for illustrative purpose only and does not cover all the possible operational risks for a bank.

EDTF Commentary

This section sometimes is presented in a separate business risk section and covers the following areas in detail:

EDTF 31 Describe 'other risk' types based on management's classifications and discuss how each one is identified, governed, measured and managed. In addition to risks such as operational risk, reputational risk, fraud risk and legal risk, it may be relevant to include topical risks such as business continuity, regulatory compliance, technology, and outsourcing.

EDTF 32 Discuss publicly known risk events related to other risks, including operational, regulatory compliance and legal risks, where material or potentially material loss events have occurred. Such disclosures should concentrate on the effect on the business, the lessons learned and the resulting changes to risk processes already implemented or in progress.

Appendix 1 – Information in other illustrative financial statements available

IFRS are illustrated across our various illustrative financial statements, as follows:

		Good Bank	Good Group	Good Group –Alternative Format	Good Group Interim	Good First-time Adopter	Good Insurance	Good Investment Fund (Equity and Liability)	Good Real Estate	Good Mining	Good Petroleum
	International Financial Reporting Standards (IFRS)										
IFRS 1	First-time Adoption of International Financial Reporting Standards					✓					✓
IFRS 2	Share-based Payment		✓	✓	✓	✓	✓		✓		
IFRS 3	Business Combinations		✓	✓	✓	✓	✓		✓	✓	✓
IFRS 4	Insurance Contracts						✓				
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations		✓	✓	✓	✓			✓		
IFRS 6	Exploration for and Evaluation of Mineral Resources									✓	✓
IFRS 7	Financial Instruments: Disclosures	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IFRS 8	Operating Segments	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IFRS 9	Financial Instruments	✓	✓	✓	✓			✓	✓		
IFRS 10	Consolidated Financial Statements	✓	✓	✓	✓		✓			✓	✓
IFRS 11	Joint Arrangements		✓	✓	✓					✓	✓
IFRS 12	Disclosure of Interests in Other Entities	✓	✓	✓	✓		✓			✓	✓
IFRS 13	Fair Value Measurement	✓	✓	✓	✓		✓	✓	✓	✓	✓
IFRS 14	Regulatory Deferral Accounts										
IFRS 15	Revenue from Contracts with Customers	✓	✓	✓				✓	✓		
IFRS 16	Leases										
IFRS 17	Insurance contracts										
	International Accounting Standards (IAS)										
IAS 1	Presentation of Financial Statements	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 2	Inventories		✓	✓	✓	✓			✓	✓	✓
IAS 7	Statement of Cash Flows	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 10	Events after the Reporting Period	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 11	Construction Contracts								✓		
IAS 12	Income Taxes	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 16	Property, Plant and Equipment		✓	✓		✓	✓		✓	✓	✓
IAS 17	Leases	✓	✓	✓	✓	✓	✓		✓	✓	✓
IAS 18	Revenue					✓	✓				✓
IAS 19	Employee Benefits	✓	✓	✓	✓	✓	✓			✓	✓
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance		✓	✓	✓						
IAS 21	The Effects of Changes in Foreign Exchange Rates	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 23	Borrowing Costs		✓	✓	✓	✓	✓		✓	✓	✓
IAS 24	Related Party Disclosures	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 26	Accounting and Reporting by Retirement Benefit Plans										
IAS 27	Separate Financial Statements										
IAS 28	Investments in Associates and Joint Ventures	✓	✓	✓	✓	✓	✓		✓		✓
IAS 29	Financial Reporting in Hyperinflationary Economies										

		Good Bank	Good Group	Good Group –Alternative Format	Good Group Interim	Good First-time Adopter	Good Insurance	Good Investment Fund (Equity and Liability)	Good Real Estate	Good Mining	Good Petroleum
	International Accounting Standards (IAS) continued										
IAS 32	Financial Instruments: Presentation	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 33	Earnings per Share	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 34	Interim Financial Reporting				✓						
IAS 36	Impairment of Assets	✓	✓	✓	✓	✓	✓		✓	✓	✓
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 38	Intangible Assets	✓	✓	✓	✓	✓	✓		✓	✓	✓
IAS 39	Financial Instruments: Recognition and Measurement					✓	✓				✓
IAS 40	Investment Property		✓	✓	✓	✓	✓		✓		
IAS 41	Agriculture										
	Interpretations										
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities		✓	✓	✓	✓				✓	✓
IFRIC 2	Members' Shares in Co–operative Entities and Similar Instruments										
IFRIC 4	Determining whether an Arrangement contains a Lease									✓	✓
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds				✓					✓	✓
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment			✓	✓	✓					
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies										
IFRIC 9	Reassessment of Embedded Derivatives		✓	✓	✓		✓				
IFRIC 10	Interim Financial Reporting and Impairment				✓						
IFRIC 12	Service Concession Arrangements										
IFRIC 13	Customer Loyalty Programmes					✓					
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction										
IFRIC 15	Agreements for the Construction of Real Estate								✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation					✓					
IFRIC 17	Distributions of Non-cash Assets to Owners				✓	✓					
IFRIC 18	Transfers of Assets from Customers		✓	✓	✓	✓					
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments				✓						
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine									✓	
IFRIC 21	Levies	✓	✓	✓	✓						
IFRIC 22	Foreign Currency Transactions and Advance Consideration		✓	✓							
IFRIC 23	Uncertainty over Income Tax Treatments										
SIC 7	Introduction of the Euro										
SIC 10	Government Assistance – No Specific Relation to Operating Activities										
SIC 15	Operating Leases – Incentives		✓	✓	✓	✓			✓		
SIC 25	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders					✓					
SIC 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease		✓	✓	✓	✓					

		Good Bank	Good Group	Good Group –Alternative Format	Good Group Interim	Good First-time Adopter	Good Insurance	Good Investment Fund (Equity and Liability)	Good Real Estate	Good Mining	Good Petroleum
SIC 29	Service Concession Arrangements: Disclosures										
SIC 31	Revenue — Barter Transactions Involving Advertising Services										
SIC 32	Intangible Assets — Web Site Costs										

This standard or interpretation is incorporated into these illustrative financial statements.

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

About EY's Global Banking & Capital Markets Sector
In today's globally competitive and highly regulated environment, managing risk effectively while satisfying an array of divergent stakeholders is a key goal of banks and securities firms. EY's Global Banking & Capital Markets Sector brings together a worldwide team of professionals to help you succeed — a team with deep technical experience in providing assurance, tax, transaction and advisory services. The Sector team works to anticipate market trends, identify their implications and develop points of view on relevant sector issues. Ultimately, this team enables us to help you meet your goals and compete more effectively.

EYG No. 001502-19Gbl
EY-000091740.indd (UK) 03/19.
Artwork by Creative Services Group London.

ED None

ey.com