



Good Bank (International) Limited

Illustrative consolidated
financial statements for the
year ended 31 December 2020

International GAAP®



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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
IFRS 9.IG.G.2	International Financial Reporting Standard No. 9 – Guidance on Implementing IFRS 9 Section G: Other, paragraph G.2
IAS 32.AG3	International Accounting Standard No. 32 – Appendix A – Application Guidance, paragraph AG3
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 7.35H	International Financial Reporting Standard No. 7, 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
Covid-19 Commentary	This edition of Good Bank provides commentary on issues that an entity may need to consider due to the impact of the Covid-19 pandemic
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)
IBOR	Interbank Offer Rate
IBOR reform Phase 1	Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7
IBOR reform Phase 2	Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39 IFRS 7, IFRS 4 and IFRS 16

Introduction

This publication contains an illustrative set of consolidated financial statements for Good Bank (International) Limited (Good Bank) and its subsidiaries (the Bank) for the year ended 31 December 2020 that is prepared in accordance with International Financial Reporting Standards (IFRS).¹ Good Bank and its subsidiaries are fictitious entities and Good Bank is incorporated and listed in the fictitious country of Goodland. The presentation currency of the Bank is the Goodland dollar (\$).

Objective

This set of illustrative financial statements is one of many prepared by EY to assist you in preparing your own financial statements. The illustrative financial statements are intended to reflect transactions, events and circumstances that we consider to be most common in the banking industry. Certain disclosures are included in these financial statements merely for illustrative purposes, even though they may be regarded as items or transactions that are not material for Good Bank.

The illustrative disclosures have been written to reflect the specific circumstances of Good Bank and should not be used for the financial statements of other banks without extensive tailoring. For example, it is assumed that Good 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. It should be noted that the illustrative financial statements of the Bank are not designed to satisfy any stock market or country-specific regulatory requirements.

Notations shown in the right-hand margin of each page are references to IFRS paragraphs that describe the specific disclosure requirements. Commentaries are provided to explain the basis for the disclosure or to address alternative disclosures not included in the illustrative financial statements. For a more comprehensive list of disclosure requirements, please refer to our publication, *International GAAP® Disclosure Checklist*.² If questions arise as to the IFRS requirements, it is essential to refer to the relevant source material and, where necessary, to seek appropriate professional advice.

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 assist 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*.

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

² Available on ey.com/ifrs

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 *Financial Instruments*, 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.

Taskforce on Disclosures about Expected Credit Losses report on 'Recommendations on a comprehensive set of IFRS 9 Expected Credit Loss disclosures'

In November 2017, three UK regulators, the Financial Conduct Authority (FCA), the Financial Reporting Council (FRC) and the Prudential Regulatory Authority (PRA) jointly established and sponsored a UK taskforce on disclosures of ECL (the 'Taskforce'). The idea was that the Taskforce would be a partnership between the preparer community and the investor and analyst community, coming together to engage constructively on ECL disclosures; the model for this was the EDTF.

The Taskforce published its first report in November 2018, which consisted of recommendations to describe a comprehensive set of ECL disclosures. The second report, which was published in December 2019, added further guidance and illustrative examples for the application of the recommendations, aiming to enhance comparability of the presentation of such disclosures by banks. The second report focuses, in particular, on disclosure of: the extent and nature of credit risk exposures and how this has evolved; forward-looking information about macro-economic conditions used in estimating ECL; and the sensitivity of ECL to different macro-economic scenarios. The reports' recommendations were developed for use by the UK banks represented on the Taskforce. However, the recommendations may be of relevance to other banks and similar financial institutions outside the UK and may be viewed as a guide to best practice. These illustrative financial statements endeavour to incorporate the recommendations where relevant and practical or where this would not have been practical, we have commented on this fact. These were incorporated into the 2019 edition of Good Bank's consolidated financial statements and no additional illustrative disclosures have been provided in this edition in this respect.

Basis of preparation and presentation

The Bank's consolidated annual financial statements are presented to illustrate consolidated 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 - December 2020](#)², or in one of EY's other sets of illustrative financial statements.

Changes in the 2020 edition of Good Bank (International) Limited annual financial statements

Changes to IFRS

The IFRS applied in these illustrative financial statements are those in issue as at 30 September 2020 and effective for annual periods beginning on or before 1 January 2020, unless otherwise stated. Standards issued, but not yet effective, as at 1 January 2020 are not illustrated in these financial statements, except for IBOR reform Phase 2, as noted below.

Interest Rate Benchmark Reform ("IBOR reform")

On 27 August 2020 the International Accounting Standards Board (IASB or the Board) published 'Interest Rate Benchmark Reform - Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' (IBOR reform Phase 2). IBOR reform Phase 2 provides temporary reliefs to address the accounting issues which arise upon the replacement of an InterBank Offered Rate (an IBOR) with an alternative nearly risk-free interest rate (an RFR). Publication of IBOR reform Phase 2 concludes the IASB's work to respond to the effects of IBOR reform on financial reporting.

The effective date of the IBOR reform Phase 2 amendments is for annual periods beginning on or after 1 January 2021, with early application permitted. The requirements must be applied retrospectively. Any hedging relationships that were discontinued solely due to IBOR reform and meet the qualifying criteria for hedge accounting when the Phase 2 amendments are applied, must be reinstated upon initial application. The IBOR reform Phase 2 amendments are expected to be endorsed by the EU in time for 2020 December year-end reporting.

For the purposes of these financial statements, the Bank has adopted the IBOR reform Phase 2 amendments early in its financial statements for the year ended 31 December 2020, and has provided the required disclosures in the notes to the financial statements (refer to [Notes 5.1.1, 7.18, 8.5, 8.6, 8.7, 48.6.3.1 and 48.7.1.1](#)). For those entities that are not early adopting the IBOR reform Phase 2 amendments for the year ended 31 December 2020, the relevant commentaries describe the disclosures that would apply in that case.

The IASB completed Phase 1 in 2019 with the publication of 'Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7' (IBOR reform Phase 1) which provided temporary reliefs to enable hedge accounting to continue during the period of uncertainty before the replacement of an IBOR with an RFR. The IBOR reform Phase 1 amendments were effective for periods beginning on or after 1 January 2020 with early application permitted. The Bank early adopted the IBOR reform Phase 1 amendments for the year ended 31 December 2019. This is illustrated in our publication, [Good Bank \(International\) - December 2019](#)² Therefore, this version of Good Bank does not include the disclosures for first-time application of the IBOR reform Phase 1 amendments, but it includes the IBOR reform Phase 1 disclosures which will continue to be required until the uncertainty caused by IBOR reform ceases, at which point, the IBOR reform Phase 1 reliefs will end and the disclosures will no longer be required. For those entities applying the IBOR reform Phase 1 amendments for the first time for the year end 31 December 2020, the relevant commentaries provide the disclosures that would apply in that case.

With respect to interim reporting during 2021, entities that early adopt IBOR reform Phase 2 at 31 December 2020, must provide updated disclosure in the interim periods to the extent that there are significant changes to the risks the entity is exposed to due to IBOR reform as reported at the previous year end. The same applies with respect to the IBOR reform Phase 1 disclosures, which all entities must apply at 31 December 2020. This reflects the requirement in *IAS 34 Interim financial reporting*, paragraph 25, that the interim financial report includes all information that is relevant to understanding an entity's financial position and performance during the interim period. For example, if an entity makes significant transitions during an interim period (as may be reasonably expected during 2021), it may be necessary to update the Phase 1 and Phase 2 quantitative disclosures provided at year end.

Those entities that do not early adopt IBOR reform Phase 2 must apply it from 1 January 2021. These entities must meet the requirements of IAS 34 paragraph 44, that any change in accounting policy is applied from the beginning of the financial year and are therefore required to provide the IBOR reform Phase 2 amendments in each of the interim reporting periods. Also, those entities should still consider whether the risks posed by IBOR reform warrant additional disclosure under *IFRS 7 Financial Instruments: Disclosure*. The objective of IFRS 7 includes that entities provide disclosures that enable users of the financial statements to evaluate the nature and extent of risks arising from financial instruments and how the entity is managing those risks.

For entities with financial instruments that reference IBORs at 31 December 2020, since those instruments may need to transition to RFRs during 2021 before many IBORs cease to be available, additional disclosure of the risks to the entity posed by transition may be required under IFRS 7. The types of risks to which the entity may be exposed due to IBOR reform may include those listed in [Notes 48.6.3.1](#) and [48.7.1.1](#). The disclosures under IFRS 7 with respect to the risks arising from financial instruments which relate to IBOR reform may include information similar to that required by IBOR reform Phase 2 and may be addressed by providing purely qualitative disclosure. Our publication, *Applying IFRS - IBOR reform*², provides detailed guidance on the implementation of IBOR reform Phase 1 and IBOR reform Phase 2, including the additional disclosures required. The document was first published in October 2020 and as additional implementation issues are identified, the document will be reissued and updated with further guidance.

Covid-19

The Covid-19 outbreak was first reported near the end of 2019. At that time, a cluster of cases displaying the symptoms of a 'pneumonia of unknown cause' were identified in Wuhan, the capital of China's Hubei province. On 31 December 2019, China alerted the World Health Organisation (WHO) of this new virus. On 30 January 2020, the International Health Regulations Emergency Committee of the WHO declared the outbreak a 'Public Health Emergency of International Concern'. Since then, the virus has spread worldwide. On 11 March 2020, the WHO declared the Covid-19 outbreak to be a pandemic.

Covid-19 has significantly impacted the world economy. Many countries have imposed travel bans and lockdowns on millions of people and additionally people in many locations are subject to quarantine measures. Businesses are dealing with lost revenue and disrupted supply chains. While some countries have started to ease their lockdowns, the relaxation has been gradual and, as a result of the disruption to businesses, millions of workers have lost their jobs. The Covid-19 pandemic has also resulted in significant volatility in the financial and commodities markets worldwide. Numerous governments have announced measures to provide both financial and non-financial assistance to the affected entities.

The Covid-19 pandemic affects the assumptions and estimation uncertainty associated with the measurement of assets and liabilities. Therefore, entities should carefully consider whether additional disclosures are necessary in order to help users of financial statements understand the judgements applied in the financial statements.

As noted in our publication, *Applying IFRS - Accounting considerations of the coronavirus pandemic*², entities should, in particular, consider the accounting and disclosure requirements with regard to: going concern; financial instruments; impairment assessment of non-financial assets; government grants; income taxes; liabilities from insurance contracts; leases; insurance recoveries; onerous contract provisions; fair value measurement; revenue recognition; inventories; events after the reporting period; other financial statement disclosure requirements; and other accounting estimates.

These developments have presented entities with challenges in preparing their IFRS financial statements. This publication provides a summary of the existing disclosure requirements that should be considered when reporting on the financial effects of the Covid-19 pandemic in IFRS financial statements. However, as the impact largely depends on the nature of an entity's business and the extent to which it has been affected, the potential impact has not been illustrated in the numbers reported by Good Bank. Additional commentary specific to the impact of Covid-19 on the various components of the financial statements has been provided, including a reminder of the relevant disclosure considerations and examples of the additional information that should be provided where relevant.

The purpose of the Covid-19 commentaries is to aid entities in making their assessments as to what the Covid-19 impact is on recognition, measurement, presentation, and disclosures. It should be noted that as the Covid-19 pandemic keeps evolving and will likely affect the remainder of 2020 and 2021, entities should consider the latest guidance released in their jurisdiction along with those presented in EY's [Good Group \(International\) Limited - December 2020](#)² and other publications available on ey.com/ifrs for instance the *Applying IFRS* publication mentioned above.

Alternative performance measures

The use of alternative performance measures (APMs or non-GAAP measures) is common practice in communicating financial information to investors. APMs are financial measures that are not defined in the applicable reporting framework. The number of APMs in use is large and varied depending on the message the entities are trying to convey. Entities that are considering to present APMs in their financial statements should refer to our publications:

- ▶ [Applying IFRS: Alternative Performance Measures](#) (October 2018)
- ▶ [Applying IFRS: Impact of coronavirus on alternative performance measures and disclosures](#) (May 2020).

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 2020

General information

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Consolidated income statement

for the year ended 31 December 2020

In \$ million	Notes	2020	2019	
				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
Interest revenue calculated using the effective interest method	10	4,409	4,253	IAS 1.46, IAS 1.45
Other interest and similar income	10	342	352	IFRS 7.20(b); IAS 1.82(a)
Interest expense calculated using the effective interest method	11	(1,728)	(1,833)	IFRS 7.20(b), IAS 1.82(b)
Other interest and similar expense	11	(301)	(289)	
Net interest income		2,722	2,483	
Fee and commission income	12	1,477	1,215	IFRS 7.20(c)(i)
Fee and commission expense		(133)	(170)	IFRS 7.20(c)(i)
Net fee and commission income		1,344	1,045	
Net trading income	13	395	167	IFRS 7.20(a)(i)
Credit loss expense on financial assets	14	(303)	(270)	IAS 1.82(ba),
Net gains/(losses) on financial assets at fair value through profit or loss	15	(24)	(7)	IFRS 7.20(a)(i)
Net gains/(losses) on financial liabilities at fair value through profit or loss	15	(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 7.20(a)(v),(vi) IAS 1.82(aa), IFRS 7.20A
Net gains/(losses) on derecognition of financial assets measured at fair value through other comprehensive income		(3)	–	IAS 1.82(aa)
Other operating income	16	86	82	IAS 1.99, IAS 1.103
Net operating income		4,213	3,497	IAS 1.82(a), IAS 1.85
Personnel expenses	17	(1,180)	(1,264)	IAS 1.99
Depreciation of property, equipment and right-of-use assets	33	(239)	(242)	IAS 1.99
Amortisation of intangible assets		(37)	(35)	IAS 1.99, IAS 38.118(d)
Other operating expenses	18	(584)	(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	19	(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

Covid-19 commentary

As the impact of Covid-19 on the IFRS financial statements of banks largely depends on the nature of an entity's business and the extent to which it has been affected by the pandemic, the potential impact has not been illustrated in the numbers reported by Good Bank. Additional commentary specific to the impact of Covid-19 on the various components of the financial statements has been provided, including a reminder of the disclosures and examples of the additional information that should be provided where relevant.

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 Interpretations 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 IFRS Interpretations 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 10](#). 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 its 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 7.20(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.

IFRS 16.49 requires a lessee to present in the statement of profit or loss, the interest expense on lease liabilities separately from the depreciation charge for the right-of-use asset. The interest expense on the lease liabilities is a component of finance costs, which IAS 1.82(b) requires to be presented separately in the statement of profit or loss. Consistent with this requirement, the Bank presented interest expense on lease liabilities under 'Other interest and similar expense' and the depreciation charge on the right-of-use asset under 'Depreciation of property, equipment and right-of-use assets'.

Consolidated statement of comprehensive income

for the year ended 31 December 2020

In \$ million	Notes	2020	2019	IAS 1.10(b), IAS 1.10A IAS 1.51 (a)-(e), IAS 1.1G IAS 1.7, IAS 1.106A. IAS 1.51,(d),(e) IAS 1.81A, IAS 12.61A IAS 1.81A (a) IAS 1.82A
Profit for the year		1,657	711	
Other comprehensive income that will not be reclassified to the income statement				
Fair value changes on financial liabilities designated at fair value due to the Bank's own credit risk		3	–	IFRS 7.20(a)(i)
Revaluation gains/(losses) on equity instruments at fair value through other comprehensive income	47.8	10	17	IFRS 7.20(a)(vii)
Income tax related to the above		(4)	(5)	IAS 1.90, IAS 1.91(b)
Total items that will not be reclassified to the income statement		9	12	
Other comprehensive income that will be reclassified to the income statement				IAS 1.82A
<u>Foreign currency translation:</u>				
Net gains/(losses) on hedges of net investments	48.6.4.1	18	20	IAS 39.102 (a), IFRS 7.24C(b)(i)
Exchange differences on translation of foreign operations	48.6.4.1	(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)
<u>Cash flow hedges:</u>				
Hedging net gains/(losses) arising during the year	48.7.1.3	195	83	IFRS 7.24C(b)(i)
Less: Reclassification to the income statement		(30)	(25)	IAS 1.92, IFRS 7.24C(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 7.24C(b)(i)
<u>Debt instruments at fair value through other comprehensive income:</u>				
Net change in fair value during the year		(67)	(128)	IAS 1.7(da)
Changes in allowance for expected credit losses		4	39	
Reclassification to the income statement		29	(14)	
Income tax related to the above		10	31	
Net gains/(losses) on debt instruments at fair value through other comprehensive income:		(24)	(72)	
Total items that will be reclassified to the income statement		84	(70)	
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	

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 2020

In \$ million		2020	2019	
Assets	Notes			IAS 1.10(a) IAS 1.51 (a)-(e) IAS 1.51(d),(e)
Cash and balances with central banks	22	3,207	2,814	IAS 1.54(i)
Due from banks	23	10,618	10,489	IAS 1.54(d), IFRS 7.8(f)
Cash collateral on securities borrowed and reverse repurchase agreements	24	7,628	7,673	IAS 1.54(d), IFRS 7.8(f)
Derivative financial instruments	28	7,473	7,144	IAS 1.54(d), IFRS 7.8(a)
Financial assets held for trading	27	12,830	10,368	IAS 1.54(d), IFRS 7.8(a)
<i>of which pledged as collateral</i>	27	7,939	4,003	IFRS 9.3.2.23, IAS 39.37(a)
Financial assets at fair value through profit or loss	27	2,262	1,241	IAS 1.54(d), IFRS 7.8(a)
Debt instruments at fair value through other comprehensive income	30	7,401	10,037	IAS 1.54(d), IFRS 7.8(h)
Equity instruments at fair value through other comprehensive income	30	447	624	IAS 1.54(d), IFRS 7.8(h)
Loans and advances to customers	31	47,924	47,163	IAS 1.54(d), IFRS 7.8(f)
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	30	1,642	1,770	IAS 1.54(d), IFRS 7.8(f)
Other assets	32	1,443	453	IAS 1.55
Property and equipment and right-of-use assets	33	973	1,006	IAS 1.54(a)
Deferred tax assets	19	240	237	IAS 1.54(o)
Goodwill and other intangible assets	34	58	78	IAS 1.54(c)
Total assets		104,632	101,490	
Liabilities				
Due to banks		7,408	7,319	IAS 1.54(m), IFRS 7.8(g)
Cash collateral on securities lent and repurchase agreements	24	8,128	8,221	IAS 1.54(m)
Derivative financial instruments	28	8,065	7,826	IAS 1.54(m), IFRS 7.8(e)
Financial liabilities held for trading	27	4,160	4,078	IAS 1.54(m), IFRS 7.8(e)
Financial liabilities at fair value through profit or loss	27	3,620	4,536	IAS 1.54(m), IFRS 7.8(e)
Due to customers	35	56,143	56,177	IAS 1.54(m), IFRS 7.8(g)
Current tax liabilities		245	156	IAS 1.54(n)
Other liabilities	36	2,215	2,101	IAS 1.55
Debt issued and other borrowed funds	39	6,310	4,192	IAS 1.54(m), IFRS 7.8(g)
Provisions	37	586	376	IAS 1.54(l)
Deferred tax liabilities	19	502	546	IAS 1.54(o)
Total liabilities		97,382	95,528	
Equity attributable to equity holders of parent				
Issued capital	40	675	675	IAS 1.54(r), IAS 1.78(e)
Treasury shares	40	(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	3,460	IAS 1.54(r), IAS 1.78(e)
Other reserves		732	645	IAS 1.54(r), IAS 1.78(e)
Total equity attributable to parent		7,190	5,921	IAS 1.54(r)
Total equity attributable to non-controlling interest		60	41	IFRS 10 B94, IAS 1.54(q)
Total equity		7,250	5,962	
Total liabilities and equity		104,632	101,490	

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 its 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).

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 FVOCI within the 'Fair value reserve' and the movement in fair value of liabilities measured at 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 2020

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	IAS 1.78(e) IAS 1.106	
												Total equity	
As at 1 January 2020	675	(19)	1,160	324	161	(3)	51	112	3,460	5,921	41	5,962	IAS 1.106(d)
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 7.20(a)(viii)
Net amount reclassified to the income statement on sale of debt instruments at FVOCI	-	-	-	-	20	-	-	-	-	20	-	20	IFRS 7.20(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 7.24C(b)(xi)
Net gains on cash flow hedges reclassified to the income statement	-	-	-	(21)	-	-	-	-	-	(21)	-	(21)	IFRS 7.24C(b)(iv) IAS 1.92
Foreign currency translation	-	-	-	-	-	-	(18)	-	-	(18)	-	(18)	IAS 21.52(b), IFRS 7.24(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 7.20(a)(vii)
Fair value of own credit risk changes of financial liabilities at FVPL	-	-	-	-	-	2	-	-	-	2	-	2	IFRS 7.10(a)
Total comprehensive income	-	-	-	113	(17)	2	(5)	-	1,637	1,730	20	1,750	IAS 1.106(a)
Dividends (Note 21)	-	-	-	-	-	-	-	-	(458)	(458)	(1)	(459)	IAS 1.107
Net purchase of treasury shares (Note 40)	-	(3)	-	-	-	-	-	-	-	(3)	-	(3)	IAS 1.106 (d)(iii)
At 31 December 2020	675	(22)	1,160	437	138	(1)	46	112	4,645	7,190	60	7,250	

Consolidated statement of changes in equity for the year ended 31 December 2019

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 1 January 2019	674	(15)	1,159	283	221	(3)	90	102	3,161	5,672	34	5,706	IAS 1.106(d)
Total comprehensive income net of tax													
Net result from continuing operations	-	-	-	-	-	-	-	-	703	703	8	711	
Net change in fair value of debt instruments at FVOCI	-	-	-	-	(77)	-	-	-	-	(77)	-	(77)	IFRS 7.20(a),(ii)
Net amount reclassified to the income statement on sale of debt instruments at FVOCI	-	-	-	-	(10)	-	-	-	-	(10)	-	(10)	IFRS 7.20(a)(viii) IAS 1.92
Net changes in allowance for expected credit losses of debt instruments at FVOCI	-	-	-	-	10	-	-	-	-	10	-	10	
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	
Net change in fair value of equity instruments at FVOCI	-	-	-	-	17	-	-	-	-	17	-	17	IFRS 7.20(a)(vii)
Total comprehensive income	-	-	-	41	(60)	-	(39)	-	703	645	8	653	IAS 1.106(a)
Issue of share capital (Note 40)	1	-	-	-	-	-	-	-	-	2	-	2	IAS 1.106(d)(iii)
Equity portion of convertible debt	-	-	-	-	-	-	-	10	-	10	-	10	IAS 1.106(d)(iii)
Dividends (Note 21)	-	-	-	-	-	-	-	-	(404)	(404)	(1)	(405)	IAS 1.107
Net purchase of treasury shares (Note 40)	-	(4)	-	-	-	-	-	-	-	(4)	-	(4)	IAS 1.106 (d)(iii)
At 31 December 2019	675	(19)	1,160	324	161	(3)	51	112	3,460	5,921	41	5,962	

Consolidated statement of cash flows

for the year ended 31 December 2020

In \$ million	Notes	2020	2019	IAS 1.10(d), IFRS 5.34 IAS 7.18(b) IAS 1.51(d),(e) IAS 7.10, IAS 7.18(b)
Operating activities				
Profit before tax		2,173	934	
Adjustment for:				
Change in operating assets	43	2,822	(2,311)	IAS 7.20(a)
Change in operating liabilities	43	210	2,116	IAS 7.20(a)
Other non-cash items included in profit before tax	43	659	260	IAS 7.20(b)
Net gain/(loss) from investing activities		(3,514)	(3,454)	IAS 7.20(c)
Net gain/(loss) from financing activities		(2,817)	2,880	
Income tax paid		112	(64)	IAS 7.35
Net cash flows from operating activities		(355)	361	
Investing activities				IAS 7.21, IAS 7.10
Purchase of property and equipment	33	(218)	(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 used in investing activities		(213)	(91)	
Financing activities				IAS 7.21, IAS 7.10
Proceeds from exercise of options		–	2	IAS 7.17(a)
Purchase of treasury shares	40	(5)	(7)	IAS 7.17(b)
Proceeds from sale of treasury shares	40	2	3	IAS 7.17(a)
Proceeds from issuance of write-down bonds	39	2,000	–	IAS 7.17(c)
Repayment of \$1billion fixed rate notes due 2020	39	(1,000)	–	IAS 7.17(d)
Repayment of principal portion of lease liabilities	33	(151)	(150)	IAS 7.17(d)
Dividends paid to equity holders of the parent		(451)	(418)	IAS 7.31
Net cash flows from/(used in) financing activities		394	(570)	
Net 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	43	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

Commentary - Statement of cash flows

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.

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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 2020 were authorised for issue in accordance with a resolution of the directors on 28 February 2021.

IAS 10.17

2. Basis of preparation

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) and debt and equity instruments at fair value through other comprehensive income (FVOCI) 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 1.112(a)
IAS 1.117(a),(b)

IAS 1.51(d),(e)

Covid-19 commentary

Background

Entities need to consider the impact of Covid-19 in preparing their financial statements. While the specific areas of judgement may not change, the impact of Covid-19 resulted in the application of further judgement within those areas due to the evolving nature of the pandemic and the limited recent experience of the economic and financial impacts of such an event. Also, significant changes to estimates may need to be made in the measurement of entities' assets and liabilities.

Entities should also consider whether to disclose the measures they have taken, in line with the recommendations of the WHO and national health ministries, to preserve the health of their employees and support the prevention of contagion in their administrative and operational areas, where relevant.

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 41](#).

Notes to the Financial Statements

5. Changes in accounting policies and disclosures

5.1. New and amended standards and interpretations

The Bank has adopted early the requirements of 'Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' (IBOR reform Phase 2) which is effective for annual periods beginning on or after 1 January 2021 with earlier adoption permitted. This has resulted in additional disclosures as described below (refer to [Note 5.1.1](#)). The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective other than IBOR reform Phase 2.

IAS 8.14
IAS 8.28

Several other amendments and interpretations apply for the first time in 2020, but do not have an impact on the Bank's consolidated financial statements.

5.1.1. IBOR reform Phase 2

IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free-rate (RFR).

Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

As indicated in the accounting policies, the Bank elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39.

IBOR reform Phase 2 provides temporary reliefs that allow the Bank's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the Bank to amend hedge designations and hedge documentation. This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and / or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. Updates to the hedging documentation must be made by the end of the reporting period in which a replacement takes place. For the retrospective assessment of hedge effectiveness, the Bank may elect on a hedge by hedge basis to reset the cumulative fair value change to zero. The Bank may designate an interest rate as a non-contractually specified, hedged risk component of changes in the fair value or cash flows of a hedged item, provided the interest rate risk component is separately identifiable, e.g., it is an established benchmark that is widely used in the market to price loans and derivatives. For new RFRs that are not yet an established benchmark, relief is provided from this requirement provided the Bank reasonably expects the RFR to become separately identifiable within 24 months. For hedges of groups of items, the Bank is required to transfer to subgroups those instruments that reference RFRs. Any hedging relationships that prior to application of IBOR reform Phase 2, have been discontinued solely due to IBOR reform and meet the qualifying criteria for hedge accounting when IBOR reform Phase 2 is applied, must be reinstated upon initial application.

Commentary

The Bank has elected to adopt early IBOR reform Phase 2 for its 2020 year-end. The amendments would otherwise mandatorily take effect from 1 January 2021. The main benefit of adopting the amendments early is that they provide relief to enable the transition of an IBOR to a RFR during the period to be reflected as a change to a floating rate of interest and to allow hedging relationships to continue if they are amended to reflect the transition. With respect to the IBOR reform Phase 2 disclosures, by early adopting it for its 2020 year-end, the Bank will provide IBOR reform related disclosures in its 2021 interim financial statements to the extent that there are significant changes since its 2020 year-end, for example, if and when significant volumes of instruments transition to RFRs. Had the entity not early adopted the amendments for its 2020 year-end, it would provide the full disclosures for IBOR reform Phase 2 in each of its 2021 interim financial statements.

The hedge accounting reliefs described are common between the hedge accounting requirements of IFRS 9 and IAS 39 with the exception of those that relate to hedge effectiveness testing, which relate only to entities applying IAS 39 hedge accounting.

As a consequence of adopting the amendments early, in addition to enhancing its accounting policies note, the Bank must provide additional disclosure which includes a description of how it is managing its transition from IBOR to the replacement benchmark interest rates, its progress at the reporting date and quantitative information disaggregated by significant IBOR, split between non-derivative financial assets, non-derivative financial liabilities and derivatives. Refer to [Notes 8.7](#) and [48.7.1](#) for disclosures relating to the impact of adopting the amendments on judgements and estimates as well as on fair value and cash flow hedges and [Note 48.7.1.1](#) for the quantitative information disaggregated by significant IBOR.

Entities that will only adopt the IBOR reform Phase 2 amendments from their effective date for periods beginning on or after 1 January 2021, should provide the disclosures required by IAS 8.30. This requires the provision of information to enable users to assess the possible impact of the amendments on the entity's financial statements on initial application, including any judgements and assumptions made to that effect. If the impact is not known or is not reasonably estimable, this must be stated.

Notes to the Financial Statements

5. Changes in accounting policies and disclosures *continued*

5.1 New and amended standards and interpretations *continued*

If the Bank were applying IBOR reform Phase 1 for the first time in its financial statements for the year ended 31 December 2020, the text below would be included in [Note 5.1](#). The Phase 1 amendments reduce the effects of any uncertainty in hedge accounting relationships arising from IBOR reform. As a consequence of applying the Phase 1 amendments, in addition to enhancing its accounting policies note, the Bank would provide disclosure which includes a description of how it is managing its transition from IBOR to the replacement benchmark interest rates and the extent to which it has applied the Phase 1 reliefs. Refer to the commentary to [Notes 8.7](#) and [48.6.3.1](#) for disclosures relating to the impact of adopting the Phase 1 amendments on judgements and estimates as well as fair value and cash flow hedges.

The below is based on an extract from *Good Bank (International) - December 2019*², where the IBOR Phase 1 amendments were adopted early:

Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7

The Bank adopted Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (IBOR reform Phase 1) with effect from 1 January 2020. IBOR reform Phase 1 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective. IBOR reform Phase 1 provides reliefs which require the Bank to assume that hedging relationships are unaffected by the uncertainties caused by IBOR reform. This includes assuming that hedged cash flows are not altered as a result of IBOR reform. Also, the reliefs allow the Bank to not discontinue hedging relationships as a result of retrospective or prospective ineffectiveness. IBOR Reform Phase 1 also requires additional disclosures in relation to those hedging relationships to which the reliefs are applied.

Commentary

The Bank has listed only the disclosure of new and amended standards and interpretations that are effective from 1 January 2020, that had an impact on the Bank's financial statements. An illustrative example of all the disclosures of new and amended standards that are effective from 1 January 2020, are available in our publication [Good Group \(International\) Limited - December 2020](#).²

In some jurisdictions, the adoption of IFRS for reporting purposes may be subject to a specific legal process (e.g., in the European Union or Australia). In those jurisdictions, the effective dates may therefore be different from the IASB's effective dates. Nevertheless, all new standards and interpretations must be considered for disclosure as standards issued but not yet effective, in accordance with IAS 8.30, when an entity provides a complete set of financial statements, irrespective of whether the legal process referred to above has been completed.

Notes to the Financial Statements

6. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2020 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 Bank 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 Bank's accounting policies. All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Bank 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 Bank 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
IFRS 10.B99

Given the level of judgement required regarding consolidation of structured entities, these considerations are described further in the Significant accounting judgements in [Note 8.2](#). Disclosures for investment in subsidiaries, structured entities, securitisations and asset management activities are provided in [Note 26](#).

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.

Notes to the Financial Statements

7. Summary of significant accounting policies *continued*

7.2. Recognition of interest income

7.2.1. *The effective interest rate method*

Under IFRS 9, 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. 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)
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

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

The Bank has early adopted IBOR reform Phase 2 for its 2020 year end, which allows as a practical expedient for changes to the basis for determining contractual cash flows to be treated as changes to a floating rate of interest, provided certain conditions are met. The conditions include that the change is necessary as a direct consequence of IBOR reform and that the transition takes place on an economically equivalent basis. IBOR reform
Phase 2
IFRS 9.5.4.7

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 28](#)) 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

When a financial asset becomes credit-impaired (as set out in [Note 7.13.1](#) 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 7.13.1](#)) 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

Notes to the Financial Statements

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 7.13.1](#)), 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 11](#).

IAS 1.112(c)

Commentary

At its March 2019 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 credit-impaired (and therefore stage 3) financial assets should be accounted. The Committee concluded that the current requirements of IFRS 9.5.5.8 are sufficiently clear and prescribe that previously unrecognised interest revenue of a cured but previously credit-impaired financial asset should be recognised as a reversal of an impairment loss.

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

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 include multiple performance obligations, as explained further in [Notes 7.3.1](#) and [7.3.2](#) below.

IFRS 15.22
IFRS 15.32

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 [Notes 7.3.1](#) and [7.3.2](#) below).

IFRS 15.B34

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.

IFRS 15.123

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in [Note 0](#).

Commentary

The nature of each of the Bank's revenue contracts result in a single performance obligation. Therefore, the Bank has not made any 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.

Notes to the Financial Statements

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. Asset management fees consist of management and performance fees that are considered variable consideration.

IFRS 15.26(e)
IFRS 15.126(a)-(c)

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 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.

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

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 0](#) for the significant judgements made on asset management fees.

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. 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 15.123
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. 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). 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

Notes to the Financial Statements

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

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.

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

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. The Bank has a single performance obligation with respect to these services, which is to successfully complete the transaction specified in the contract.

IFRS 15.31, 38
IFRS 15.119

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 15.22(a)
IFRS 15.27,29(c)

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

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.

IFRS 15.35,
IFRS 15.38

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.

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

Notes to the Financial Statements

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.

Whilst the Bank provides brokerage services, they are 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 performance obligation 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

Commentary

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).

The nature of the underwriting services described above relates to the services as performed in Goodland. 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 15.119 requires an entity to provide more descriptive information about its performance 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.

IFRS 15.29(c)

Notes to the Financial Statements

7. Summary of significant accounting policies *continued*

7.3. Fee and commission income *continued*

7.3.3. 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.

7.4. 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. 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 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 7.20a(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 7.20(a)
(v),(vi)

Notes to the Financial Statements

7. Summary of significant accounting policies continued

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.

IFRS 9.3.1.1

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.

IFRS 9.5.1.1

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.

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.

Covid-19 commentary

Changes in accounting policies and accounting estimates for financial instruments

Newly originated loans under banks or government sponsored schemes may be issued at below market rates, hence, their fair value at initial recognition may be below cost or may be provided in connection with a government grant or other forms of government assistance. Additionally, payment deferrals for existing loans require amendments to contracts which could consequently be accounted for as modification or derecognition events in accordance with IFRS 9. Specific guidance on these and other potential accounting implications is included in our publication *Applying IFRS - Accounting considerations of the coronavirus pandemic*.²

In most instances, existing accounting policies will be sufficient to account for payment deferral programmes or other forms of customer support provided by banks. However, if new accounting policies are introduced or changes in existing policies are made, these would have to be disclosed in accordance with IAS 8 (in addition to requiring retrospective application, if material).

Good Bank's accounting policies in this respect are summarised in the following notes:

[Note 7.7](#) - Financial instruments - initial recognition

[Note 7.9](#) - Financial assets and liabilities by financial statement line

[Note 7.10](#) - Reclassification of financial assets and liabilities

[Note 7.11](#) - Derecognition of financial assets and liabilities

[Note 7.13](#) - Impairment of financial assets

[Note 7.14](#) - Credit enhancements: collateral valuation and financial guarantees

[Note 7.17](#) - Forborne and modified loans

Additionally, new significant judgments affecting financial instruments may be made as result of Covid-19. As an example, when new loans originated under a government backed scheme involve extension or prepayment options which could have an impact on the effective interest rate (e.g., because the base rate or the spread changes), the bank is required to disclose how the effective interest rate was determined. Similarly, any changes in estimated amounts compared to those reported in the prior financial years would have to be disclosed, if material. Good Bank's significant accounting judgements, estimates and assumptions in this respect are summarised in the following notes:

[Note 7.13](#) - Impairment losses on financial assets

[Note 8.6](#) - Effective Interest Rate (EIR)

Further guidance and examples of illustrative disclosures in respect of payment deferrals, guaranteed loans - including those guaranteed by the state - and other support are set out in [Note 48.4.10](#).

Notes to the Financial Statements

7. Summary of significant accounting policies continued

7.7. Financial instruments - initial recognition continued

7.7.4. Measurement categories of financial assets and liabilities

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

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

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 47 Fair value measurement](#). IFRS 13.45-46
IFRS 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.

Notes to the Financial Statements

7. Summary of significant accounting policies continued

7.9. Financial assets and liabilities per financial statement line

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

The Bank measures *Due from banks, Loans and advances to customers* and other financial investments at amortised cost only 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 asset 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. IFRS 9's application guidance and EY's *International GAAP*® publication provide specific examples of instruments that pass or fail the SPPI test.

In the context of IBOR reform, as financial assets transition from IBOR to RFRs, if a change is substantial, the old instrument will be derecognised and a new one recognised. The IASB considered whether in this situation, further guidance was required in addition to that already included in IFRS 9 for the SPPI assessment. The IASB concluded that existing IFRS 9 was sufficient and noted that, provided the replacement interest calculation rate is consistent with compensating lenders for the time value of money, the instrument should pass the SPPI test. Entities will need to apply judgement to determine whether following transition, the asset's amended contractual cash flows continue to represent solely payments of interest and principal. For further guidance in this area, see our publication, [Applying IFRS - IBOR reform](#), which is available on ey.com/ifrs. Also, entities must assess when financial instruments transition, whether the new basis for determining the contractual cash flows is economically equivalent to the previous basis. This judgment associated with this assessment is discussed in [Note 8.6](#) Effective Interest Rate (EIR) method.

Notes to the Financial Statements

7. Summary of significant accounting policies *continued*

7.9. Financial assets and liabilities per financial statement line item *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:

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 28](#). 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 48.7.1](#).

IFRS 9.4.1.4
IFRS 9.4.2.1(a)

IFRS 9.5.2.1
IFRS 9.5.3.1

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

Derivatives embedded in financial liability or a non-financial host are separated from the host and accounted for as separate derivatives if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative (as defined above); and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

IFRS 9.4.3.3

Financial assets are classified in their entirety based on the business model and SPPI assessments as outlined in [Note 7.9.1.2](#).

IFRS 9.4.3.2

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.

IFRS 9 Appendix A

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

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.

Notes to the Financial Statements

7. Summary of significant accounting policies *continued*

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

7.9.4. Debt instruments at FVOCI

The Bank classifies debt instruments 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

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 7.13.3](#). 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

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.

IFRS 9.5.3.1
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 39](#).

IAS 32.28

IAS 32.29

IAS 32.30

IAS 32.31

Notes to the Financial Statements

7. Summary of significant accounting policies continued

7.9. Financial assets and liabilities per financial statement line item 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:

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

IFRS 9.B4.1.29-32

Or

- ▶ The liabilities are part of a group of financial liabilities, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy

IFRS 9.B4.1.33-36

Or

- ▶ The liabilities 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

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.

IFRS 9.5.2.1
IFRS 9.5.3.1
IFRS 9.7.7
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 an ECL allowance as set out in [Note 0](#).

IFRS 9 Appendix A

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, 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 ECL are disclosed in [Note 37.1](#).

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 [48.4.3](#)) and the amount initially recognised less, when appropriate, the cumulative amount of income recognised as outlined in [Note 12](#).

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.

Notes to the Financial Statements

7. Summary of significant accounting policies *continued*

7.10. Reclassification of financial assets and liabilities

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.

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. The Bank's accounting policy in respect of forbore and modified loans is set out in [Note 7.17](#).

IFRS 9.B3.3.6

In the context of IBOR reform, the Bank's assessment of whether a change to an amortised cost financial instrument is substantial, is made after applying the practical expedient introduced by IBOR reform Phase 2. This requires the transition from an IBOR to an RFR to be treated as a change to a floating interest rate as described in [Note 7.2.1](#) above.

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.

IFRS 9.3.2.2

The Bank has transferred the financial asset if, and only if, either:

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:

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

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 *continued*

7.11.2.1. Financial assets *continued*

A transfer only qualifies for derecognition if either:

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

IFRS 9.3.2.9

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.

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.

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.

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.

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.

IFRS 9.3.3.1

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.

IFRS 9.3.3.2

IFRS 9.3.3.3

7.12. Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

IAS 32.42

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

IAS 32.42(a)

Positions that are managed on a Settled-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 relevant notional amounts are still disclosed in [Note 29](#) of the financial statements. The carrying amounts represent the called but not yet settled balances. Products that the Bank manages on a Settled-to-market basis include: exchange traded futures and options and over-the-counter interest rate and foreign currency swaps cleared through Goodland Clearing House.

IAS 32 AG38A

IAS 32.42(b)

IAS 32 AG38B

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 the following circumstances:

- ▶ The normal course of business
- ▶ The event of default
- ▶ The event of insolvency or bankruptcy of the Bank and/or its counterparties

Notes to the Financial Statements

7. Summary of significant accounting policies *continued*

7.13. Impairment of financial assets

7.13.1. Overview of the ECL principles

The Bank records an allowance for expected credit loss 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 losses 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 losses (12mECL) as outlined in [Note 7.13.2](#). IFRS 9.5.5.3
The Bank's policies for determining if there has been a significant increase in credit risk are set out in [Note 48.4.3.5](#). IFRS 9.5.5.5

The 12mECL is the portion of LTECL that represent the ECL 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 LTECL and 12mECL 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 48.4.3.6](#).

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 48.4.3.5](#).

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 12mECL. 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 LTECL. 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 48.4.3.1](#).) The Bank records an allowance for the LTECL.
- ▶ 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. The ECL allowance is 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

Notes to the Financial Statements

7. Summary of significant accounting policies *continued*

7.13. Impairment of financial assets *continued*

7.13.2. The calculation of ECL

The Bank calculates ECL 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 PD is further explained in [Note 48.4.3.2](#).
- ▶ 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 48.4.3.3](#).
- ▶ 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 and not required to be recognised separately, as set out in [Note 7.14](#). It is usually expressed as a percentage of the EAD. The LGD is further explained in [Note 48.4.3.4](#).

When estimating the ECL, 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 7.13.5](#). 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 7.13.5](#), 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

Notes to the Financial Statements

7. Summary of significant accounting policies *continued*

7.13. Impairment of financial assets *continued*

7.13.2. The calculation of ECL *continued*

Provisions for ECL for undrawn loan commitments are assessed as set out in [Note 0](#). The calculation of ECL (including the ECL related to the undrawn element) of revolving facilities such as credit cards is explained in [Note 7.13.5](#).

IFRS 7.B8E

The mechanics of the ECL method are summarised below:

- ▶ Stage 1: The 12mECL is calculated as the portion of LTECL that represent the ECL 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 LTECL. 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 48.4.3.1](#)), 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 ECL since initial recognition, based on a probability-weighting of the four scenarios, discounted by the credit-adjusted EIR.
- ▶ Loan commitments and letters of credit When estimating LTECL 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
- ▶ Financial guarantee contracts For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECL is calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within *Provisions*. IFRS 7.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 ECL 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 ECL related to financial guarantee contracts are recognised within *Provisions*. IFRS 9.B5.5.48
IFRS 7.B8E

Notes to the Financial Statements

7. Summary of significant accounting policies continued

7.13. Impairment of financial assets continued

7.13.3. Debt instruments measured at fair value through OCI

The ECL 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

7.13.4. 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

7.13.5. 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 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 ECL 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 48.4.3.2](#), but greater emphasis is also given to qualitative factors such as changes in usage. IFRS 9.5.5.3
IFRS 9.5.5.5

The interest rate used to discount the ECL 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 ECL, including the estimation of the expected period of exposure and discount rate is made, as explained in [Note 48.4.3.6](#), 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.

Notes to the Financial Statements

7. Summary of significant accounting policies *continued*

7.13. Impairment of financial assets *continued*

7.13.6. Forward looking information

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

IFRS 7.35G(b)
IFRS 7.B8C

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

The inputs and models used for calculating ECL 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 48.4.4](#).

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.

Covid-19 commentary

Given the timing of the emergence of the Covid-19 pandemic, it is expected that the economic assumptions applied and disclosed by banks as of 31 December 2019 in respect of forward looking information will need to be adjusted significantly to reflect the development of the pandemic by amending one or more of the existing scenarios. Additional Covid 19-related commentary is provided in [Note 48.4.4](#) and an example of disclosures in respect of model adjustments and management overlays is provided in [Note 48.4.7](#).

7.14. 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. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. Cash flows expected from credit enhancements which are not required to be recognised separately by IFRS standards and which are considered integral to the contractual terms of a debt instrument which is subject to ECL, are included in the measurement of those ECL. On this basis, the fair value of collateral affects the calculation of ECL. Collateral 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 48.4.12](#).

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.

Commentary

The IFRS IC published a final agenda decision in March 2019 which concluded that if a credit enhancement is required to be recognised separately by IFRS standards, an entity cannot include cash flows expected from it in the measurement of expected credit losses.

Guarantees held are included in the measurement of loan ECL when either they are specified in the contractual terms of the loan or else are integral to the loan, in that they formed part of the basis on which the loan was extended.

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 our publication*, International GAAP® 2020, Chapter 51, section 5.8.1 Credit enhancements: collateral and financial guarantees.

Covid-19 commentary

As a consequence of the impact of Covid-19 on markets and financial instrument valuations, there may be an impact on the value of guarantees and other credit enhancements, which will need to be taken into account in the measurement of ECL with corresponding disclosures where material.

Further guidance in respect of Covid-19 related loans guaranteed by the state and other support is set out in [Note 48.4.10](#).

Notes to the Financial Statements

7. Summary of significant accounting policies *continued*

7.15. Collateral repossessed

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)*

7.16. Write-offs

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 7.35F(e)*
IFRS 9.5.4.4

Commentary

IFRS 7.35L 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.

7.17. 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. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. *IFRS 7.B5(g)*
IFRS 7.IG27
IFRS 7.35F(f)

EDTF 27
IFRS 7.B5(g)

If modifications are substantial, the loan is derecognised, as explained in [Note 7.16](#). Once the terms have been renegotiated without this resulting in the derecognition of the loan, any impairment is measured using the original EIR as calculated before the modification of terms. The Bank also reassesses whether there has been a significant increase in credit risk, as set out in [Note 48.4.3.5](#), and whether the assets should be classified as Stage 3. 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 9.5.4.3*
IFRS 9.B5.5.25-26

IFRS 9.5.5.12
IFRS 7.35F(f)
EDTF 2

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:

- ▶ 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 48.4.9](#).

Notes to the Financial Statements

7. Summary of significant accounting policies *continued*

7.17. 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.

Covid-19 commentary

Following the Covid-19 pandemic, the circumstances in which payment holidays and similar measures were normally granted have changed significantly. Various payment deferral arrangements have been initiated by borrowers, banks and governments which were not necessarily prompted by an assessment of the financial condition of the borrower. As highlighted by the IASB in its document 'IFRS 9 and covid-19' issued on 27 March 2020, in these specific circumstances, it may not be appropriate to apply previously established approaches to assessing significant increase in credit risk (SICR) for payment holidays in a mechanistic manner. Relevant guidance has been provided in [Notes 7.7](#), [48.4.3.5](#), and [48.4.10](#).

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 [Note 48.7.1.2](#).

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 hedging 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.

IBOR reform
Phase 1
IAS 39.102F
IAS 39.102G

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)

Notes to the Financial Statements

7. Summary of significant accounting policies *continued*

7.18. Hedge accounting *continued*

The Bank applies the IBOR reform Phase 1 reliefs to hedging relationships directly affected by IBOR reform during the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (RFR). A hedging relationship is affected if IBOR reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. The reliefs require that for the purpose of determining whether a forecast transaction is highly probable, it is assumed that the IBOR on which the hedged cash flows are based is not altered as a result of IBOR reform.

*IBOR Reform
Phase 1
IAS 39.102D*

*IBOR Reform
Phase 1
IAS 39.102J*

IBOR reform Phase 1 requires that for hedging relationships affected by IBOR reform, the Bank must assume that for the purpose of assessing expected future hedge effectiveness, the interest rate is not altered as a result of IBOR reform. Also, the Bank is not required to discontinue the hedging relationship if the results of the assessment of retrospective hedge effectiveness fall outside the range of 80% to 125%, although any hedge ineffectiveness must be recognised in profit or loss, as normal.

*IBOR Reform
Phase 1
IAS 39.102G*

The reliefs cease to apply once certain conditions are met. These include when the uncertainty arising from IBOR reform is no longer present with respect to the timing and amount of the benchmark-based cash flows of the hedged item, if the hedging relationship is discontinued or once amounts in the cash flow hedge reserve have been released.

*IBOR Reform
Phase 2
IAS 39.102P*

The Bank has adopted early IBOR reform Phase 2 for its December 2020 year-end. IBOR reform Phase 2 provides temporary reliefs that allow the Bank's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the Bank to amend the hedge designations and hedge documentation and are set out in [Note 5.1.1](#).

IAS 39.102S

IAS 39.102V

Commentary

If the Bank were applying IBOR reform Phase 1 for the first time in its financial statements for the year ended 31 December 2020, year end, the text shown below could be included in this note in addition to the description of the IBOR reform Phase 1 reliefs above:

"The Bank has applied IBOR reform Phase 1 for the first time in the year ended 31 December 2020. IBOR reform Phase 1 provides reliefs which the Bank applies to hedging relationships directly affected by interest rate benchmark reform during the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (RFR)."

Notes to the Financial Statements

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 48.7.1](#), 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 7.22A

IFRS 7.22B(b)

IFRS 7.22B(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 7.22B(c)
IFRS 7.23D

- ▶ 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 7.22A
IFRS 7.23C

Commentary

IFRS 7.22B(c) requires 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 re-designation of the hedge accounting relationship. The latter is considered a dynamic hedging strategy with the related disclosure requirements set out in IFRS 7.23C.

To the extent the Bank applies the IBOR reform Phase 2 relief for the retrospective hedge effectiveness to reset the cumulative fair value to zero, it may be necessary to describe the election of the relief here.

Also, as a consequence of IBOR reform, entities may need to enhance their disclosures (Note 48.6.3.1) to explain the additional sources of interest rate risk-related hedge ineffectiveness that may reasonably be expected to arise as financial instruments designated in hedging relationship are affected by the IBOR reform. For example, the remeasurement of the hedging instrument and the hedged item as financial instruments transition from IBOR to RFRs may give rise to additional hedge ineffectiveness that must be recognised in line with the normal requirements. In addition, in applying the 24-month relief from the separately identifiable requirement for hedges of risk components, the associated hedge ineffectiveness which could arise may be appropriately highlighted in this disclosure.

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 and fixed rate issued long-term deposits. These hedge relationships are assessed for prospective and retrospective hedge effectiveness on a monthly basis.

IFRS 7.22A
IFRS 7.22B

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, 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 7.22A
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 7.22B
IFRS 7.23C

IAS 39 AG 113

IAS 39.92

IBOR reform Phase 2 provide relief for items within a designated group of items such as those forming part of the Bank's macro fair value hedging strategy, that are amended as a result of IBOR reform. The reliefs allow the Bank's hedging strategy to remain and not be discontinued. As items within the hedged group transition at different times from IBORs to RFRs, the Bank transfers them to sub-groups of instruments that reference RFRs as the hedged risk.

7.18.2. Cash flow hedges

In accordance with its wider risk management, as set out in [Note 48.7.1](#), 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 7.22A

Notes to the Financial Statements

7. Summary of significant accounting policies *continued*

7.18. Hedge accounting *continued*

7.18.2 Cash flow hedges (*continued*)

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 48.7.1.3](#). IFRS 7.22B

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 7.22B(c)

IBOR reform Phase 1 requires that for the purpose of determining whether a forecast transaction is highly probable, it is assumed that the IBOR on which the hedged cash flows are based is not altered as a result of IBOR reform. IBOR reform Phase 1, IAS 39 102D

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:

7.18.2.1. 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 7.22B

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 7.22B

7.18.2.2. Macro cash-flow hedges

As set out in [Note 48.7.1.2](#), 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. IAS 39.102 IFRS 7.22A IFRS 7.22B

IBOR reform Phase 2 provides relief for items within a designated group of items such as those forming part of the Bank's macro cash-flow hedging strategy, that are amended as a result of IBOR reform. The reliefs allow the Bank's hedging strategy to remain and not be discontinued. As items within the hedged group transition at different times from IBORs to RFRs, the Bank transfers them to sub-groups of instruments that reference RFRs as the hedged risk. At each transition, the hypothetical derivative for the subgroup is updated.

Notes to the Financial Statements

7. Summary of significant accounting policies continued

7.18. Hedge accounting continued

7.18.3. Hedge of a net investment

In accordance with its wider risk management, as set out in [Note 48.7.1](#), 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.

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 7.22B
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)
IFRS
9.B3.2.16(a)-(c)

IFRS 9.3.2.15

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. 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.

IFRS
9.B3.2.16(a)-(c)

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.

IFRS 7.14
IFRS 7.15
IFRS 7.42D(a)-(c)

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 9.B3.2.16(a)-(c)

Notes to the Financial Statements

7. Summary of significant accounting policies *continued*

7.22. Leases

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

IFRS 16.9

7.22.1. Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

IFRS 16.9

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

IFRS 16.23

IFRS 16.24

IFRS 16.30

IFRS 16.32

The right-of-use assets are presented within [Note 33 Property, equipment and right-of-use assets](#) and are subject to impairment in line with the Bank's policy as described in [Note 7.26 - Impairment of non-financial assets](#).

Commentary

Under IFRS 16, the cost of a right-of-use asset also includes an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period (IFRS 16. 24(d)).

The Bank's lease arrangements do not contain an obligation to dismantle and remove the underlying asset, restore the site on which it is located or restore the underlying asset to a specified condition.

Lease liabilities

IFRS 16.26

IFRS 16.27

IFRS 16.38(b)

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

Notes to the Financial Statements

7. Summary of significant accounting policies continued

7.22. Leases continued

7.22.2. Bank as a lessor

Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease 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. IFRS 16.61
IFRS 16.62
IFRS 16.81
IFRS 16.83

Commentary

The Bank is not exposed to finance leases as a lessor. An illustrative example of finance leases as a lessor are available in EY's [Good Group \(International\) Limited - December 2020](#).²

Covid-19 commentary

The IASB issued *Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases* to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic.

Many lessors have provided rent concessions to lessees as a result of the Covid-19 pandemic. Rent concessions can include rent holidays or rent reductions for a period of time, possibly followed by increased rent payments in future periods. Applying the requirements in IFRS 16 for changes to lease payments, particularly assessing whether the rent concessions are lease modifications and applying the required accounting, could be practically difficult in the current environment. The objective of the amendment is to provide lessees that have been granted Covid-19 related rent concessions with practical relief, while still providing useful information about leases to users of the financial statements.

However, as the amendment does not address lessor accounting, lessors may face some challenges in assessing how to account for rent concessions.

Entities will need to assess whether the regulator in their jurisdiction allows the use of the relief and the date from which it is effective.

The Bank did not have any leases impacted by the amendment. More detailed illustrative disclosures are provided in our publication [Good Group \(International\) Limited - December 2020](#).²

7.23. Property, equipment and right-of-use assets

Property and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortisation period or methodology, as appropriate, and treated as changes in accounting estimates. Right-of-use assets are presented together with property and equipment in the statement of financial position - refer to the accounting policy in [Note 7.22](#). Right-of-use assets are depreciated on a straight-line basis over the lease term. IAS 16.12
IAS 16.30
IAS 16.73(a)

Depreciation of owned assets is calculated on a straight-line basis over the estimated useful lives of the assets, as follows: IAS 16.73(b)
IAS 16.73(c)

- ▶ Buildings 25 to 40 years
- ▶ Computer hardware 3 years
- ▶ Other furniture and equipment 2-5 to 10 years

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised. IAS 16.67
IAS 16.68
IAS 16.71

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate. IAS 16.51

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 - December 2020](#).²

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 - December 2020](#).²

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 - December 2020](#).²

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 - December 2020](#).²

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 37](#). 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 19](#). 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

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

Notes to the Financial Statements

7. Summary of significant accounting policies *continued*

7.29. Taxes *continued*

7.29.2. *Deferred taxation continued*

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

7.33. 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 allowance for ECL
 - ▶ The cumulative net change in fair value of equity instruments at FVOCI
- ▶ 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 40](#))

Notes to the Financial Statements

7. Summary of significant accounting policies *continued*

7.34. Standards issued but not yet effective

The new and amended 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 17 - Insurance contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. IFRS 17 introduces new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17.

Credit cards and similar products that provide insurance coverage: most issuers of these products will be able to continue with their existing accounting treatment as a financial instrument under IFRS 9. IFRS 17 excludes from its scope credit card contracts (and other similar contracts that provide credit or payment arrangements) that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer. When the insurance coverage is provided as part of the contractual terms of the credit card, the issuer is required to:

- ▶ Separate the insurance coverage component and apply IFRS 17 to it
- ▶ Apply other applicable standards (such as IFRS 9, IFRS 15 *Revenue from Contracts with Customers* or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*) to the other components

Loan contracts that meet the definition of insurance but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract: Issuers of such loans - e.g. a loan with waiver on death - have an option to apply IFRS 9 or IFRS 17. The election would be made at a portfolio level and would be irrevocable.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

The Bank is currently in the process of assessing the impact of adopting IFRS 17 on its financial statements.

7.34.2. IFRS 9 Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 *Annual Improvements to IFRS standards* process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Bank will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual period in which it will first apply the amendment and does not expect this will result in a material impact on its financial statements.

Commentary

IAS 8.30 requires disclosure of 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 possible impact of the application of such IFRSs on an entity's financial statements. The Bank has listed only those standards and interpretations that are expected to have an impact on its financial position, performance, presentation and/ or disclosures. An illustrative example of all the disclosures of new and amended standards that have been issued but are not yet effective are available in [Good Group \(International\) Limited - December 2020](#).²

Notes to the Financial Statements

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. *IFRS 9 Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities continued*

IBOR reform Phase 2

Had the Bank chosen not to early adopt the IBOR reform Phase 2 amendments, it would be required to provide a description of the new requirements within this note, since the amendments otherwise take effect from 1 January 2021. The description provided would be as follows:

7.34.4 Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39 IFRS 7, IFRS 4 and IFRS 16

In August 2020 the IASB issued Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, (IBOR reform Phase 2) to address the accounting issues which arise upon the replacement of an IBOR with a RFR.

[The wording of the note would then follow that provided above in note 5.1.1 IBOR reform Phase 2, with an additional sentence added.]

The Bank will apply IBOR reform Phase 2 from 1 January 2021.

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

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. IAS 1.125

Commentary

IAS 1 requires an entity to disclose significant judgements applied in preparing the financial statements (IAS 1.122) and significant estimates that involve a high degree of estimation uncertainty (IAS 1.125). The disclosure requirements go beyond the requirements that exist in some other IFRS, such as IAS 37.

These disclosures represent a very important source of information in the financial statements because they highlight the areas in the financial statements that are most prone to change in the foreseeable future. Therefore, any information given should be sufficiently detailed to help readers of the financial statements understand the impact of possible significant changes.

The Bank has included disclosures of significant judgements and estimates 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 in this section, per the requirements of IAS 1. Further illustrative disclosures are included in [Good Group \(International\) Limited - December 2020](#).² It is important that entities carefully assess which judgements and estimates are most significant as required by IAS 1 and make the disclosures accordingly, to allow the users of the financial statements to appreciate the impact of the judgements and estimation uncertainties. Disclosures of judgements and estimation uncertainties that do not have a significant risk of resulting in material adjustments may clutter the financial statements in a way that reduces the users' ability to identify the key judgements and estimation uncertainties.

Covid-19 commentary

Given the level of uncertainty and the sensitivity of judgements and estimates, clear disclosure of the key assumptions used and judgements made is particularly important in financial statements prepared during the Covid-19 pandemic. Entities should carefully scrutinise their existing judgements and estimates, but may also find additional areas in which they will need to make judgements and estimates.

8.1. Impairment losses on financial assets

The measurement of impairment losses both under IFRS 9 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.

Notes to the Financial Statements

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

8.1. Impairment losses on financial assets *continued*

Covid-19 commentary

Large-scale business disruptions may give rise to liquidity issues for some entities and consumers. Deterioration in credit quality of loan portfolios (amongst other items) as a result of the Covid-19 pandemic may have a significant impact on an entity's ECL measurement.

A number of regulators have published guidance on the regulatory and accounting implications of the impact of the Covid-19 pandemic. In March 2020, the IASB published a document, for educational purposes, entitled *Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the Covid-19 pandemic* to help support the consistent application of accounting standards on ECL.

The document is broadly consistent with the guidance from the regulators and emphasises that IFRS 9 does not set bright lines or a mechanistic approach to determining when there is a significant increase in credit risk (SICR), nor does it dictate the exact basis on which entities should determine forward looking scenarios to measure expected credit losses.

Entities should consider the following in updating their ECL calculations due to the Covid-19 pandemic:

- ▶ The use of reasonable and supportable information. Given the unprecedented circumstances, it is critical that entities provide transparent disclosure of the critical assumptions and judgements used to measure the ECL
- ▶ Significant changes to the economic outlook and the impact on macroeconomic scenarios and assumptions - refer to the Covid-19 guidance set out in [Note 48.4.4](#)
- ▶ Re-segmentation of loan portfolios or groups of receivables
- ▶ Individual and collective assessment of loans, receivables and other financial assets. In order to accelerate the detection of changes in credit quality not yet detected at an individual level, it may be appropriate to adjust ratings and the probabilities of default on a collective basis, considering risk characteristics such as the industry or geographical location of the borrowers
- ▶ Extension of payment terms. If payment terms are extended in light of the current economic circumstances, the terms and conditions of the extension will have to be assessed to determine their impacts on the ECL estimate, including SICR, in the context of the various support programs - further guidance and examples are set out in [Notes 31.1, 48.4.3.5, and 48.4.10](#).

The impact of material overlays on the ECL estimate (refer to [Note 48.4.7](#)).

8.2. 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 26](#). 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 26](#).

IFRS 12.2(a)
IFRS 12.B21

IFRS 12.7
IFRS 10.B15
IFRS 10. B23

Notes to the Financial Statements

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

8.3. 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.

Covid-19 commentary

IAS 1.25 requires management, when preparing financial statements, to assess an entity's ability to continue as a going concern, and whether the going concern assumption is appropriate. In assessing whether the going concern assumption is appropriate, the standard requires an entity to consider all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. When an entity is aware, in making its going concern assessment, of material uncertainties related to events or conditions that may cast significant doubt upon its ability to continue as a going concern, it must disclose those uncertainties.

Entities will need to disclose the significant judgements made in the assessment of the existence of a material uncertainty. This will be particularly relevant should the financial statements be prepared on another basis than the going concern basis.

When making that assessment, management takes into consideration the existing and anticipated effects of the outbreak on the entity's activities. In their assessment of going concern, management should consider all available information about the future that was obtained after the reporting date, up until the date on which the financial statements are issued. This includes, but is not limited to, measures taken by governments and regulators in addition to the banks themselves to provide relief to affected entities. Considerations that an entity might disclose to address its going concern basis include:

- ▶ Future projections of profitability, cash flows, capital requirements and resources including stress scenarios that reflect the increased uncertainty caused by the pandemic
- ▶ Actions the entity has taken to address and manage the increased and emerging risks
- ▶ Consideration of the entity's business model and related risks
- ▶ Any challenges of the underlying data and assumptions used to make the going concern assessment

8.4. 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 47](#).

IFRS 13.9
IFRS 13.24

Commentary

In the context of IBOR reform, as financial instruments transition to RFRs, any change to the referenced interest rate affects the cash flows of the financial instrument and therefore its fair value. The transition may also result in a change to the interest rate used for the purpose of discounting the cash flows, which also affects the financial instrument's fair value. Entities must use judgement to select the discount rate which is most appropriate for the financial instrument and IBOR reform affects the different possible interest rate benchmarks that could be selected.

Notes to the Financial Statements

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

8.5. Derecognition of financial instruments in the context of IBOR reform

As explained in [Note 7.11.1](#), the Bank derecognises financial assets and financial liabilities if there has been a substantial modification of their terms and conditions. In the context of IBOR reform, many financial instruments have already been amended or will be amended during 2021 as they transition from IBORs to RFRs. In addition to the interest rate of a financial instrument changing, there may be other changes made to the terms of the financial instrument at the time of transition.

*IBOR reform
Phase 2
IFRS 9.5.4.7*

For financial instruments measured at amortised cost, the Bank first applies the practical expedient as described below in [Note 8.6](#), to reflect the change in the referenced interest rate from an IBOR to a RFR. Second, for any changes not covered by the practical expedient, the Bank applies judgement to assess whether the changes are substantial and if they are, the financial instrument is derecognised and a new financial instrument is recognised. If the changes are not substantial, the Bank adjusts the gross carrying amount of the financial instrument by the present value of the changes not covered by the practical expedient, discounted using the revised EIR.

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*

The Bank has early adopted IBOR reform Phase 2, which requires as a practical expedient for changes to the basis for determining contractual cash flows that are necessary as a direct consequence of IBOR reform, to be treated as a change to a floating rate of interest provided the transition from IBOR to RFR takes place on a basis that is economically equivalent. For changes that are not required by IBOR reform, the Bank applies judgment to determine whether they result in the financial instrument being derecognised or adjust its carrying value as described in [Note 8.5](#) above. Therefore, as financial instruments transition from IBOR to RFRs, the Bank applies judgment to assess whether the transition has taken place on an economically equivalent basis. In making this assessment, the Bank considers the extent of any changes to the contractual cash flows as a result of the transition and the factors that have given rise to the changes, with consideration of both quantitative and qualitative factors.

*IBOR reform
Phase 2
IFRS 9.5.4.7 to 9*

Commentary

Depending on the nature and extent of the Bank's exposure to IBOR reform, the assessment of whether a transition from an IBOR to a RFR takes place on an economically equivalent basis could be material to the Bank. If so, the Bank should consider whether the assessment of economic equivalence represents a significant judgement that requires separate disclosure. Determining what is meant by economic equivalence, is discussed in further detail in the EY publication, [Applying IFRS, IBOR reform](#), available on ey.com/ifrs.

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 [Note 7.18](#), and the sensitivities most relevant to prepayment risk are disclosed in [Note 48.6.3.3](#).

*IAS 1.122
IAS 1.125*

The Bank applies temporary reliefs which enable its hedge accounting to continue during the period of uncertainty, before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. For the purpose of determining whether a forecast transaction is highly probable, the reliefs require to be assumed that the IBOR on which the hedged cash flows are based is not altered as a result of IBOR reform.

*IBOR reform
Phase 1 IFRS
7.24H(d)*

*IBOR reform
Phase 1
IAS 39.*

Notes to the Financial Statements

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

8.7. Hedge accounting *continued*

The Bank has adopted early IBOR reform Phase 2, which provides temporary reliefs to enable the Bank's hedge accounting to continue upon the replacement of an IBOR with an RFR. Under one of the reliefs, the Bank may elect for individual RFRs designated as hedging the fair value or cash flows of the hedged item for changes due to a non-contractually specified component of interest rate risk, to be deemed as meeting the IAS 39 requirement to be separately identifiable. The separately identifiable requirement and the related relief is described in [Note 5.1.1](#). For each RFR to which the relief has been applied, the Bank judges that both the volume and market liquidity of financial instruments that reference the RFR and are priced using the RFR will increase during the 24-month period with the result that the hedged RFR risk component will become separately identifiable in the change in fair value or cash flows of the hedged item.

*IBOR reform
Phase 2
IAS 39 102Z1
IAS 39 102Z2*

Commentary

The assessment of whether a RFR is separately identifiable and, if it is not, the time period over which the Bank expects it to become separately identifiable is a judgement the Bank will need to make in order to apply the twenty-four month relief introduced by the IBOR reform Phase 2 amendments, which the Bank has adopted early for the 2020 year end. For more guidance on what the Bank could reasonably consider in its judgement, refer to our publication, [Applying IFRS, IBOR reform](#), available on ey.com/ifrs.

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 19](#)).

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.

8.9. 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 disclosures 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 [Notes 7.28, 37](#) and [44](#).

Notes to the Financial Statements

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

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

The Bank has determined that, at contract inception, it cannot conclude that it is highly probable that a significant reversal of revenue 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.

IFRS 15.84(b), 85

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.

Notes to the Financial Statements

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

8.10. Revenue recognition from contracts with customers *continued*

▶ *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)

Commentary

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).

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.

8.11. **Determination of the lease term for lease contracts with renewal and termination options (Bank as a lessee)**

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

IFRS 16.18
IFRS 16.19

The Bank has several lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

8.12. **Estimating the incremental borrowing rate**

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as the subsidiary's stand-alone credit rating, or to reflect the terms and conditions of the lease).

IFRS 16.26

Notes to the Financial Statements

9. Segment information

During 2020 and 2019 respectively, 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

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 8.27 (a)

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

IFRS 8.23,
IFRS 8.1G3

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 the basis on which 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 IFRS 15 and conclude accordingly.

IAS 24.23

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2020 or 2019.

IFRS 8.34

Notes to the Financial Statements

9. Segment information *continued*

9.1. Profit segments

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

31 December 2020	Retail	Corporate	Investment	Private, Wealth and	Group	Total	
In \$ million	Banking	Banking	Banking	Asset management	Functions		
Interest revenue calculated using the effective interest method	2,734	1,014	573	132	(44)	4,409	<i>IFRS 8.23(c)</i>
Other interest and similar income	219	70	44	12	(3)	342	<i>IFRS 8.23(c)</i>
Interest expense calculated using the effective interest method	(1,054)	(394)	(225)	(55)	-	(1,728)	<i>IFRS 8.23(d)</i>
Other interest and similar expense	(190)	(63)	(39)	(12)	3	(301)	<i>IFRS 8.23(d)</i>
Net interest income	1,709	627	353	77	(44)	2,722	
Fee and commission income	207	442	707	121	-	1,477	<i>IFRS 8.23(f)</i>
Fee and commission expense	(12)	(40)	(63)	(18)	-	(133)	<i>IFRS 8.23(f)</i>
Net fee and commission income	195	402	644	103	-	1,344	
Net trading income	-	-	395	-	-	395	<i>IFRS 8.23(f)</i>
Credit loss expense on financial assets	(61)	(74)	(168)	-	-	(303)	<i>IFRS 8.23(f)</i>
Net gains/(losses) on financial assets at fair value through profit or loss	(5)	(6)	(13)	-	-	(24)	<i>IFRS 8.23(f)</i>
Net gains/(losses) on financial liabilities at fair value through profit or loss	(2)	(3)	(5)	-	-	(10)	<i>IFRS 8.23(f)</i>
Net gains/(losses) on derecognition of financial assets measured at amortised cost	1	2	3	-	-	6	<i>IFRS 8.23(f)</i>
Net gains/(losses) on derecognition of financial assets measured at fair value through other comprehensive income	(1)	(1)	(1)	-	-	(3)	<i>IFRS 8.23(f)</i>
Other operating income	26	14	23	6	17	86	<i>IFRS 8.23(f)</i>
Net operating income	1,862	961	1,231	186	(27)	4,213	
Personnel expenses	265	245	298	29	343	1,180	<i>IFRS 8.23(f)</i>
Depreciation of property, equipment and right-of-use assets	89	56	63	29	2	239	<i>IFRS 8.23(e)</i>
Amortisation of intangible assets	23	10	4	-	-	37	<i>IFRS 8.23(e)</i>
Other operating expenses	142	149	35	-	258	584	<i>IFRS 8.23(f)</i>
Total operating expenses	519	460	400	58	603	2,040	
Segment profit (loss) before taxation	1,343	501	831	128	(630)	2,173	
Income tax expense						516	<i>IFRS 8.23(h)</i>
Profit for the year						1,657	<i>IFRS 8.23</i>
Additions to property, equipment and right-of-use assets	640	303	81	-	11	1,035	<i>IFRS 8.24(b)</i>
Additions to other intangible assets	9	5	3	-	-	17	<i>IFRS 8.24(b)</i>
Total Assets	34,605	24,911	31,021	12,429	1,666	104,632	<i>IFRS 8.23</i>
Total Liabilities	31,442	23,412	27,087	14,457	984	97,382	<i>IFRS 8.23</i>

Notes to the Financial Statements

9. Segment information *continued*

9.1. Profit segments *continued*

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

31 December 2019	Retail	Corporate	Investment	Private, Wealth and	Group	Total	
In \$ million	Banking	Banking	Banking	Asset management	Functions		
Interest revenue calculated using the effective interest method	2,637	978	553	128	(43)	4,253	<i>IFRS 8.23(c)</i>
Other interest and similar income	225	73	46	12	(4)	352	<i>IFRS 8.23(c)</i>
Interest expense calculated using the effective interest method	(1,118)	(418)	(238)	(59)	-	(1,833)	<i>IFRS 8.23(d)</i>
Other interest and similar expense	(182)	(61)	(37)	(12)	3	(289)	<i>IFRS 8.23(d)</i>
Net interest income	1,562	572	324	69	(44)	2,483	
Fee and commission income	170	363	581	101	-	1,215	<i>IFRS 8.23(f)</i>
Fee and commission expense	(15)	(51)	(81)	(23)	-	(170)	<i>IFRS 8.23(f)</i>
Net fee and commission income	155	312	500	78	-	1,045	
Net trading income	-	-	167	-	-	167	<i>IFRS 8.23(f)</i>
Credit loss expense on financial assets	(46)	(71)	(153)	-	-	(270)	<i>IFRS 8.23(f)</i>
Net gains/(losses) on financial assets at fair value through profit or loss	(1)	(2)	(4)	-	-	(7)	<i>IFRS 8.23(f)</i>
Net gains/(losses) on financial liabilities at fair value through profit or loss	(1)	(1)	(1)	-	-	(3)	<i>IFRS 8.23(f)</i>
Net gains/(losses) on derecognition of financial assets measured at amortised cost	-	-	-	-	-	-	<i>IFRS 8.23(f)</i>
Net gains/(losses) on derecognition of financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	<i>IFRS 8.23(f)</i>
Other operating income	26	13	22	5	16	82	<i>IFRS 8.23(f)</i>
Net operating income	1,695	823	855	152	(28)	3,497	
Personnel expenses	314	291	353	35	407	1,400	<i>IFRS 8.23(f)</i>
Depreciation of property and equipment and right-of-use assets	(11)	21	65	29	2	106	<i>IFRS 8.23(e)</i>
Amortisation of intangible assets	22	9	4	-	-	35	<i>IFRS 8.23(e)</i>
Other operating expenses	322	285	49	-	366	1,022	<i>IFRS 8.23(f)</i>
Total operating expenses	647	606	471	64	775	2,563	
Segment profit (loss) before taxation	1,048	217	384	88	(803)	934	
Income tax expense						223	<i>IFRS 8.23(h)</i>
Profit for the year						711	<i>IFRS 8.23</i>
Additions to property and equipment and right-of-use assets	45	23	30	-	1	99	<i>IFRS 8.24(b)</i>
Additions to other intangible assets	8	4	3	-	-	15	<i>IFRS 8.24(b)</i>
Total Assets	30,447	25,373	32,477	11,164	2,029	101,490	<i>IFRS 8.23</i>
Total Liabilities	28,146	22,777	28,471	16,134	-	95,528	<i>IFRS 8.23</i>

Notes to the Financial Statements

9. Segment information *continued*

9.1. 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.

9.2. 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 2020 and 31 December 2019:

IFRS 8.33(a)
IFRS 8.33(b)

31 December 2020

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	285	75	35	-	395
Credit loss expense on financial assets	(206)	(57)	(30)	(10)	(303)
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, equipment and right-of-use assets	154	57	16	12	239
Amortisation of intangible assets	27	7	2	1	37
Other operating expenses	439	108	33	4	584
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	868	490	449	41	1,848

IFRS 8.33(b)

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

Notes to the Financial Statements

9. Segment information *continued*

9.2. Geographical information *continued*

31 December 2019

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	77	69	21	-	167
Credit loss expense on financial assets	(144)	(90)	(27)	(9)	(270)
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 and right-of-use assets	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	492	218	352	22	1,084

IFRS 8.33(b)

Non-current assets for this purpose consists of property, equipment and right-of-use assets 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.

Notes to the Financial Statements

10. Interest and similar income

In \$ million	2020	2019	IAS 1.77
<i>Interest income calculated using the effective interest method</i>			<i>IFRS 7.20(a) and (b)</i>
Securities borrowed and reverse repurchase agreements	410	423	
Due from banks	714	703	
Loans and advances to customers	2,894	2,832	
Debt instruments at amortised cost	121	77	
Debt instruments at FVOCI	218	153	
Loans and advances to customers	52	65	<i>IFRS 7.20(a)(vi)</i>
	<u>4,409</u>	<u>4,253</u>	<i>IFRS 7.20(b)</i>
<i>Other interest and similar income</i>			<i>IFRS 7.20(a)(i)</i>
Derivatives	149	143	
Other financial assets measured at FVPL	193	209	
	<u>342</u>	<u>352</u>	
Total interest and similar income	<u>4,751</u>	<u>4,605</u>	

Included in the interest income of loans and advances to customers is \$5m (2019: \$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. *IFRS 9.B5.4.6*

11. Interest and similar expense

In \$ million	2020	2019	IAS 1.77
<i>Interest expense calculated using the effective interest method</i>			<i>IFRS 9.B5.4.4</i>
Due to banks	68	63	
Securities lent and repurchase agreements	362	394	
Due to customers	1,027	1,017	
Debt issued and other borrowed funds	239	323	
Interest expense on lease liabilities (Note 33)	23	28	
Negative interest on interest bearing assets	9	8	
	<u>1,728</u>	<u>1,833</u>	<i>IFRS 7.20(b)</i>
<i>Other interest and similar expense</i>			<i>IFRS 7.20(a)(i)</i>
Derivatives	120	119	<i>IFRS 7.20(a)(i)</i>
Other financial liabilities measured at FVPL	181	170	
	<u>301</u>	<u>289</u>	
Total interest and similar expense	<u>2,029</u>	<u>2,122</u>	

Notes to the Financial Statements

12. Net fees and commission income

Disaggregated revenue information

Segments	For the year ended 31 December 2020					IFRS 15.113(a) IFRS 15.114- 115
	Retail Banking	Corporate Banking	Investment Banking	Asset management	Total	
In \$ million						
Fees and commission income						
Fee income earned from services that are provided over time:						
Asset management fees:	–	–	–	154 ¹	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	
<i>of which: equity securities</i>	–	–	87	–	87	
<i>of which: debt securities</i>	–	–	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

12. Net fees and commission income *continued*

For the year ended 31 December 2019						
Segments	Retail Banking	Corporate Banking	Investment Banking	Asset management	Total Restated	IFRS 15.113(a) IFRS 15.114- 115
In \$ million						
Fees and commission income						
Type of service						
Fee income earned from services that are provided over time:						
Asset management fees	–	–	–	209 ¹	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	
<i>of which: equity securities</i>	–	–	68	–	68	
<i>of which: debt securities</i>	–	–	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	

¹ For the year ended 31 December 2020, \$20 million (2019: \$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 [Note 0](#) above). IFRS 15.116(c)

Notes to the Financial Statements

12. 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.

13. Net trading income

In \$ million	2020	2019
Equities	137	(25)
Debt securities	73	(12)
Other interest rate instruments	67	79
Foreign exchange	55	50
Other trading income		
- hedge ineffectiveness on (Note 48.7.1) :		
- micro and portfolio fair value hedges	24	52
- micro and portfolio cash flow hedges	51	28
Other	(12)	(5)
	395	167

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.

Notes to the Financial Statements

14. Credit loss expense

The table below shows the ECL charges on financial instruments for the year recorded in the income statement. Derecognition and write-offs have been treated as movements in the ECL loss allowance - refer to [Note 31.1](#), where reconciliations and explanations in respect of the movement are provided for each loan class.

2020

In \$ million	Note	Stage 1	Stage 2	Stage 3	POCI	Total	IAS 1.15, IAS 1.17 IFRS 7.B8J
Due from banks	23.1	3	-	2	-	5	
Cash collateral on securities borrowed and reverse repurchase agreements	24.2	-	-	-	-	-	
Loans and advances to customers	31.1	128	40	112	7	287	
Debt instruments measured at FVOCI	30.1.1	-	(3)	(19)	-	(22)	
Debt instruments measured at amortised cost	30.1.2	6	1	-	-	7	
Financial guarantees	0	18	(1)	-	-	17	
Letters of credit	0	4	-	-	-	4	
Other undrawn commitments	0	5	4	(4)	-	5	
Total Impairment loss		164	41	91	7	303	

2019

In \$ million	Note	Stage 1	Stage 2	Stage 3	POCI	Total	IAS 1.15, IAS 1.17 IFRS 7.B8J
Due from banks	23.1	3	-	2	-	5	
Cash collateral on securities borrowed and reverse repurchase agreements	24.2	6	-	-	-	6	
Loans and advances to customers	31.1	127	22	105	-	254	
Debt instruments measured at FVOCI	30.1.1	-	(5)	(32)	-	(37)	
Debt instruments measured at amortised cost	30.1.2	4	2	-	-	6	
Financial guarantees	0	29	-	-	-	29	
Letters of credit	0	3	1	-	-	4	
Other undrawn commitments	0	4	3	(4)	-	3	
Total Impairment loss		176	23	71	-	270	

Commentary

The above breakdown is not a disclosure specified by IFRS 7, 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.

For the purposes of the above breakdown, the impairment allowance allocated to each stage includes the remeasurement of assets transferred from one stage to another, and movements between stages have been netted off.

Per IFRS 7.B8J, when expected credit losses are measured on a collective basis, it may not be possible to allocate the gross carrying amount of individual financial assets or the exposure to credit risk on loan commitments and financial guarantee contracts to the credit risk rating grades for which lifetime expected credit losses are recognised. In that case, the disclosure requirement above should be applied to those financial instruments that can be directly allocated to a credit risk rating grade and separate disclosure should be given of the gross carrying amount of financial instruments for which lifetime expected credit losses have been measured on a collective basis. Good Bank is able to allocate the gross carrying amount and corresponding exposure to credit risk of individual financial assets to the credit risk grades for which lifetime expected credit losses are recognised and has consequently not presented the separate disclosure that would otherwise be required.

Notes to the Financial Statements

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

In \$ million	2020	2019	
Financial assets mandatorily measured at fair value through profit or loss	(15)	(2)	
Financial assets designated at fair value through profit or loss	(9)	(5)	
Financial liabilities designated at fair value through profit or loss	(10)	(3)	
	(34)	(10)	IFRS 7.20(a)(i)

Further information on assets and liabilities designated at FVPL is disclosed in [Note 27](#).

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.

16. Other operating income

In \$ million	2020	2019	
Dividend income	15	13	
(Losses)/gains from sales of FVOCI financial investments	(13)	14	IFRS 7.20(a)(ii)
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	

17. Personnel expenses

In \$ million	2020	2019	
Wages and salaries	955	942	
Social security costs	86	185	
Pension costs - Defined contribution plan (Note 38)	139	137	IAS 19.53
	1,180	1,264	

18. Other operating expenses

In \$ million	2020	2019	
Advertising and marketing	58	170	
Administrative	283	414	
Professional fees	139	313	
Non-trading foreign exchange	10	9	IAS 21.52(a)
Goodland bank levy	52	51	
Other	42	65	
	584	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 (2019: \$13 million) relating to development costs of software for internal use. IAS 38.126

Administrative expenses include expenses relating to short-term leases of \$30 million (2019: \$35 million) and to leases of low-value assets of \$20 million (2019: \$23 million). IFRS 16.53(c)

Notes to the Financial Statements

18. Other operating expenses *continued*

Professional fees include fees payable to the auditor of \$15 million (2019: \$14 million), as analysed below: IAS 1.1.104

In \$ million	2020	2019
Statutory audit of 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.

19. Income tax

The components of income tax expense for the years ended 31 December 2020 and 2019 are, as follows: IAS 12.79
IAS 1.77

In \$ million	2020	2019
Current tax		
Goodland		
Goodland current income tax	479	213
Adjustment in respect of current income tax of prior years	(2)	2
Overseas		
Overseas current tax	60	48
Adjustment in respect of current income tax of prior years	(1)	–
Deferred tax		
Relating to origination and reversal of temporary differences	(20)	(40)
	516	223

19.1. 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 2020 and 2019 is, as follows: IAS 12.81(c)(i)

In \$ million	2020	2019
Accounting profit before tax	2,173	934
At Goodland's statutory income tax rate of 30% (2019: 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 2020 is 25% (2019: 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.

Notes to the Financial Statements

19. Income tax *continued*

19.1. Reconciliation of the total tax charge *continued*

Covid-19 commentary

Current income tax

Good Bank's taxation is based on a consistent rate of 30% for both 2020 and 2019.

As a measure to assist entities during the Covid-19 pandemic, economic stimulus packages in some jurisdictions have included income tax concessions and other rebates. If entities are active in such a jurisdiction, the following disclosures may also be impacted:

- ▶ An explanation of changes in the applicable tax rate compared to the prior period
- ▶ The amount and expiry date of any tax losses carried forward
- ▶ The nature of evidence supporting the recognition of deferred tax assets when the entity has suffered a loss in the current period

Business disruption resulting from the Covid-19 pandemic may lead to an entity recognising asset impairments or forecasting future losses. These circumstances may introduce new uncertainties that an entity must consider in its analysis of the recoverability of deferred tax assets. Entities should update their projections of income for recent events. Tax losses that were otherwise expected to be utilised in the near term should be reviewed to determine if they might expire unutilised and how this would impact management's judgement on the amount of deferred tax asset to be recognised. Entities should further consider whether they need to provide additional financial statement disclosures to more fully explain the use of estimates or management's judgement in reaching its conclusions on the amount of unrecognised deferred tax assets.

Entities should also consider the disclosure of any significant judgements or estimates made when determining the appropriate accounting for the matters described above. Such judgements may include whether the tax laws were substantively enacted as of the reporting date, and the determination of the accounting for income tax credits.

In applying judgement, entities should consider *IFRIC 23 Uncertainty over Income Tax Treatments*. Although IFRIC 23 was not specifically developed to deal with a scenario such as the Covid-19 pandemic, it, nonetheless, provides helpful guidance to consider in accounting for the uncertainties that exist with respect to the application of complex tax legislation that was newly issued in response to the pandemic. It requires an entity to consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If the entity concludes that the position is not probable of being accepted, the effect of the uncertainty needs to be reflected in the entity's accounting for income taxes.

Notes to the Financial Statements

19. Income tax *continued*

IAS 1.77

19.2. Deferred tax

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

31 December 2020	Deferred tax assets	Deferred tax liabilities	Income statement	OCI	<i>IAS 12.81(gXi)</i>
In \$ million					<i>IAS 12.81(gXii)</i>
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)	
Other temporary differences	32	(75)	(4)	–	
Total	240	(502)	(20)	(44)	
31 December 2019	Deferred tax assets	Deferred tax liabilities	Income statement	OCI	<i>IAS 12.81(gXi)</i>
In \$ million					<i>IAS 12.81(gXii)</i>
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	

20. 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 - December 2020](#).²

21. 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 - December 2020](#).²

Notes to the Financial Statements

22. Cash and balances with central banks

In \$ million	2020	2019
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 allowance for ECL relating to *Cash and balances with Central Banks* here rounds to zero. In practice, an allowance for ECL may need to be recognised in respect of Cash and balances with Central Banks, in which case, disclosures similar to those in [Note 23.1](#) 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

23. Due from banks

In \$ million	2020	2019
Placements with other banks	10,687	10,542
Less: Allowance for ECL	(69)	(53)
	10,618	10,489

23.1. 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, 12 month Basel PD range and year-end stage classification. The amounts presented are gross of allowance for ECL. Details of the Bank's internal grading system are explained in [Note 48.4.3.2](#) and the Bank's impairment assessment and measurement approach is set out in [Note 48.4.3](#).

In \$ million

IFRS 7.35M
EDTF 26

31 December 2020

Internal rating grade	12 month Basel PD range				Total
		Stage 1	Stage 2	Stage 3	
Performing					
High grade	0.00%-0.50%	10,000	-	-	10,000
Standard grade	0.50%-11.70%	623	-	-	623
Sub-standard grade	11.70%-29.50%	-	-	-	-
Low grade	29.50%-100.00%	-	-	-	-
Non-performing					
Individually impaired	100%	-	-	64	64
Total		10,623	-	64	10,687

IFRS 7.35M
EDTF 26

In \$ million

31 December 2019

Internal rating grade	12 month Basel PD range				Total
		Stage 1	Stage 2	Stage 3	
Performing					
High grade	0.00%-0.50%	9,050	-	-	9,050
Standard grade	0.50%-11.70%	1,429	-	-	1,429
Sub-standard grade	11.70%-29.50%	-	-	-	-
Low grade	29.50%-100.00%	-	-	-	-
Non-performing					
Individually impaired	100%	-	-	63	63
Total		10,479	-	63	10,542

Notes to the Financial Statements

23. Due from banks *continued*

23.1. Impairment allowance for due from banks *continued*

Due from banks balances in Stage 3 as at 31 December 2020 and 2019, represent individually impaired exposures classified as Stage 3 only due to ageing (greater than 90 days past due, as no other indicators were triggered).

A reconciliation of changes in gross carrying amount and corresponding ECL allowances by stage for due from banks is, as follows:

In \$ million	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
1 January 2020	10,479	9	–	–	63	52	10,503	61
New assets originated or purchased	703	5	–	–	–	–	703	5
Payments and assets derecognised	(773)	(4)	–	–	(3)	–	(773)	(4)
Unwind of discount ¹	–	1	–	–	–	2	–	3
Changes to assumptions ² Note 48.4.4	–	1	–	–	–	(2)	–	(1)
Accrued interest	103	–	–	–	3	–	106	–
Foreign exchange adjustments	111	1	–	–	1	4	112	5
At 31 December 2020	10,623	13	–	–	64	56	10,687	69

In \$ million	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
1 January 2019	10,459	5	–	–	58	49	10,517	54
New assets originated or purchased	673	3	–	–	–	–	673	3
Payments and assets derecognised	(823)	(3)	–	–	(1)	–	(825)	(3)
Unwind of discount ¹	–	1	–	–	–	3	–	4
Changes to assumptions ² Note 48.4.4	–	2	–	–	–	(3)	–	(1)
Accrued interest	79	–	–	–	4	–	83	–
Foreign exchange adjustments	91	1	–	–	2	3	93	4
At 31 December 2019	10,479	9	–	–	63	52	10,542	61

¹ 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*.

² Represents changes to estimates and model assumptions (e.g., GDP rates, unemployment rates and house price indices).

During the year, there were no transfers between stages (2019: nil). The total Income Statement charge for the allowance for ECL was \$3 million (2019: \$3 million).

Commentary

IFRS 7.35I 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 the allowance for ECL. 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 7.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.

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 2020 and at 31 December 2019.

IFRS 7.35L

Notes to the Financial Statements

24. 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 policies pertaining to the treatment of these transactions are explained in [Notes 7.20](#) and [7.21](#) respectively.

24.1. 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	2020	2019
Cash collateral paid for securities borrowed	3,216	3,503
Less: Allowance for ECL	(2)	(2)
Cash collateral paid for reverse repos	4,418	4,176
Less: Allowance for ECL	(4)	(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	2020	2019
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.

24.2. 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 based on the Bank's internal credit rating system, 12-month Basel PD range and year-end stage classification. The amounts presented are gross of allowance for ECL. Details of the Bank's internal grading system are explained in [Note 48.4.3.2](#) and the Bank's impairment assessment and measurement approach is set out in [Note 48.4.3](#).

IFRS 7.35M
EDTF 26

In \$ million		2020			2019	
31 December 2020	12 month Basel PD range	Stage 1	Stage 2	Stage 3	Total	Total
Performing						
High grade	0.00%-0.50%	7,628	-	-	7,628	7,673
Standard grade	0.50%-11.70%	-	-	-	-	-
Sub-standard grade	11.70%-29.50%	-	-	-	-	-
Low grade	29.50%-100.00%	-	-	-	-	-
Non-performing						
Individually impaired	100%	-	-	-	-	-
Total		7,628	-	-	7,628	7,673

Notes to the Financial Statements

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

24.2. Impairment on cash collateral on securities borrowed and reverse repurchase agreements *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 \$14,601 and foreign currency revaluation of \$8 m. The ECL allowance as of 1 January 2019 was \$6m and remained at the same level at 31 December 2020. Movements over the year were minor, and were driven mainly by the movements in the corresponding gross figures in 2020.

IFRS 7.35H (a)(c)
EDTF 2,26,28
IFRS 7.42P

Commentary

As the ECL allowance for *Cash collateral on securities borrowed and reverse repurchase agreements* balances was immaterial and in Stage 1 throughout the current and prior years respectively, the requirements of IFRS 7.35H (a)-(c), IFRS 7.42P 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 2020 or at 31 December 2019.

IFRS 7.35L

24.3. 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	2020	2019
Cash collateral received on securities lent	3,914	4,010
Cash collateral received on repos	4,214	4,211
Total	8,128	8,221

IFRS 7.42D(a-c)

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:

In \$ million	Financial asset held for trading pledged as collateral	
	2020	2019
Securities lent	4,000	2,100
Repos	3,939	1,903
Total	7,939	4,003

IFRS 7.42D(a-c)

24.4. Assets pledged and held as collateral

Assets pledged as collateral

IFRS 7.14

In \$ million	2020	2019
Asset type		
Assets pledged as collateral under lending and repo agreement (Note 24)	7,939	4,003
Residential mortgages pledged under the RMBS Programme (Note 25.1)	91	98
Residential mortgages pledged under the Covered bond Programme (Note 25.1)	137	148
Derivative financial instruments (Note 28)	4,500	4,820
Total	12,667	9,069

IAS 1.77

Notes to the Financial Statements

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

24.4. Assets pledged and held as collateral *continued*

Fair value of assets held as collateral

IFRS 7.15

In \$ million	2020	2019
Asset type		
Assets pledged as collateral under securities borrowing and reverse repo agreements (Note 29)	8,321	7,560
Customer deposits held as collateral for irrevocable commitments under import letters of credit (not requiring segregation/derecognition) (Note 35)	85	82
Derivative financial instruments (Note 29)	3,305	3,105
Total	11,711	10,747

Commentary

Paragraph 15(b) of IFRS 7 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 24.1](#).

25. Transferred financial assets

25.1. 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)

In \$ million	2020			2019		
	Financial assets at fair value through profit or loss	Amortised cost	Total	Financial assets at fair value through profit or loss	Amortised cost	Total
(A) Securities lending and repos						
Carrying amount of transferred assets	7,939	–	7,939	4,003	–	4,003
Carrying amount of associated liabilities	8,128	–	8,128	8,221	–	8,221
Fair value of assets	7,939	–	7,939	4,003	–	4,003
Fair value of associated liabilities	8,128	–	8,128	8,221	–	8,221
(B) Securitisations						
Carrying amount of transferred assets	–	228	228	–	228	228
Carrying amount of associated liabilities	–	231	231	–	231	231
Fair value of assets	–	295	295	–	295	295
Fair value of associated liabilities	–	262	262	–	262	262
Net position at FV	–	33	33	–	33	33

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

(A) Securities lending and repurchase agreements

Details of assets transferred but not derecognised under securities lending and repurchase agreements are disclosed in [Note 24.4](#).

IFRS 7.42D(a-c)

Notes to the Financial Statements

25. Transferred financial assets *continued*

25.1. 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 2020 was \$91 million and \$92 million, respectively, (2019: \$98 million and \$99 million) while the fair value was \$125 million and \$105 million, respectively, (2019: \$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 (2019: \$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 2020 were \$137 million and \$139 million, respectively, (2019: \$148 million and \$149 million) while the fair value was \$170 million and \$157 million, respectively, (2019: \$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 (2019: \$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 2020 or 2019 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.

Notes to the Financial Statements

25. Transferred financial assets *continued*

25.2. 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:

	2020			2019		
	Carrying value	Fair value	Maximum exposure to loss	Carrying value	Fair value	Maximum exposure to loss
In \$ millions						
Commercial mortgage securitisation	–	–	–	–	–	–
Residential mortgage securitisation	20	20	20	40	40	40
Structured notes (Interest rate derivatives)	11	11	11	6	6	6

IFRS 7.42E(a-c)

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:

	2020			2019		
	Year to date profit and loss	Cumulative profit	Gain on disposal	Year to date profit and loss	Cumulative profit	Gain on disposal
In \$ millions						
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

IFRS 7.42G

Commercial mortgages

In 2020, 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.

IFRS 7.42E (a-f)

Residential mortgages

In 2019, 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.

IFRS 7.42E (a-f)

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 2020 amounted to \$20 million (2019: \$40 million); the fair value changes on this swap recognised in the profit and loss account in 2020 were \$20 million (2019: \$5 million). Fee income recognised in the profit and loss account in 2020 amounted to \$1 million (2019: \$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.

Notes to the Financial Statements

25. Transferred financial assets *continued*

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

Structured notes

In February 2019, 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 (2019: \$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 (2019: 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)

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

26.1. 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:

Name of subsidiary	Country of incorporation	% equity interest		IFRS 12.2(b) IFRS 12.10a(i) IFRS 12.12(b)
		2020	2019	
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 (2020: 20%, 2019:20%). The following table summarises key information relevant to China Bank Inc.

IFRS 12.12(a)
IFRS 12.12(c)

In \$ millions	2020	2019
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

Notes to the Financial Statements

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

26.2. 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 Bank and, therefore, they do not disclose the above information. IFRS 12 *Disclosure of Interests in Other Entities*, paragraph 12 and paragraph 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.

26.3. 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 26.1](#) above.

26.4. Unconsolidated structured entities

These are entities that do not meet consolidation criteria explained [Notes 6](#) and [8.2](#). The Bank's interest in these entities varies depending on the type and nature of 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.

Notes to the Financial Statements

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

26.4. 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

At 31 December 2020	Entities to provide secured lending to				Maximum exposure to loss	
In \$ millions	Customer investment vehicles	third parties	Securitisations	Funds Asset management	Total	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 2019	Entities to provide secured lending to				Maximum exposure to loss	
In \$ millions	Customer investment vehicles	third parties	Securitisations	Funds Asset management	Total	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
Equity instruments at fair value through other comprehensive income	-	-	-	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
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)

Notes to the Financial Statements

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

26.4. Unconsolidated structured entities *continued*

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 9](#).

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.

26.5. Sponsored unconsolidated structured entities where the Bank had no interest as of 31 December 2020 or 31 December 2019

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 25.2](#). *IFRS 12.27(b)*
IFRS 12.27(c)

In 2020, \$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 25.2](#). 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, as necessary.

Notes to the Financial Statements

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

27.1. Financial assets at fair value through profit or loss

In \$ million	2020	2019	
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(aXii)
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	IFRS 7.8(aXii)
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	92	IFRS 7.8(aXii)
Loans and advances to customers - mandatorily measured at FVTPL	894	580	IFRS 7.8(aXii)
Loans and advances to customers - designated at FVTPL	1,266	569	IFRS 7.8(aXi)
	2,262	1,241	
	15,092	11,609	IFRS 7.8(aXi)

ABS securities and Loans and advances to customers mandatorily measured at FVTPL are those that have failed the SPPI test under IFRS 9. IFRS 7.8(aXi)
IFRS 7.8(aXii)

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 (2019: \$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 (2019: loss of \$32 million) and the change for the current year is a loss of \$3 million (2019: loss \$2 million). IFRS 7.9(a)
IFRS 7.10A(b)
IFRS 7.9(c)

The notional value of the credit derivatives is \$1,334 million (2019: \$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 (2019: gain of \$27 million) and the change for the current year is a gain of \$3 million (2019: 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	2020	2019	
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(eXii)
Financial liabilities designated at fair value through profit or loss			
Structured notes	3,620	3,549	
\$1.2 billion fixed rate notes due 2021	-	987	
	3,620	4,536	
	7,780	8,614	IFRS 7.8(eXi)

Notes to the Financial Statements

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

27.1. Financial assets at fair value through profit or loss *continued*

\$1.2 billion fixed rate notes due 2021

In 2010, the Bank issued notes with a nominal value of \$1.2bn and a fixed rate of 5% due in 2021. 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.

27.2. 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	2020	2019	
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)(xii)

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 (\$28m in 2019).

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 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

28. 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.

31 December 2020	Carrying value	Carrying value	Notional	
In \$ million	assets	liabilities	amount	<i>EDTF 29</i>
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	<i>IFRS 7.22B(a))</i>
	467	650	11,972	<i>IFRS 7.24A(a),(b),(d)</i>
Derivatives used as cash flow hedges				
Interest rate swaps	612	58	4,382	
Cross-currency interest rate swaps	267	–	980	
	879	58	5,362	<i>IFRS 7.22B(a)(i)</i>
			5,362	<i>IFRS 7.24A(a),(b),(d)</i>
Total derivative financial instruments	7,473	8,065	153,706	

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.

Notes to the Financial Statements

28. Derivative financial instruments *continued*

31 December 2019 In \$ million	Carrying value assets	Carrying value liabilities	Notional amount	<i>EDTF 29</i>
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 48.4.1](#)). 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 29](#)).

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. *IAS 32.42*
IFRS 9.3.2.3
IAS 39.17
IFRS 9.3.3.1
IAS 39.39

28.1. Derivative financial instruments held or issued for trading purposes

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. *IFRS 7.31*

28.2. Derivative financial instruments held or issued for hedging purposes

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. *IFRS 7.31*

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 [Note 48.7.1](#).

Notes to the Financial Statements

28. Derivative financial instruments *continued*

28.3. 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.

28.4. 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.

28.5. 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.

28.6. 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.

28.7. Fair values

Disclosures concerning the fair value and credit/market risk of derivatives are provided in [Notes 47](#) and [48.6.2](#)

Notes to the Financial Statements

29. 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 7.12](#)).

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 Statement of Financial Position:

Notes to the Financial Statements

29. Offsetting *continued*

Financial assets subject to offsetting, netting arrangements

31 December 2020 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 Recognised in the statement of financial position	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	After consideration of netting potential	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

IFRS 7.13B
IFRS 7.13C
IFRS 7.13D

31 December 2019 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 Recognised in the statement of financial position	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	After consideration of netting potential	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.

Notes to the Financial Statements

29. Offsetting *continued*

Financial liabilities subject to offsetting, netting arrangements

31 December 2020	Offsetting recognised on the balance sheet			Netting potential not recognised on the balance sheet			Assets not subject to netting	Total	Maximum exposure to risk	IFRS 7.13B IFRS 7.13C
	In \$ Million	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	Arrangements recognised on the statement of financial position		
	\$ million	\$ 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	

31 December 2019	Offsetting recognised on the balance sheet			Netting potential not recognised on the balance sheet			Assets not subject to netting	Total	Maximum exposure to risk	IFRS 7.13B IFRS 7.13C
	In \$ Million	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	Arrangements recognised on the statement of financial position		
	\$ million	\$ 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	

Notes to the Financial Statements

30. 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	<u>2020</u>	<u>2019</u>	
Debt instruments measured at FVOCI			
Government debt securities			
Goodland	1,200	3,798	
United Kingdom	524	502	
Netherlands	120	131	
United States	212	189	
Singapore	53	62	
Badland	23	67	
Total government debt securities	<u>2,132</u>	<u>4,749</u>	
Other debt securities			
Financial institutions	3,311	3,264	
Non-financial institutions	1,958	2,024	
Total other debt securities	<u>5,269</u>	<u>5,288</u>	
Loans from customers measured at FVOCI	-	-	
Total debt instruments measured at FVOCI	<u>7,401</u>	<u>10,037</u>	
Equity instruments measured at FVOCI	447	624	<i>IFRS 7.11A(c)</i>
Debt instruments at amortised cost			
Government debt securities			
Goodland	1,304	1,703	
Germany	178	67	
United States	160	-	
Total debt instruments at amortised costs	<u>1,642</u>	<u>1,770</u>	

Notes to the Financial Statements

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

More information regarding the valuation methodologies can be found in [Note 47.4](#).

Investments include mandatory shares in exchanges and clearing houses, investments arising when the Bank received equity shares in exchange for debt forgiven in 2017 and a small amount of shares retained from its venture capital business which the Bank disposed of in 2018.

IFRS 7.11A(a)-(b)

In 2020, the Bank received dividends of \$4m (2019: \$3m) from its FVOCI equities which was recorded in the income statement as other operating income.

IFRS 7.11A(d)
IFRS 7.20(a) (vii)

During 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 FVOCI equity instruments in 2020.

IFRS 7.11A
IFRS 7.11B

The Bank did not have any debt instruments measured at FVOCI which were pledged as collateral as at 31 December 2020 (2019: nil).

IFRS 9.3.2.23

30.1. Impairment losses on financial investments subject to impairment assessment

30.1.1. 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, 12-month Basel PD range and year-end stage classification. The amounts presented are gross of allowance for ECL. Details of the Bank's internal grading system are explained in [Note 48.4.3.2](#) and the Bank's impairment assessment and measurement approach is set out in [Note 48.4.3](#).

In \$ million						
31 December 2020		12 month Basel				
Internal rating grade	PD range	Stage 1	Stage 2	Stage 3	Total	
Performing						
High grade	0.00%-0.50%	6,194	–	–	6,194	
Standard grade	0.50%-11.70%	988	167	–	1,155	
Sub-standard grade	11.70%-29.50%	–	–	–	–	
Low grade	29.50%-100.00%	–	–	–	–	
Non-performing						
Individually impaired	100%	–	–	52	52	
Total		7,182	167	52	7,401	

IFRS 7.35M
EDTF 26
EDTF 3

In \$ million						
31 December 2019		12 month Basel				
Internal rating grade	PD range	Stage 1	Stage 2	Stage 3	Total	
Performing						
High grade	0.00%-0.50%	7,767	–	–	7,767	
Standard grade	0.50%-11.70%	788	1,412	–	2,200	
Sub-standard grade	11.70%-29.50%	–	–	–	–	
Low grade	29.50%-100.00%	–	–	–	–	
Non-performing						
Individually impaired	100%	–	–	70	70	
Total		8,555	1,412	70	10,037	

IFRS 7.35M
EDTF 26
EDTF 3

Notes to the Financial Statements

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

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

30.1.1. Debt instruments measured at FVOCI *continued*

A reconciliation of changes in the fair value and corresponding allowance for ECL by stage for debt instruments measured at FVOCI is, as follows:

In \$ million	Stage 1		Stage 2		Stage 3		Total		IFRS 7.35(a)-(d) IFRS 7.35H(a)-(c) EDTF 3 EDTF 26 EDTF 28
	Fair value	ECL	Fair value	ECL	Fair value	ECL	Fair value	ECL	
1 January 2020	8,555	11	1,412	5	70	40	10,037	56	
New assets originated or purchased	2,630	2	-	-	-	-	2,630	2	
Payments and assets derecognised ¹	(4,054)	(5)	(1,244)	(5)	(23)	(19)	(5,321)	(29)	
Changes in fair value	(93)	-	(11)	-	(1)	-	(105)	-	
Transfers to Stage 1 ²	120	2	(120)	(2)	-	-	-	-	
Transfers to Stage 2	(64)	(1)	64	1	-	-	-	-	
Transfers to Stage 3	-	-	-	-	-	-	-	-	
Impact on ECL of transfers ³	-	-	-	1	-	-	-	1	
Unwind of discount ⁴	-	1	-	1	-	-	-	2	
Changes to assumptions ⁶ Note 48.4.4	-	1	-	1	-	-	-	2	
Accrued interest	32	-	21	-	3	-	56	-	
Foreign exchange adjustments	56	1	45	1	3	2	104	4	
At 31 December 2020	7,182	12	167	3	52	23	7,401	38	

Notes to the Financial Statements

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

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

30.1.1. Debt instruments measured at FVOCI *continued*

In \$ million	Stage 1		Stage 2		Stage 3		Total	
	Fair value	ECL	Fair value	ECL	Fair value	ECL	Fair value	ECL
1 January 2019	10,173	10	1,548	9	80	70	11,801	89
New assets originated or purchased	1,403	2	–	–	–	–	1,403	2
Payments and assets derecognised ¹	(3,043)	(5)	(133)	(6)	(15)	(32)	(3,191)	(43)
Changes in fair value	(82)	–	(9)	(2)	(1)	–	(92)	–
Transfers to Stage 1 ²	91	2	(91)	(1)	–	–	–	–
Transfers to Stage 2	(53)	(1)	53	1	–	–	–	–
Transfers to Stage 3	–	–	–	–	–	–	–	–
Impact on ECL of transfers ³	–	–	–	1	–	–	–	1
Unwind of discount ⁴	–	1	–	–	–	–	–	1
Changes to assumptions ⁶ Note 48.4.4	–	1	–	1	–	–	–	2
Accrued interest	21	–	10	–	3	–	34	–
Foreign exchange adjustments	45	1	34	1	3	2	82	4
At 31 December 2019	8,555	11	1,412	5	70	40	10,037	56

The total income statement credit for allowance for ECL for the year for debt instruments measured at FVOCI was \$22 million (2019: credit 37 million).⁷

¹ Includes full and partial write-offs.

² Represents movements in allowance for ECL prior to re-measurement.

³ Represents the change in the year-end allowance for ECL 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.

⁶ Represents changes to estimates and model assumptions (e.g., GDP rates, unemployment rates and house price indices).

⁷ Included in *Credit loss expense on financial assets*.

The above explanations also apply, but are not repeated for the corresponding reconciliation for debt instruments measured at amortised cost in [Note 30.1.2](#).

Commentary

IFRS 7.IG20B provides a reconciliation in a tabular format to help address the requirements of IFRS 7.351 to provide an explanation of how significant changes in gross balances have contributed to changes in allowance for ECL.

The Bank has elected to provide a similar table for debt instruments measured at FVOCI.

Notes to the Financial Statements

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

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

30.1.2. Debt instruments measured at amortised cost

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system, 12-month Basel PD range and year-end stage classification. The amounts presented are gross of allowance for ECL. Details of the Bank's internal grading system are explained in [Note 48.4.3.2](#) and the Bank's impairment assessment and measurement approach is set out in [Note 48.4.3](#).

In \$ million

31 December 2020

IFRS 7.35M
EDTF 26

Internal rating grade	12 month Basel PD range	Stage 1	Stage 2	Stage 3	Total
Performing					
High grade	0.00%-0.50%	1,107	-	-	1,107
Standard grade	0.50%-11.70%	341	197	-	538
Sub-standard grade	11.70%-29.50%	-	39	-	39
Low grade	29.50%-100.00%	-	-	-	-
Non-performing					
Individually impaired	100%	-	-	-	-
Total		1,448	236	-	1,684

In \$ million

31 December 2019

Internal rating grade	12 month Basel PD range	Stage 1	Stage 2	Stage 3	Total
Performing					
High grade	0.00%-0.50%	1,309	-	-	1,309
Standard grade	0.50%-11.70%	230	238	-	468
Sub-standard grade	11.70%-29.50%	-	19	-	19
Low grade	29.50%-100.00%	-	-	-	-
Non-performing					
Individually impaired	100%	-	-	-	-
Total		1,539	257	-	1,796

Notes to the Financial Statements

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

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

30.1.2. Debt instruments measured at amortised cost *continued*

A reconciliation of changes in gross carrying amount and corresponding allowance for ECL by stage for debt instruments measured at amortised cost is, as follows:

In \$ million	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
1 January 2020	1,539	20	257	6	–	–	1,796	26
New assets originated or purchased	149	4	–	–	–	–	149	4
Payments and assets derecognised ¹	(301)	(3)	(80)	(3)			(381)	(6)
Transfers to Stage 1 ²	–	–	–	–	–	–	–	–
Transfers to Stage 2	(31)	(1)	31	1	–	–	–	–
Transfers to Stage 3	–	–	–	–	–	–	–	–
Impact on ECL of transfers ³	–	–	–	1	–	–	–	1
Unwind of discount ⁴	–	1	–	1	–	–	–	2
Re-measurement of year end ECL	–	2	–	1	–	–	–	3
Changes to assumptions ⁶ Note 48.4.4	–	1	–	1	–	–	–	2
Accrued interest	53	–	16	–	–	–	69	–
Foreign exchange adjustments	23	6	12	4	–	–	35	10
At 31 December 2020	1,448	30	236	12	–	–	1,684	42

IFRS 7.35H(a)-(c)
EDTF 26
EDTF 3

In \$ million	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
1 January 2019	1,309	9	242	4	–	–	1,551	13
New assets originated or purchased	369	7	–	–	–	–	369	7
Payments and assets derecognised ¹	(151)	(4)	(3)	(3)			(184)	(6)
Transfers to Stage 1 ²	–	–	–	–	–	–	–	–
Transfers to Stage 2	(42)	(1)	42	1	–	–	–	–
Transfers to Stage 3	–	–	–	–	–	–	–	–
Impact on ECL of transfers ³	–	–	1	1	–	–	–	1
Unwind of discount ⁴	–	1	–	–	–	–	–	1
Re-measurement of year end ECL	–	2	–	1	–	–	–	3
Changes to assumptions ⁶ Note 48.4.4	–	1	–	1	–	–	–	2
Accrued interest	42	–	16	–	–	–	47	–
Foreign exchange adjustments	12	5	1	1	–	–	13	6
At 31 December 2019	1,539	20	257	6	–	–	1,796	26

IFRS 7.35H(a)-(c)
EDTF 26
EDTF 3

The total income statement charge for allowance for ECL for the year for debt instruments measured at amortised cost was \$7 million (2019: \$6 million). ⁷

Notes to the Financial Statements

31. Loans and advances to customers

In \$ million	2020	2019	IFRS 7.6
Corporate lending	12,883	12,452	
Small business lending	4,787	4,752	
Consumer lending	18,402	18,463	
Residential mortgages	13,692	13,075	
	49,764	48,742	
Less: Allowance for ECL	(1,840)	(1,579)	
	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.

Covid-19 commentary

IFRS 9 permits a bank to assume, without further analysis, that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have 'low credit risk' at the reporting date. An external rating of 'investment grade' is an example of a financial instrument that may be considered as having low credit risk. For low risk instruments for which the simplification is used, the entity would recognise an allowance based on 12-month ECL (IFRS 9.5.5.10). The impact of Covid-19 may result in many financial instruments not, or no longer, being considered to have low credit risk at the reporting date. This does not necessarily mean that the entity is required to recognise lifetime ECL. In such instances, the entity has to assess whether there has been a significant increase in credit risk since initial recognition which requires the recognition of lifetime ECL (IFRS 9.B5.5.24).

31.1. Impairment allowance for loans and advances to customers

The Bank has aligned its definition of credit impaired assets under IFRS 9 to the EBA definition of non-performing loans ('NPLs') - refer to [Note 48.4.3.1](#) for further information.

Information for modified and forborne financial assets, including an analysis of Stage 2 and Stage 3 gross carrying amounts and corresponding ECL respectively, is provided in [Note 48.4.9](#).

Covid-19 commentary

Specific Covid-19 commentary in respect of impairment allowance for ECL for financial assets including loans and advances to customers is provided in the following notes:

[Note 7 - Significant accounting policies](#)

[Note 8 - Significant accounting judgements, estimates and assumptions](#)

[Note 31 - Loans and advances to customers](#)

[Note 48 - Risk management](#)

Banks are especially expected to provide information regarding the movement in the ECL estimate compared to the last annual financial statements. Although many banks isolated the effects of Covid-19 in their interim reporting, the effect of the pandemic has become more embedded in the estimation process throughout the year. We would expect banks to emphasise how much the current situation affects the revision of macroeconomic assumptions, weights of the scenarios, SICR triggers and the different forms of adjustments or overlays added to reflect the specific effects of the crisis, including the impact of government support schemes and/or how specific sectors are expected to react.

Notes to the Financial Statements

31. Loans and advances to customers *continued*

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

Good Bank already provides a number of disclosures on credit risk, as required under IFRS 7. It is expected that these disclosures will be updated to include specific references to the impact of the pandemic, as relevant and applicable, including the effect of government and other types of support programmes. Such disclosures include the following:

- ▶ A quantitative reconciliation (preferably in a tabular format) of the ECL provision during the year, including movement across stages (refer to [Note 30.1](#) and [Note 31.1](#))
- ▶ A reconciliation of the total gross carrying amount to help enable users of financial statements to understand the changes in the loss allowance (refer to [Note 30.1](#) and [Note 31.1](#))
- ▶ A breakdown of the overall gross carrying amount and associated ECL provision as of the end of the period by stage, segment of customer and product (refer to [Note 31.2](#))
- ▶ A separate disclosure of the impact of material overlays on the ECL estimate (refer to [Note 48.4.7](#))
- ▶ An explanation of the key judgements applied in estimating the ECL provision for the period (refer to [Note 8.1](#) and [Note 48.4.4](#))
- ▶ An explanation of how the assessment of whether there has been a significant increase in credit risk (SICR) has been made (e.g., based on additional information collected, when available, or assessed on a portfolio basis or via an overlay). Banks are expected to exercise judgement, in light of all facts and circumstances, including the effect of government support. Also refer to [Notes 48.4.3.5, 48.4.7](#) and [48.4.10](#)
- ▶ Information on large single name exposures that have moved to stage 3 or have been written off, if material. This could include the sector and size of each individual exposure - refer to comment provided after the reconciliation of changes in gross carrying amount and corresponding allowance for ECL by stage for corporate lending in [Note 31.1.1](#)

Additional commentary has also been provided by way of footnotes added to the tables below where relevant.

31.1.1. 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, 12month Basel PD range and year-end stage classification. The amounts presented are gross of allowance for ECL. Details of the Bank's internal grading system are explained in [Note 48.4.3.2](#) and the Bank's impairment assessment and measurement approach is set out in [Note 48.4.3](#).

In \$ million

31 December 2020

Internal rating grade	12 month Basel		Stage 1	Stage 2	Stage 3	POCI	Total
	PD range						
Performing							
High grade	0.00%-0.50%		9,133	-	-	-	9,133
Standard grade	0.50%-11.7.00%		1,230	1,857	-	-	3,087
Sub-standard grade	11.7%-29.50%		-	206	-	-	206
Low grade	29.5%-100%		-	-	93	-	93
Non-performing							
Individually impaired	100.00%		-	-	250	114	364
Total			10,363	2,063	343	114	12,883

IFRS 7.35M
EDTF 26

In \$ million

31 December 2019

Internal rating grade	12 month Basel		Stage 1	Stage 2	Stage 3	POCI	Total
	PD range						
Performing							
High grade	0.00%-0.50%		8,587	-	-	-	8,587
Standard grade	0.50%-11.7.00%		950	1,418	-	-	2,368
Sub-standard grade	11.7%-29.50%		244	278	-	-	522
Low grade	29.5%-100%		-	507	53	-	560
Non-performing							
Individually impaired	100.00%		-	-	362	53	415
Total			9,781	2,203	415	53	12,452

IFRS 7.35M
EDTF 26

Notes to the Financial Statements

31. Loans and advances to customers *continued*

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

31.1.1 Corporate lending *continued*

The tables below summarise the ageing of stage 2 and stage 3 corporate loans respectively, as follows:

IFRS 7.35M

- ▶ Stage 2 - loans less than 30 days past due (dpd) and loans greater than 30 dpd irrespective of the criteria that triggered their classification in Stage 2). For an analysis based on these criteria, refer to [Note 48.4.13](#).
- ▶ Stage 3 - loans less than 90 dpd and loans greater than 90 dpd, thus presenting the loans classified as stage 3 due to ageing and those identified at an earlier stage due to other criteria. Stage 3 exposures are further analysed to indicate those which are no longer credit impaired but in cure period that precedes transfer to stage 2.

In \$ million	Stage 2		Stage 3		Total	
31 December 2020	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
Less than:						
30 dpd (for Stage 2)	1,857	50	–	–	1,857	50
90 dpd (for Stage 3)	–	–	83	14	83	14
More than:						
30 dpd (for Stage 2)	206	67	–	–	206	67
90 dpd (for Stage 3)	–	–	260	100	260	100
Total	2,063	117	343	114	2,406	231
Break down of stage 3 exposures:						
No longer impaired but in cure period			93	19		
Other			250	95		
Total			343	114		

Covid-19 commentary

The amount of past-due exposures in stage 2 may reflect a decrease due to the effect of moratoria and other governmental support measures (such as guaranteed loans) which tend to freeze the counting of dpd and result in temporary increased liquidity. Banks should provide commentary to explain how they have addressed these potentially missing signs of deterioration in their SICR assessment. Refer to the Covid-19 commentary in [Note 31.1](#) above for additional guidance.

In \$ million	Stage 2		Stage 3		Total	
31 December 2019	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
Less than:						
30 dpd (for Stage 2)	1,696	32	–	–	1,696	32
90 dpd (for Stage 3)	–	–	53	10	53	10
More than:						
30 dpd (for Stage 2)	507	56	–	–	507	56
90 dpd (for Stage 3)	–	–	362	132	362	132
Total	2,203	88	415	142	2,618	230
Break down of stage 3 exposures:						
No longer impaired but in cure period			65	7		
Other			350	135		
Total			415	142		

Notes to the Financial Statements

31. Loans and advances to customers *continued*

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

31.1.1. Corporate lending *continued*

A reconciliation of changes in gross carrying amount and corresponding allowance for ECL by stage for corporate lending is, as follows:

In \$ million	Stage 1		Stage 2		Stage 3		POCI		Total		IFRS 7.35H(a)-(c) IFRS 7.35(a)-(d) EDTF 3 EDTF 26 EDTF 28
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	
1 January 2020	9,781	201	2,203	88	415	142	53	6	12,452	437	
New assets originated or purchased	1,626	61	-	-	-	-	70	-	1,696	61	
Payments and assets derecognised ¹	(1,260)	(16)	(283)	(1)	(144)	(13)	(11)	(1)	(1,698)	(31)	
Transfers to Stage 1 ²	95	7	(85)	(6)	(10)	(1)	-	-	-	-	
Transfers to Stage 2	(123)	(19)	153	19	(30)	-	-	-	-	-	
Transfers to Stage 3	(27)	(6)	(45)	(7)	72	13	-	-	-	-	
Impact on ECL of transfers ³	-	(3)	-	6	-	3	-	-	-	6	
Unwind of discount ⁴	-	5	-	3	-	9	-	1	-	18	
Re-measurement of year end ECL	-	-	-	-	-	6	-	-	-	6	
Effect of modifications	-	-	-	-	(9)	(5)	-	-	(9)	(5)	
Changes to models ⁵ Note 48.4.4	-	4	-	(3)	-	9	-	-	-	10	
Changes to assumptions ⁶ Note 48.4.4	-	9	-	12	-	19	-	1	-	41	
Recoveries	-	-	-	-	-	(6)	-	-	-	(6)	
Accrued interest	220	-	72	-	30	-	2	-	324	-	
Amounts written off	-	-	-	-	(15)	(13)	-	-	(15)	(13)	
Foreign exchange adjustments	51	6	48	6	34	4	-	1	133	17	
At 31 December 2020	10,363	249	2,063	117	343	167	114	8	12,883	541	

Commentary

We have presented all the possible lines on the reconciliations of changes in gross carrying amount and corresponding allowance for ECL by stage for illustrative purposes. In practise, banks would probably aggregate immaterial lines.

Banks should provide information on large single name exposures that have moved to stage 3 or have been written off, if material. This could include the sector and size of each individual exposure. Such information could be provided as a separate line item in the above reconciliation and / or in the explanatory comments in respect of the movements presented in the reconciliation.

Notes to the Financial Statements

31. Loans and advances to customers *continued*

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

31.1.1. Corporate lending *continued*

In \$ million	Stage 1		Stage 2		Stage 3		POCI		Total		IFRS 7.35H(a)-(c) IFRS 7.35K(a)-(d) EDTF 3 EDTF 26 EDTF 28
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	
1 January 2019	7,831	150	2,328	50	489	131	34	2	10,682	333	
New assets originated or purchased	1,987	49	-	-	-	-	27	-	2,014	49	
Payments and assets derecognised ¹	(241)	(3)	(234)	(1)	(142)	(16)	(10)	-	(627)	(20)	
Transfers to Stage 1 ²	93	4	(84)	(3)	(9)	(1)	-	-	-	-	
Transfers to Stage 2	(113)	(12)	133	18	(20)	(6)	-	-	-	-	
Transfers to Stage 3	(20)	(4)	(41)	(5)	61	9	-	-	-	-	
Impact on ECL of transfers ³	-	(4)	-	9	-	2	-	-	-	7	
Unwind of discount ⁴	-	6	-	2	-	13	-	1	-	22	
Re-measurement of year end ECL	-	2	-	1	-	-	-	-	-	3	
Effect of modifications	-	-	-	-	(9)	(5)	-	-	(9)	(5)	
Changes to models ⁵ Note 48.4.4	-	4	-	(3)	-	9	-	-	-	10	
Changes to assumptions ⁶ Note 48.4.4	-	4	-	9	-	19	-	1	-	33	
Recoveries	-	-	-	-	-	(6)	-	-	-	(6)	
Accrued interest	200	-	62	-	24	-	2	-	288	-	
Amounts written off	-	-	-	-	(12)	(9)	-	-	(12)	(9)	
Foreign exchange adjustments	44	5	39	11	33	2	-	2	116	20	
At 31 December 2019	9,781	201	2,203	88	415	142	53	6	12,452	437	

¹ Includes full and partial write-offs.

² Represents movements in allowance for ECL prior to re-measurement.

³ Represents the change in the year-end allowance for ECL 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. These would also include the impact of the change in the definition of default where relevant and material - further guidance is provided in [Note 48.4.3.1](#).

⁶ Represents changes to estimates and model assumptions (e.g., GDP rates, unemployment rates and house price indices).

⁷ Included in *Credit loss expense on financial assets*.

The above explanations also apply, but are not repeated for the corresponding reconciliations for small business lending, consumer lending and residential mortgages presented in [Notes 31.1.2](#), [31.1.3](#) and [31.1.4](#), respectively.

Commentary

The line item "Changes to models" in the reconciliation tables would also include the impact of the change in the definition of default where relevant and material - further guidance is provided in [Note 48.4.3.1](#).

Notes to the Financial Statements

31. Loans and advances to customers *continued*

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

31.1.1. Corporate lending *continued*

In 2020, 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 2020, 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 2020, 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 2020 (2019: nil). IFRS 7.20A
IFRS 7.35L

As shown in the above table, the allowance for ECL for corporate loans increased from \$437 million at 31 December 2019 to \$541 million at 31 December 2020. IFRS 7.BBD
EDTF 28

The increase was primarily driven by:

- ▶ \$30 million from net movements in the allowance for ECL on new originations less repayments
- ▶ \$58 million from net credit quality related changes, including impact of remeasurement of year-end ECL, which reflects a deterioration in economic conditions
- ▶ \$17 million of foreign exchange movements

These were partly offset by recoveries and write offs of \$19 million.

The total income statement charge for allowance for ECL for the year was \$97 million (2019: \$94 million) and consisted of:

- ▶ \$30 million from net movements in the allowance for ECL on new originations less repayments
- ▶ \$58 million from net credit quality related changes, including \$6 million relating to the net remeasurement impact of transfers between stages
- ▶ \$9 million of unwinding of discount through credit loss expense. A further \$9 million (2019: \$5 million) of discount unwinding relating to Stage 3 assets was recognised as a reduction to interest income

'Changes to assumptions' in the above reconciliation refers to the impact of changes to inputs to the ECL models under multiple economic scenarios. The key drivers of expected loss and the assumptions used by the Bank are further described in [Note 48.4.4](#).

Covid-19 commentary

Banks are expected to provide commentary to specifically address the impact of Covid-19 on the allowance for ECL for each class of loans and other affected financial assets. The commentary should address transfers between stages, model changes and the impact of payment holidays and other customer support.

Refer to the Covid-19 commentary in [Note 31.1](#) above for additional guidance. Additional guidance in respect of the disclosures that banks are expected to provide in respect of model adjustments and management overlays are included in [Note 48.4.7](#).

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'.

31.1.2. 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, 12 month Basel PD range and year-end stage classification. The amounts presented are gross of allowance for ECL. Details of the Bank's internal grading system are explained in [Note 48.4.3.2](#) and the Bank's impairment assessment and measurement approach is set out in [Note 48.4.3](#).

Notes to the Financial Statements

31. Loans and advances to customers *continued*

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

31.1.2. Small business lending *continued*

In \$ million

31 December 2020

IFRS 7.35M
EDTF 26

Internal rating grade	12 month Basel					
	PD range	Stage 1	Stage 2	Stage 3	POCI	Total
Performing						
High grade	0.00%-0.50%	2,000	–	–	–	2,000
Standard grade	0.50%-11.7.00%	1,068	657	–	–	1,725
Sub-standard grade	11.7%-29.50%	–	534	–	–	534
Low grade	29.5%-100%	–	269	102	23	394
Non-performing						
Individually impaired	100.00%	–	–	103	31	134
Total		3,068	1,460	205	54	4,787

In \$ million

31 December 2019

IFRS 7.35M
EDTF 26

Internal rating grade	12 month Basel					
	PD range	Stage 1	Stage 2	Stage 3	POCI	Total
Performing						
High grade	0.00%-0.50%	1,711	–	–	–	1,711
Standard grade	0.50%-11.7.00%	1,289	695	–	–	1,984
Sub-standard grade	11.7%-29.50%	–	565	–	–	565
Low grade	29.5%-100%	–	284	105	–	389
Non-performing						
Individually impaired	100.00%	–	–	103	–	103
Total		3,000	1,544	208	–	4,752

The tables below summarise the ageing of stage 2 and stage 3 small business loans respectively, as follows:

IFRS 7.35M

- ▶ Stage 2 - loans less than 30 days past due (dpd) and loans greater than 30 dpd irrespective of the criteria that triggered their classification in Stage 2). For an analysis based on these criteria, refer to [Note 48.4.13](#).
- ▶ Stage 3 - loans less than 90 dpd and loans greater than 90 dpd, thus, presenting the loans classified as stage 3 due to ageing and those identified at an earlier stage due to other criteria. Stage 3 exposures are further analysed to indicate those which are no longer credit impaired but in cure period that precedes transfer to stage 2.

In \$ million	Stage 2		Stage 3		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
31 December 2020						
Less than:						
30 dpd (for Stage 2)	1,191	37	–	–	1,191	37
90 dpd (for Stage 3)	–	–	52	18	56	10
More than:						
30 dpd (for Stage 2)	269	71	–	–	269	71
90 dpd (for Stage 3)	–	–	153	91	511	91
	1,460	108	208	109	2,027	209
Break down of stage 3 exposures:						
No longer impaired but in cure period			40	16		
Other			165	93		
Total			208	109		

Notes to the Financial Statements

31. Loans and advances to customers *continued*

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

31.1.2. Small business lending *continued*

In \$ million	Stage 2		Stage 3		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
31 December 2019						
Less than:						
30 dpd (for Stage 2)	1,260	27	-	-	1,260	27
90 dpd (for Stage 3)	-	-	-	-	-	-
More than:						
30 dpd (for Stage 2)	284	51	-	-	284	51
90 dpd (for Stage 3)	-	-	208	89	208	89
	1,544	78	208	89	1,752	167
Break down of stage 3 exposures:						
No longer impaired but in cure period			-	-		
Other			208	89		
Total			208	89		

A reconciliation of changes in gross carrying amount and corresponding allowance for ECL by stage for small business lending is, as follows:

IFRS 7.35H(a)-(c)
IFRS 7.35(a)-(d)
EDTF 3
EDTF 26
EDTF 28

In \$ million	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
1 January 2020	3,000	103	1,544	78	208	89	-	-	4,752	270
New assets originated or purchased	170	20	-	-	-	-	56	-	226	20
Payments and assets derecognised ¹	(244)	(16)	(202)	(9)	(18)	(4)	(4)	(3)	(468)	(32)
Transfers to Stage 1 ²	24	3	(20)	(2)	(4)	(1)	-	-	-	-
Transfers to Stage 2	(67)	(16)	67	16	-	-	-	-	-	-
Transfers to Stage 3	(9)	(5)	(18)	(3)	27	8	-	-	-	-
Impact on ECL of transfers ³	-	(9)	-	3	-	8	-	-	-	9
Unwind of discount ⁴	-	6	-	4	-	-	-	-	-	10
Effect of modifications	-	-	-	-	(9)	(7)	-	-	(9)	(7)
Changes to models ⁵ and assumptions ⁶	-	30	-	19	-	17	-	6	-	72
Accrued interest	175	-	79	-	10	-	2	-	266	-
Amounts written off	-	-	-	-	(12)	(3)	-	-	(12)	(3)
Foreign exchange adjustments	19	4	10	2	3	2	-	-	32	8
At 31 December 2020	3,068	127	1,460	108	205	109	54	3	4,787	347

Notes to the Financial Statements

31. Loans and advances to customers *continued*

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

31.1.2. Small business lending *continued*

In \$ million	Stage 1		Stage 2		Stage 3		POCI		Total		IFRS 7.35H(a)-(c) IFRS 7.35(a)-(d) EDTF 3 EDTF 26 EDTF 28
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	
1 January 2019	2,730	84	1,636	60	202	86	-	-	4,568	230	
New assets originated or purchased	280	26	-	-	-	-	73	-	353	26	
Payments and assets derecognised ¹	(144)	(14)	(199)	(9)	(15)	(4)	(77)	(3)	(435)	(30)	
Transfers to Stage 1 ²	17	4	(12)	(2)	(5)	(2)	-	-	-	-	
Transfers to Stage 2	(54)	(27)	54	27	-	-	-	-	-	-	
Transfers to Stage 3	(7)	(3)	(28)	(13)	35	16	-	-	-	-	
Impact on ECL of transfers ³	-	(3)	-	1	-	6	-	-	-	4	
Unwind of discount ⁴	-	5	-	4	-	-	-	-	-	9	
Effect of modifications	-	-	-	-	(7)	(15)	-	-	(7)	(15)	
Changes to models ⁵ and assumptions ⁶ Note 48.4.4	-	28	-	8	-	9	-	3	-	48	
Accrued interest	163	-	81	-	9	-	4	-	257	-	
Amounts written off	-	-	-	-	(15)	(9)	-	-	(15)	(9)	
Foreign exchange adjustments	15	3	12	2	4	2	-	-	31	7	
At 31 December 2019	3,000	103	1,544	78	208	89	-	-	4,752	270	

In 2020, 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 2020 and that are still subject to enforcement activity was nil (2019: nil).

IFRS 7.35L

Notes to the Financial Statements

31. Loans and advances to customers *continued*

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

31.1.2. *Small business lending continued*

As shown in the above table, the allowance for ECL for small business loans increased from \$270 million at 31 December 2019 to \$347 million at 31 December 2020.

IFRS 7.B8D
EDTF 28

The increase was primarily driven by:

- ▶ \$74 million from net credit quality-related changes, including impact of remeasurement of year-end ECL, which reflects a deterioration in economic conditions
- ▶ \$8 million of foreign exchange movements

These were partly offset by:

- ▶ Net decrease in the allowance for ECL on new originations less repayments of \$18 million
- ▶ Write offs of \$3 million

The total income statement charge for allowance for ECL for the year was \$72 million (2019: \$42 million) and consisted of:

- ▶ \$18 million decrease from net movements in the allowance for ECL on new originations less repayments
- ▶ \$74 million increase from net credit quality related changes, including \$9 million relating to the net remeasurement impact of transfers between stages
- ▶ \$16 million of unwinding of discount through credit loss expense

'Changes to assumptions' in the above reconciliation refers to the impact of changes to inputs to the ECL models under multiple economic scenarios. The key drivers of expected loss and the assumptions used by the Bank are further described in [Note 48.4.4](#).

Over the course of 2020, the Bank sold a portfolio of small business loans with a gross value of \$10m at a loss of \$2m. The Bank also derecognised loans with gross value of \$7m due to modifications, resulting in a loss of \$1m.

IFRS 7.20A

31.1.3. *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, 12 month Basel PD range and year-end stage classification. The amounts presented are gross of allowance for ECL. Details of the Bank's internal grading system are explained in [Note 48.4.3.2](#) and the Bank's impairment assessment and measurement approach is set out in [Note 48.4.3](#).

In \$ million

31 December 2020

IFRS 7.35M
EDTF 26

Internal rating grade	12 month Basel PD range	Stage 1	Stage 2	Stage 3	POCI	Total
Performing						
High grade	0.00%-0.50%	2,539	–	–	–	2,539
Standard grade	0.50%-11.7.00%	9,196	3,064	–	–	12,260
Sub-standard grade	11.7%-29.50%	–	2,243	–	–	2,243
Low grade	29.5%-100%	–	564	56	200	820
Non-performing						
Individually impaired	100.00%	–	–	511	29	540
Total		11,735	5,871	567	229	18,402

In \$ million

31 December 2019

IFRS 7.35M
EDTF 26

Internal rating grade	12 month Basel PD range	Stage 1	Stage 2	Stage 3	POCI	Total
Performing						
High grade	0.00%-0.50%	3,432	–	–	–	3,432
Standard grade	0.50%-11.7.00%	8,490	3,175	–	–	11,665
Sub-standard grade	11.7%-29.50%	–	2,452	–	–	2,452
Low grade	29.5%-100%	–	433	100	–	533
Non-performing						
Individually impaired	100.00%	–	–	381	–	381
Total		11,922	6,060	481	–	18,463

Notes to the Financial Statements

31. Loans and advances to customers *continued*

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

31.1.3. Consumer lending *continued*

The tables below summarise the ageing of stage 2 and stage 3 consumer loans respectively, as follows:

IFRS 7.35M

- ▶ Stage 2 - loans less than 30 days past due (dpd) and loans greater than 30 dpd irrespective of the criteria that triggered their classification in Stage 2). For an analysis based on these criteria, refer to [Note 48.4.13](#).
- ▶ Stage 3 - loans less than 90 dpd and loans greater than 90 dpd, thus, presenting the loans classified as stage 3 due to ageing and those identified at an earlier stage due to other criteria. Stage 3 exposures are further analysed to indicate those which are no longer credit impaired but in cure period that precedes transfer to stage 2.

In \$ million	Stage 2		Stage 3		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
31 December 2020						
Less than:						
30 dpd (for Stage 2)	5,307	166	-	-	5,307	166
90 dpd (for Stage 3)	-	-	56	10	56	10
More than:						
30 dpd (for Stage 2)	564	71	-	-	564	71
90 dpd (for Stage 3)	-	-	511	91	511	91
	5,871	237	567	101	6,438	338
Break down of stage 3 exposures:						
No longer impaired but in cure period			68	16		
Other			499	85		
Total			567	101		

In \$ million	Stage 2		Stage 3		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
31 December 2019						
Less than:						
30 dpd (for Stage 2)	5,515	167	-	-	5,515	167
90 dpd (for Stage 3)	-	-	100	18	100	18
More than:						
30 dpd (for Stage 2)	545	59	-	-	545	59
90 dpd (for Stage 3)	-	-	381	94	381	94
	6,060	226	481	112	6,541	338
Break down of stage 3 exposures:						
No longer impaired but in cure period			130	22		
Other			351	90		
Total			481	112		

Notes to the Financial Statements

31. Loans and advances to customers *continued*

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

31.1.3. Consumer lending *continued*

A reconciliation of changes in gross carrying amount and corresponding allowance for ECL by stage for consumer lending is as follows:

IFRS 7.35H(a)-(c)
IFRS 7.35(a)-(d)
EDTF 3
EDTF 26
EDTF 28

In \$ million	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
1 January 2020	11,922	228	6,060	226	481	112	-	-	18,463	566
New assets originated or purchased	611	28	-	-	-	-	241	-	852	28
Payments and assets derecognised ¹	(1,195)	(11)	(260)	(6)	(100)	(41)	(14)	-	(1,569)	(58)
Transfers to Stage 1 ²	75	6	(75)	(6)	-	-	-	-	-	-
Transfers to Stage 2	(38)	(17)	38	17	-	-	-	-	-	-
Transfers to Stage 3	(84)	(6)	(97)	(11)	181	17	-	-	-	-
Impact on ECL of transfers ³	-	(1)	-	2	-	7	-	-	-	8
Unwind of discount ⁴	-	9	-	7	-	8	-	1	-	25
Effect of modifications	-	-	-	-	(9)	-	-	-	(9)	-
Changes to models ⁵ Note 48.4.4	-	4	-	4	-	9	-	2	-	19
Changes to assumptions ⁶ Note 48.4.4	-	4	-	2	-	19	-	-	-	25
Recoveries	-	-	-	-	-	(5)	-	-	-	(5)
Accrued interest	424	-	178	-	40	-	2	-	644	-
Amounts written off	-	-	-	-	(30)	(30)	-	-	(30)	(30)
Foreign exchange adjustments	20	3	27	2	4	3	-	-	51	8
At 31 December 2020	11,735	247	5,871	237	567	101	229	3	18,402	588

Notes to the Financial Statements

31. Loans and advances to customers *continued*

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

31.1.3. Consumer lending *continued*

In \$ million	Stage 1		Stage 2		Stage 3		Gross carrying amount	POCI ECL	Total Gross carrying amount	ECL	IFRS 7.35H(a)-(c) IFRS 7.35I(a)-(d) EDTF 3 EDTF 26 EDTF 28
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL					
1 January 2019	11,512	209	6,187	218	407	93	-	-	18,106	520	
New assets originated or purchased	609	21	-	-	-	-	-	-	609	21	
Payments and assets derecognised ¹	(592)	(8)	(201)	(1)	(102)	(11)	(14)	-	(909)	(20)	
Transfers to Stage 1 ²	71	6	(71)	(6)	-	-	-	-	-	-	
Transfers to Stage 2	(32)	(12)	32	12	-	-	-	-	-	-	
Transfers to Stage 3	(78)	(2)	(92)	(13)	170	15	-	-	-	-	
Impact on ECL of transfers ³	-	(2)	-	3	-	9	-	-	-	10	
Unwind of discount ⁴	-	7	-	5	-	7	-	-	-	19	
Effect of modifications	-	-	-	-	(8)	-	-	-	(8)	-	
Changes to models ⁵ Note 48.4.4	-	3	-	4	-	12	-	-	-	19	
Changes to assumptions ⁶ Note 48.4.4	-	3	-	2	-	19	-	-	-	24	
Recoveries	-	-	-	-	-	(5)	-	-	-	(5)	
Accrued interest	414	-	178	-	40	-	14	-	646	-	
Amounts written off	-	-	-	-	(30)	(30)	-	-	(30)	(30)	
Foreign exchange adjustments	18	3	27	2	4	3	-	-	49	8	
At 31 December 2019	11,922	228	6,060	226	481	112	-	-	18,463	566	

Notes to the Financial Statements

31. Loans and advances to customers *continued*

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

31.1.3. *Consumer lending continued*

In 2020, 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 2020 and that were still subject to enforcement activity was nil (2019: nil).

IFRS 7.35L

As shown in the above table, the allowance for ECL for consumer loans increased from \$566 million at 31 December 2019 to \$588 million at 31 December 2020.

IFRS 7.B8D
EDTF 28

The increase was primarily driven by:

- ▶ \$52 million from net credit quality related changes, including impact of remeasurement of year-end ECL, which reflects a deterioration in economic conditions
- ▶ \$8 million of foreign exchange movements

These were partly offset by:

- ▶ A net decrease in the allowance for ECL on new originations less repayments of \$30 million
- ▶ Recoveries and write offs of \$35 million

The total income statement charge for allowance for ECL for the year was \$39 million (2019: \$66 million) and consisted of:

- ▶ \$30 million decrease from net movements in the allowance for ECL on new originations less repayments
- ▶ \$52 million increase from net credit quality related changes, including \$8 million relating to the net remeasurement impact of transfers between stages
- ▶ \$17 million of unwinding of discount through credit loss expense. A further \$10 million (2019: \$7 million) of discount unwinding relating to Stage 3 assets was recognised as a reduction to interest income

'Changes to assumptions' in the above reconciliation refers to the impact of changes to inputs to the ECL models under multiple economic scenarios. The key drivers of expected loss and the assumptions used by the Bank are further described in [Note 48.4.4](#).

Notes to the Financial Statements

31. Loans and advances to customers *continued*

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

31.1.4. 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, 12 month Basel PD range and year-end stage classification. The amounts presented are gross of allowance for ECL. Details of the Bank's internal grading system are explained in [Note 48.4.3.2](#) and the Bank's impairment assessment and measurement approach is set out in [Note 48.4.3](#).

In \$ million

31 December 2020

IFRS 7.35M
EDTF 26

Internal rating grade	12 month Basel PD range	Stage 1	Stage 2	Stage 3	POCI	Total
Performing						
High grade	0.00%-0.50%	5,929	–	–	–	5,929
Standard grade	0.50%-11.7.00%	6,095	811	–	–	6,906
Sub-standard grade	11.7%-29.50%	–	371	–	–	371
Low grade	29.5%-100%	–	71	21	–	92
Non-performing						
Individually impaired	100.00%	–	–	394	–	394
Total		12,024	1,253	415	–	13,692

In \$ million

31 December 2019

IFRS 7.35M
EDTF 26

Internal rating grade	12 month Basel PD range	Stage 1	Stage 2	Stage 3	POCI	Total
Performing						
High grade	0.00%-0.50%	9,432	–	–	–	9,432
Standard grade	0.50%-11.7.00%	1,413	1,155	–	–	2,568
Sub-standard grade	11.7%-29.50%	–	533	–	–	533
Low grade	29.5%-100%	–	240	–	–	240
Non-performing						
Individually impaired	100.00%	–	–	302	–	302
Total		10,845	1,928	302	–	13,075

The tables below summarise the ageing of stage 2 and stage 3 residential mortgage loans respectively, as follows: *IFRS 7.35M*

- ▶ Stage 2 - loans less than 30 days past due (dpd) and loans greater than 30 dpd irrespective of the criteria that triggered their classification in Stage 2). For an analysis based on these criteria, refer to [Note 48.4.13](#).
- ▶ Stage 3 - loans less than 90 dpd and loans greater than 90 dpd, thus, presenting the loans classified as stage 3 due to ageing and those identified at an earlier stage due to other criteria. Stage 3 exposures are further analysed to indicate those which are no longer credit impaired but in cure period that precedes transfer to stage 2.

Notes to the Financial Statements

31. Loans and advances to customers *continued*

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

31.1.4. Residential mortgages *continued*

In \$ million	Stage 2		Stage 3		Total	
31 December 2020	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
Less than:						
30 dpd (for Stage 2)	1,019	41	–	–	1,019	41
90 dpd (for Stage 3)	–	–	21	10	21	10
More than:						
30 dpd (for Stage 2)	234	30	–	–	234	30
90 dpd (for Stage 3)	–	–	394	75	394	75
	<u>1,253</u>	<u>71</u>	<u>415</u>	<u>85</u>	<u>1,668</u>	<u>156</u>

Break down of stage 3 exposures:

No longer impaired but in cure period		59	16
Other		356	69
Total		<u>415</u>	<u>85</u>

In \$ million	Stage 2		Stage 3		Total	
31 December 2019	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
Less than:						
30 dpd (for Stage 2)	1,388	31	–	–	1,388	31
90 dpd (for Stage 3)	–	–	–	–	–	–
More than:						
30 dpd (for Stage 2)	540	57	–	–	540	57
90 dpd (for Stage 3)	–	–	302	68	302	68
	<u>1,928</u>	<u>88</u>	<u>302</u>	<u>68</u>	<u>2,230</u>	<u>156</u>

Break down of stage 3 exposures:

No longer impaired but in cure period		22	8
Other		280	60
Total		<u>302</u>	<u>68</u>

Notes to the Financial Statements

31. Loans and advances to customers *continued*

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

31.1.4. Residential mortgages *continued*

A reconciliation of changes in gross carrying amount and corresponding allowance for ECL by stage for residential mortgages is, as follows:

IFRS 7.35H(a)-(c)
IFRS 7.35(a)-(d)
EDTF 3
EDTF 26
EDTF 28

In \$ million	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
1 January 2020	10,845	150	1,928	88	302	68	-	-	13,075	306
New assets originated or purchased	1,746	31	-	-	-	-	-	-	1,746	31
Payments and assets derecognised ¹	(1,100)	(8)	(535)	(1)	(167)	(30)	-	-	(1,802)	(39)
Transfers to Stage 1 ²	200	22	(200)	(22)	-	-	-	-	-	-
Transfers to Stage 2	(134)	(8)	134	8	-	-	-	-	-	-
Transfers to Stage 3	(89)	(2)	(200)	(25)	289	27	-	-	-	-
Impact on ECL of transfers ³	-	(2)	-	2	-	6	-	-	-	6
Unwind of discount ⁴	-	8	-	5	-	7	-	-	-	20
Effect of modifications	-	-	-	-	(10)	(10)	-	-	(10)	(10)
Changes to models ⁵ Note 48.4.4	-	9	-	13	-	45	-	-	-	67
Accrued interest	533	-	114	-	26	-	-	-	673	-
Amounts written off	-	-	-	-	(29)	(29)	-	-	(29)	(29)
Foreign exchange adjustments	23	8	12	3	4	1	-	-	39	12
At 31 December 2020	12,024	208	1,253	71	415	85	-	-	13,692	364

Notes to the Financial Statements

31. Loans and advances to customers *continued*

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

31.1.4. Residential mortgages *continued*

In \$ million	Stage 1		Stage 2		Stage 3		POCI		Total		IFRS 7.35H(a)-(c) IFRS 7.35(a)-(d) EDTF 3 EDTF 26 EDTF 28
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	
1 January 2019	9,610	65	2,591	114	202	46	-	-	12,403	225	
New assets originated or purchased	1,726	28	-	-	-	-	-	-	1,726	28	
Payments and assets derecognised ¹	(1,000)	(5)	(535)	(7)	(160)	(28)	-	-	(1,695)	(40)	
Transfers to Stage 1 ²	185	21	(185)	(21)	-	-	-	-	-	-	
Transfers to Stage 2	(130)	(4)	130	4	-	-	-	-	-	-	
Transfers to Stage 3	(82)	(3)	(190)	(26)	272	29	-	-	-	-	
Impact on ECL of transfers ³	-	(4)	-	5	-	7	-	-	-	8	
Unwind of discount ⁴	-	40	-	6	-	10	-	-	-	56	
Effect of modifications	-	-	-	-	(8)	(8)	-	-	(8)	(8)	
Changes to models ⁵ Note 48.4.4	-	6	-	12	-	32	-	-	-	50	
Accrued interest	516	-	103	-	21	-	-	-	640	-	
Amounts written off	-	-	-	-	(27)	(23)	-	-	(27)	(23)	
Foreign exchange adjustments	20	6	14	1	2	3	-	-	36	10	
At 31 December 2019	10,845	150	1,928	88	302	68	-	-	13,075	306	

The tables below summarise the Bank's residential mortgages portfolio (gross carrying amounts and corresponding allowance for ECL by stage) loan-to-value (LTV) ratios:

In \$ million	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
Less than 50%	2,510	31	69	9	-	-	2,579	40
50% to 59%	1,905	28	74	10	-	-	1,979	38
60% to 69%	1,327	26	126	11	-	-	1,453	37
70 to 79%	1,960	34	186	13	-	-	2,146	47
80 to 89%	1,933	38	404	17	80	9	2,417	64
90 to 99%	2,389	51	394	11	278	39	3,061	101
100% and more	-	-	-	-	57	37	57	37
Total	12,024	208	1,253	71	415	85	13,692	364

Notes to the Financial Statements

31. Loans and advances to customers *continued*

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

31.1.4. Residential mortgages *continued*

Of which:

Owner Occupied Mortgages

In \$ million 31 December 2020	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
Less than 50%	1,733	25	62	5	-	-	1,795	30
50% to 59%	1,181	22	58	9	-	-	1,239	31
60% to 69%	1,032	21	104	6	-	-	1,136	27
70 to 79%	1,716	27	171	10	-	-	1,887	37
80 to 89%	1,603	30	316	14	135	15	2,054	59
90 to 99%	2,241	41	324	13	204	25	2,769	79
100% and more	-	-	-	-	43	34	43	34
Total	9,506	166	1,035	57	382	74	10,923	297

Buy-to-let Mortgages

In \$ million 31 December 2020	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
Less than 50%	777	6	7	4	-	-	784	10
50% to 59%	724	6	16	1	-	-	740	7
60% to 69%	295	5	22	5	-	-	317	10
70 to 79%	244	7	15	3	-	-	259	10
80 to 89%	330	8	88	3	(55)	(6)	363	5
90 to 99%	148	10	70	(2)	74	14	292	22
100% and more	-	-	-	-	14	3	14	3
Total	2,518	42	218	14	33	11	2,769	67

In \$ million 31 December 2019	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
Less than 50%	1,697	12	-	-	-	-	1,697	12
50% to 59%	1,199	13	236	3	-	-	1,435	16
60% to 69%	1,161	14	320	7	-	-	1,481	21
70 to 79%	1,207	25	420	9	-	-	1,627	34
80 to 89%	1,055	21	590	21	-	-	1,645	42
90 to 99%	4,526	65	362	48	28	2	4,916	115
100% and more	-	-	-	-	274	66	274	66
Total	10,845	150	1,928	88	302	68	13,075	306

Of which:

Owner Occupied Mortgages

In \$ million 31 December 2019	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
Less than 50%	967	9	-	-	-	-	967	9
50% to 59%	750	8	230	2	-	-	980	10
60% to 69%	944	7	311	6	-	-	1,255	13
70 to 79%	859	11	412	8	-	-	1,271	19
80 to 89%	505	7	566	19	-	-	1,071	26
90 to 99%	4,141	59	275	40	-	-	4,416	99
100% and more	-	-	-	-	274	66	274	66
Total	8,166	101	1,794	75	274	66	9,849	242

Notes to the Financial Statements

31. Loans and advances to customers *continued*

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

31.1.4. Residential mortgages *continued*

Buy-to-let Mortgages

In \$ million 31 December 2019	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
less than 50%	730	3	–	–	–	–	730	3
0% to 59%	449	5	6	1	–	–	455	6
0% to 69%	217	7	9	1	–	–	226	8
0 to 79%	348	14	8	1	–	–	356	15
0 to 89%	550	14	24	2	–	–	574	16
0 to 99%	385	6	87	8	28	2	500	16
00% and more	–	–	–	–	–	–	–	–
Total	2,679	49	134	13	28	2	2,841	64

Commentary

Disclosure of the LTV distributions of the portfolio is not specifically mandated by IFRS 7. However, it is industry best practice to disclose LTV distributions for the residential mortgage portfolio.

In 2020, 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 2020 and that were still subject to enforcement activity was nil (2019: nil). *IFRS 7.35L*

As shown in the above table, the allowance for ECL for residential mortgages has increased from \$306 million at 31 December 2019 to \$364 million at 31 December 2020. *IFRS 7.B8D EDTF 28*

The increase was primarily driven by:

- ▶ \$63 million from net credit quality related changes, including impact of remeasurement of year-end ECL, which reflects a deterioration in economic conditions
- ▶ \$12 million of foreign exchange movements

These were partly offset by:

- ▶ A net decrease in the allowance for ECL on new originations less repayments of \$8 million
- ▶ Recoveries and write offs of \$29 million

The total income statement charge for allowance for ECL for the year was \$68 million (2019: \$84 million) and consisted of:

- ▶ \$8 million decrease from net movements in the allowance for ECL on new originations less repayments
- ▶ \$63 million increase from net credit quality related changes, including \$6 million relating to the net remeasurement impact of transfers between stages
- ▶ \$13 million of unwinding of discount through credit loss expense. A further \$7 million (2019: \$10 million) of discount unwinding relating to Stage 3 assets was recognised as a reduction to interest income

An element of the increase in ECL of the residential mortgage lending was driven by the decrease in house prices over the course of 2020 and by negative economic outcomes across all operating regions of the Bank over the year.

'Changes to assumptions' in the above reconciliation refers to the impact of changes to inputs to the ECL models under multiple economic scenarios. The key drivers of expected loss and the assumptions used by the Bank are further described in [Note 48.4.4](#).

Notes to the Financial Statements

31. Loans and advances to customers *continued*

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

EDTF commentary

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 7.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.

EDTF 28
IFRS 7.B8D

Notes to the Financial Statements

31. Loans and advances to customers *continued*

31.2. Credit risk analysis by asset class, industry segment and region

An analysis of risk concentration in gross carrying amounts and corresponding ECL in the loans portfolio by type of lending, industry and geographical location is presented below:

Covid-19 commentary

The potential impact of Covid-19 has not been reflected in the numbers reported in this and any of the other tables presented by Good Bank. Entities should provide the relevant information including the Covid-19 impact in the context of these disclosures.

The industry segments used in the table represent illustrative generic sectors; entities will have to be more specific and provide the analysis based on the industries where they have significant exposures, focusing in particular on sectors affected by Covid-19, as applicable (e.g., hospitality, travel, aviation, etc.).

31 December 2020

IFRS 7.35M
IFRS 7.B8H
EDTF 26

In \$ million	Gross carrying amount					Allowance for ECL					ECL Coverage %				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances to customers															
Corporate lending	10,363	2,063	343	114	12,883	249	117	167	8	541	2.4%	5.7%	48.7%	7.0%	4.2%
Small business lending	3,068	1,460	205	54	4,787	127	108	109	3	347	4.1%	7.4%	53.2%	5.6%	7.2%
Consumer lending	11,735	5,871	567	229	18,402	247	237	101	3	588	2.1%	4.0%	17.8%	1.3%	3.2%
Residential mortgages	12,024	1,253	415	-	13,692	208	71	85	-	364	1.7%	5.7%	20.5%	-	2.7%
Total	37,190	10,647	1,530	397	49,764	831	533	462	14	1,840	2.2%	5.0%	30.2%	3.5%	3.7%
Per industry segment															
Financial services	3,048	873	125	33	4,079	63	40	35	1	140	2.1%	4.6%	27.9%	3.3%	3.4%
Consumers	2,479	710	102	26	3,317	109	70	60	2	240	4.4%	9.8%	59.2%	6.9%	7.2%
Retail and wholesale	4,975	1,424	205	53	6,656	130	84	72	2	288	2.6%	5.9%	35.4%	4.1%	4.3%
Construction	3,290	942	135	35	4,403	90	58	50	2	200	2.7%	6.1%	37.1%	4.3%	4.5%
Oil and gas	1,791	513	74	19	2,397	52	33	29	1	114	2.9%	6.4%	38.9%	4.5%	4.8%
Services	3,048	873	125	33	4,079	63	40	35	1	140	2.1%	4.6%	27.9%	3.3%	3.4%
Total	37,190	10,647	1,530	397	49,764	831	533	462	14	1,840	2.2%	5.0%	30.2%	3.5%	3.7%
Per region															
Goodland	14,714	4,212	605	157	19,689	294	189	164	5	651	2.0%	4.5%	27.0%	3.2%	3.3%
Europe	5,996	1,716	247	64	8,023	151	97	84	3	335	2.5%	5.7%	34.1%	4.0%	4.2%
Americas	10,179	2,914	419	109	13,621	254	163	141	4	563	2.5%	5.6%	33.8%	3.9%	4.1%
Asia Pacific	6,301	1,804	259	67	8,432	131	84	73	2	291	2.1%	4.7%	28.2%	3.3%	3.4%
Total	37,190	10,647	1,530	397	49,764	831	533	462	14	1,840	2.2%	5.0%	30.2%	3.5%	3.7%

Notes to the Financial Statements

31. Loans and advances to customers *continued*

31.2. Credit risk analysis by asset class, industry segment and region *continued*

31 December
2019

IFRS 7.35M
IFRS 7.B8H
EDTF 26

In \$ million	Gross carrying amount					Allowance for ECL					ECL Coverage %				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances to customers															
Corporate lending	9,781	2,203	415	53	12,452	201	88	142	6	437	2.1%	4.0%	34.2%	11.3%	3.5%
Small business lending	3,000	1,544	208	-	4,752	103	78	89	-	270	3.4%	5.1%	42.8%	-	5.7%
Consumer lending	11,922	6,060	481	-	18,463	228	226	112	-	566	1.9%	3.7%	23.3%	-	3.1%
Residential mortgages	10,845	1,928	302	-	13,075	150	88	68	-	306	1.4%	4.6%	22.5%	-	2.3%
Total	35,548	11,735	1,406	53	48,742	682	480	411	6	1,579	1.9%	4.1%	29.2%	11.3%	3.2%
Per industry segment															
Financial services	2,910	961	115	39	4,025	51	36	31	4	123	1.8%	3.8%	26.9%	11.3%	3.1%
Consumers	20,526	6,776	812	-	28,113	335	236	202	-	774	1.6%	3.5%	24.9%	-	2.8%
Retail and wholesale	2,488	821	98	-	3,408	84	59	50	-	193	3.4%	7.2%	51.3%	-	5.7%
Construction	4,767	1,574	189	7	6,537	102	72	61	1	236	2.1%	4.6%	32.5%	12.6%	3.6%
Oil and gas	3,144	1,038	124	5	4,311	70	49	42	1	162	2.2%	4.7%	33.9%	13.1%	3.8%
Services	1,713	566	68	3	2,349	40	28	24	0	92	2.3%	4.9%	35.3%	13.7%	3.9%
Total	35,548	11,735	1,406	53	48,742	682	480	411	6	1,579	1.9%	4.1%	29.2%	11.3%	3.2%
Per region															
Goodland	14,064	4,643	556	21	19,284	235	165	141	2	543	1.7%	3.6%	25.4%	9.8%	2.8%
Europe	5,731	1,892	227	9	7,859	125	88	75	1	289	2.2%	4.6%	33.2%	12.8%	3.7%
Americas	9,730	3,212	385	15	13,341	202	142	122	2	467	2.1%	4.4%	31.6%	12.2%	3.5%
Asia Pacific	6,023	1,988	238	9	8,259	121	85	73	1	279	2.0%	4.3%	30.5%	11.8%	3.4%
Total	35,548	11,735	1,406	53	48,742	682	480	411	6	1,579	1.9%	4.1%	29.2%	11.3%	3.2%

Notes to the Financial Statements

32. Other assets

In \$ million	2020	2019
Fee and commission receivables	165	185
Settlement and clearing accounts	181	105
Prepaid expenses	1,097	163
	1,443	453

IAS 1.77

As at 1 January 2019, the Bank had fee and commission receivables of \$77 million.

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.

Notes to the Financial Statements

33. Property, equipment and right-of-use assets

In \$ million

				Right-of-use assets			Total	IAS 1.78(a) IAS 16.73(d) IAS 16.73(e) IFRS 16.54
	Land and buildings	Computer hardware	Other furniture and equipment	Land and buildings	Computer hardware	Total right-of-use assets		
Cost or valuation								
At 1 January 2019	1,590	69	114	-	-	-	1,773	
Effect of adoption of IFRS 16 as at 1 January 2019 ¹	-	-	-	766	51	817	817	IFRS 16.53(h)
Additions	-	34	56	-	-	-	90	
Disposals	-	(26)	(29)	-	-	-	(55)	
Exchange differences	2	1	1	-	-	-	4	
At 31 December 2019	1,592	78	142	766	51	817	2,629	
Additions	119	34	65	-	-	-	218	
Disposals	-	(25)	(28)	-	-	-	(53)	
Exchange differences	3	1	2	-	-	-	6	
At 31 December 2020	1,714	88	181	766	51	817	2,800	
Depreciation and impairment								
At 1 January 2019	1,270	50	101	-	-	-	1,421	
Depreciation charge for the year	51	26	29	128	8	136	242	IFRS 16.53(a)
Disposals	-	(23)	(17)	-	-	-	(40)	
Exchange differences	-	-	-	-	-	-	-	
At 31 December 2019	1,321	53	113	128	8	136	1,623	
Depreciation charge for the year	50	25	28	128	8	136	239	IFRS 16.53(a)
Disposals	-	(20)	(15)	-	-	-	(35)	
Exchange differences	-	-	-	-	-	-	-	
At 31 December 2020	1,371	58	126	256	16	272	1,827	IFRS 16.53(j)
Net book value								
At 31 December 2020	343	30	55	510	35	545	973	
At 31 December 2019	271	25	29	638	43	681	1,006	

¹ Detailed illustrative transition disclosures for IFRS 16 Leases are provided in our publication [Good Bank \(International\) - December 2019](#)².

The land and buildings have a fair value of \$1,873 million (2019: \$1,598 million).

Set out below are the carrying amounts of lease liabilities (included under 'Other liabilities' in [Note 36](#)) and the movements during the period:

In \$ million	2020	2019	
As at 1 January	667	817	
Additions	-	-	
Accretion of interest	23	28	IFRS 16.53(b)
Payments	(174)	(178)	IFRS 16.53(g)
As at 31 December	516	667	

The maturity analysis of lease liabilities are disclosed in [Note 48.5.4](#).

The Bank had total cash outflows for leases of \$178 million (2019: \$ 174 million). The initial application of IFRS 16 resulted in non-cash additions to right-of-use assets and lease liabilities of \$817 million at 1 January 2019.

Notes to the Financial Statements

33. Property, equipment and right-of-use assets *continued*

Commentary

If a lessee does not present right-of-use assets separately in the statement of financial position, IFRS 16.47 requires the right-of-use assets to be included within the same line item as that within which the corresponding underlying assets would be presented if they were owned.

Illustrative examples of more detailed disclosures for right-of-use assets and lease liabilities is available in [Good Group \(International\) Limited - December 2020](#).²

Covid-19 commentary

Many entities will have to assess property, equipment and right-of-use assets for impairment. In performing the assessment, entities may need to reconsider their assumptions about the future use of an asset, specifically the remaining useful life and residual values, for example, given the decision to vacate buildings with a significant percentage of the workforce working from home.

Points to consider are as follows:

- ▶ Entities seeking to reduce their real estate footprint (for example, because they have successfully implemented a virtual working environment), should pay careful attention to the guidance in IAS 36 *Impairment of Assets*.
- ▶ Lessees that decide to reduce their real estate footprint either immediately or at a future date (e.g., in 12 months) may determine that this decision should lead to a reassessment of the lease term and / or assess whether it is an indicator that would trigger an assessment of whether a CGU that includes right-of-use (ROU) assets for leased real estate may be impaired under IAS 36 *Impairment of Assets*. Where a building has been vacated and will no longer be used, it would be assessed for impairment on a stand-alone basis rather than as part of a wider CGU.
- ▶ A reassessment of the lease term could potentially result in a significant impact on the carrying amount of ROU assets and lease liabilities at the date of the reassessment, with a further consequential impact on the amount of depreciation and interest expense recognised going forward.
- ▶ When the ROU asset is impaired, an impairment loss should be recognised and the carrying amount of the ROU asset adjusted accordingly.

34. 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 - December 2020](#).²

35. Due to customers

In \$ million

Large corporate customers:

Current accounts

Term deposits

Small and medium-sized customers:

Current accounts

Term deposits

Retail customers:

Current/saving accounts

Term deposits

	2020	2019	<i>IAS 1.77</i>
	13,965	14,052	
	15,083	14,820	
	29,048	28,872	
	4,485	4,465	
	11,879	11,876	
	16,364	16,341	
	2,406	2,494	
	8,325	8,470	
	10,731	10,964	
	56,143	56,177	<i>IFRS 7.8(g)</i>

Deposits of \$85 million (2019: \$82 million) held as collateral for irrevocable commitments under import letters of credit were included in Due to customers (see [Note 24.4](#)). *IFRS 7.15*

Notes to the Financial Statements

36. Other liabilities

In \$ million	2020	2019	
Settlement and clearing accounts	484	329	IAS 1.77
Lease liability (Note 33)	508	654	IFRS 16.54
Accrued expenses	202	341	
Accounts payable and sundry creditors	937	643	
Unearned fee and commissions	28	41	
Dividends payable	8	13	
Bank levy	48	80	
	2,215	2,101	

As at 1 January 2019, the Bank had unearned fees and commissions of \$15m. The increase in contract liabilities in 2020 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.

37. Provisions

The movement in provisions during 2020 and 2019 respectively is, as follows:

In \$ million	Financial guarantees, Letters of credits, Other undrawn commitments	Operational risk	Litigation	Regulatory enforcement	Re-structuring	Other	Total	
1 January 2019	134	8	-	-	-	19	161	IAS 37.84(a)
Changes in ECL (Note 37.1)	66						66	
Arising during the year	-	2	5	-	145	10	162	IAS 37.84(b)
Amounts written off	(5)	-	-	-	-	-	(5)	
Utilised	-	(4)	-	-	-	(9)	(13)	IAS 37.84(c)
Unwind of discount	-	1	1	-	2	1	5	IAS 37.84(e)
31 December 2019	195	7	6	-	147	21	376	IAS 37.84(a)
Changes in ECL (Note 37.1)	42						42	
Arising during the year	-	6	1	9	109	74	199	IAS 37.84(b)
Amounts written off	(6)						(6)	
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 2020	231	10	7	10	241	87	586	IAS 37.84(a)

37.1. 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	2020	2019
Financial guarantees	3,260	3,084
Letters of credit	523	589
Other undrawn commitments	14,198	13,740
Total	17,981	17,413

Notes to the Financial Statements

37. Provisions *continued*

37.1 Financial guarantees, letters of credit and other undrawn commitments *continued*

37.1.1. Impairment losses on guarantees and other undrawn commitments

An analysis of changes in the outstanding exposures and the corresponding allowance for impairment losses in relation to guarantees and other commitments is set out below:

37.1.1.1. 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, 12 month Basel PD range and year-end stage classification. Details of the Bank's internal grading system are explained in [Note 48.4.3.2](#) and the Bank's impairment assessment and measurement approach is set out in [Note 48.4.3](#).

In \$ million

31 December 2020

Internal rating grade	12 month Basel PD range	Stage 1	Stage 2	Stage 3	Total
Performing					
High grade	0.00%-0.50%	1,119	–	–	1,119
Standard grade	0.50%-11.7.00%	1,677	278	–	1,955
Sub-standard grade	11.7%-29.50%	–	127	–	127
Low grade	29.5%-100%	–	59	–	59
Non-performing					
Individually impaired	100.00%	–	–	–	–
Total		2,796	464	–	3,260

In \$ million

31 December 2019

Internal rating grade	12 month Basel PD range	Stage 1	Stage 2	Stage 3	Total
Performing					
High grade	0.00%-0.50%	1,057	–	–	1,057
Standard grade	0.50%-11.7.00%	1,504	357	–	1,861
Sub-standard grade	11.7%-29.50%	–	142	–	142
Low grade	29.5%-100%	–	24	–	24
Non-performing					
Individually impaired	100.00%	–	–	–	–
Total		2,561	523	–	3,084

A reconciliation of changes in outstanding exposures and corresponding allowance for ECL by stage for financial guarantees is, as follows:

In \$ million	Stage 1		Stage 2		Stage 3		Total	
	Outstanding exposure	ECL	Outstanding exposure	ECL	Outstanding exposure	ECL	Outstanding exposure	ECL
1 January 2020	2,561	87	523	38	–	–	3,084	125
New exposures	321	12	–	–	–	–	321	12
Exposures derecognised / matured / lapsed ¹	(123)	(4)	(66)	(6)	–	–	(189)	(10)
Transfers to Stage 1 ²	30	2	(30)	(2)	–	–	–	–
Transfers to Stage 2	(25)	(1)	25	1	–	–	–	–
Transfers to Stage 3	–	–	–	–	–	–	–	–
Impact on ECL of transfers ³	–	(1)	–	1	–	–	–	–
Unwind of discount ⁴	–	8	–	4	–	–	–	12
Changes to models ⁵	–	2	–	1	–	–	–	3
Note 48.4.4								
Foreign exchange adjustments	32	1	12	1	–	–	44	2
At 31 December 2020	2,796	106	464	38	–	–	3,260	144

Notes to the Financial Statements

37. Provisions continued

37.1 Financial guarantees, letters of credit and other undrawn commitments continued

37.1.1. Impairment losses on guarantees and other undrawn commitments continued

37.1.1.1. Financial guarantees continued

In \$ million	Stage 1		Stage 2		Stage 3		Total	
	Outstanding exposure	ECL	Outstanding exposure	ECL	Outstanding exposure	ECL	Outstanding exposure	ECL
1 January 2019	2,337	55	592	35	-	-	2,929	90
New exposures	432	23	-	-	-	-	432	23
Exposures derecognised / matured / lapsed ¹	(234)	(6)	(77)	(7)	-	-	(311)	(13)
Transfers to Stage 1 ²	41	4	(41)	(4)	-	-	-	-
Transfers to Stage 2	(36)	(2)	36	2	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Impact on ECL of transfers ³	-	(2)	-	2	-	-	-	-
Unwind of discount ⁴	-	7	-	5	-	-	-	12
Changes to models ⁵ Note 48.4.4	-	5	-	2	-	-	-	7
Foreign exchange adjustments	21	3	13	3	-	-	34	6
At 31 December 2019	2,561	87	523	38	-	-	3,084	125

37.1.1.2. Letters of credit

In \$ million

31 December 2020

Internal rating grade	12 month Basel PD range	Stage 1	Stage 2	Stage 3	Total
		Performing			
High grade	0.00%-0.50%	195	-	-	195
Standard grade	0.50%-11.7.00%	214	60	-	274
Sub-standard grade	11.7%-29.50%	-	50	-	50
Low grade	29.5%-100%	-	4	-	4
Non-performing					
Individually impaired	100.00%	-	-	-	-
Total		409	114	-	523

In \$ million

31 December 2019

Internal rating grade	12 month Basel PD range	Stage 1	Stage 2	Stage 3	Total
		Performing			
High grade	0.00%-0.50%	231	-	-	231
Standard grade	0.50%-11.7.00%	192	99	-	291
Sub-standard grade	11.7%-29.50%	-	60	-	60
Low grade	29.5%-100%	-	7	-	7
Non-performing					
Individually impaired	100.00%	-	-	-	-
Total		423	166	-	589

Notes to the Financial Statements

37. Provisions continued

37.1 Financial guarantees, letters of credit and other undrawn commitments continued

37.1.1. Impairment losses on guarantees and other undrawn commitments continued

37.1.1.2. Letters of credit continued

A reconciliation of changes in outstanding exposures and corresponding allowance for ECL by stage for letters of credit is, as follows:

In \$ million	Stage 1		Stage 2		Stage 3		Total	
	Outstanding exposure	ECL	Outstanding exposure	ECL	Outstanding exposure	ECL	Outstanding exposure	ECL
1 January 2020	423	12	166	20	-	-	589	32
New exposures	102	3	-	-	-	-	102	3
Exposures derecognised / matured / lapsed ¹	(123)	(4)	(66)	(2)	-	-	(189)	(6)
Transfers to Stage 1 ²	20	2	(20)	(2)	-	-	-	-
Transfers to Stage 2	(25)	(1)	25	1	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Impact on ECL of transfers ³	-	(1)	-	1	-	-	-	-
Unwind of discount ⁴	-	3	-	1	-	-	-	4
Changes to models ⁵ Note 48.4.4	-	2	-	1	-	-	-	3
Foreign exchange adjustments	12	1	9	1	-	-	21	2
At 31 December 2020	409	17	114	21	-	-	523	38

In \$ million	Stage 1		Stage 2		Stage 3		Total	
	Outstanding exposure	ECL	Outstanding exposure	ECL	Outstanding exposure	ECL	Outstanding exposure	ECL
1 January 2019	460	7	225	16	-	-	685	23
New exposures	91	3	-	-	-	-	91	3
Exposures derecognised / matured / lapsed ¹	(134)	(5)	(75)	(4)	-	-	(209)	(9)
Transfers to Stage 1 ²	31	2	(31)	(2)	-	-	-	-
Transfers to Stage 2	(36)	(2)	36	2	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Impact on ECL of transfers ³	-	(2)	-	2	-	-	-	-
Unwind of discount ⁴	-	4	-	2	-	-	-	6
Changes to models ⁵ Note 48.4.4	-	3	-	1	-	-	-	4
Foreign exchange adjustments	11	2	11	3	-	-	22	5
At 31 December 2019	423	12	166	20	-	-	589	32

Notes to the Financial Statements

37. Contingent liabilities, commitments *continued*

37.1. Financial guarantees, letters of credit and other undrawn commitments *continued*

37.1.1. Impairment losses on guarantees and other commitments *continued*

37.1.1.3. Other undrawn commitments

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system, 12 month Basel PD range and year-end stage classification. Details of the Bank's internal grading system are explained in [Note 48.4.3.2](#) and the Bank's impairment assessment and measurement approach is set out in [Note 48.4.3](#).

In \$ million

31 December 2020

Internal rating grade	12 month Basel PD range	Stage 1	Stage 2	Stage 3	Total
Performing					
High grade	0.00%-0.50%	4,742	–	–	4,742
Standard grade	0.50%-11.7.00%	4,774	2,311	–	7,085
Sub-standard grade	11.7%-29.50%	–	1,490	–	1,490
Low grade	29.5%-100%	–	606	102	708
Non-performing					
Individually impaired	100.00%	–	–	173	173
Total		9,516	4,407	275	14,198

In \$ million

31 December 2019

Internal rating grade	12 month Basel PD range	Stage 1	Stage 2	Stage 3	Total
Performing					
High grade	0.00%-0.50%	4,578	–	–	4,578
Standard grade	0.50%-11.7.00%	4,452	2,529	–	6,981
Sub-standard grade	11.7%-29.50%	–	1,341	–	1,341
Low grade	29.5%-100%	–	573	125	698
Non-performing					
Individually impaired	100.00%	–	–	142	142
Total		9,030	4,443	267	13,740

A reconciliation of changes in outstanding exposures and corresponding allowance for ECL by stage for letters of credit is, as follows:

In \$ million	Stage 1		Stage 2		Stage 3		Total	
	Outstand- ing exposure	ECL	Outstand- ing exposure	ECL	Outstand- ing exposure	ECL	Outstand- ing exposure	ECL
1 January 2020	9,030	48	4,443	39	267	34	13,740	121
New exposures	827	8	–	–	–	–	827	8
Payments and assets derecognised ¹	(303)	(3)	(76)	(2)	(8)	(4)	(387)	(9)
Transfers to Stage 1 ²	28	5	(28)	(5)	–	–	–	–
Transfers to Stage 2	(86)	(7)	86	7	–	–	–	–
Transfers to Stage 3	(5)	–	(22)	(2)	27	2	–	–
Impact on ECL of transfers ³	–	(2)	–	2	–	1	–	1
Unwind of discount ⁴	–	2	–	2	–	1	–	5
Effect of modifications	–	–	–	–	(6)	(4)	(6)	(4)
Changes to models ⁵	–	2	–	2	–	1	–	5
Note 48.4.4								
Amounts written off	–	–	–	–	(6)	(6)	(6)	(6)
Foreign exchange adjustments	25	3	4	1	1	1	30	5
At 31 December 2020	9,516	56	4,407	44	275	26	14,198	126

Notes to the Financial Statements

37. Contingent liabilities, commitments *continued*

37.1. Financial guarantees, letters of credit and other undrawn commitments *continued*

37.1.1. Impairment losses on guarantees and other commitments *continued*

37.1.1.3. Other undrawn commitments *continued*

In \$ million	Stage 1		Stage 2		Stage 3		Total	
	Outstanding exposure	ECL	Outstanding exposure	ECL	Outstanding exposure	ECL	Outstanding exposure	ECL
1 January 2019	8,538	40	4,491	34	257	41	12,286	115
New exposures	938	9	-	-	-	-	938	9
Payments and assets derecognised ¹	(404)	(4)	(87)	(4)	(9)	(3)	(500)	(11)
Transfers to Stage 1 ²	39	6	(39)	(6)	-	-	-	-
Transfers to Stage 2	(95)	(9)	95	9	-	-	-	-
Transfers to Stage 3	(7)	-	(22)	(2)	29	2	-	-
Impact on ECL of transfers ³	-	(2)	-	2	-	1	-	1
Unwind of discount ⁴	-	2	-	2	-	1	-	5
Effect of modifications	-	-	-	-	(7)	(5)	(7)	(5)
Changes to models ⁵	-	2	-	2	-	1	-	5
Amounts written off	-	-	-	-	(5)	(5)	(5)	(5)
Foreign exchange adjustments	21	4	5	2	2	1	28	7
At 31 December 2019	9,030	48	4,443	39	267	34	13,740	121

37.2. 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.

37.3. 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 [Notes 7.28](#) and [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)

Notes to the Financial Statements

37. Contingent liabilities, commitments *continued*

37.4. 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 [Notes 7.28](#) and [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.

37.5. Restructuring provision

The restructuring provision was created at the end of 2018 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 2018 and is expected to be completed by July 2021.

IAS 37.85(a)

37.6. 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.

38. Retirement benefit plan

Disclosures for Retirement benefit plans would need to be inserted here. An illustrative example of such disclosures are available in [Good Group \(International\) Limited - December 2020](#)².

IAS 19.46

Notes to the Financial Statements

39. Debt issued and other borrowed funds

In \$ million	2020	2019	IFRS 7.8(f)
Senior notes			
\$1.2 billion fixed rate notes due 2022	1,036	–	
\$1 billion fixed rate notes due 2019	–	998	
GBP400 million floating rate notes due 2022	586	534	
Issued RMBS bonds (\$100 million fixed rate notes due 2024)	92	99	
Issued covered bonds (\$150 million fixed rate notes due 2026)	139	149	
	1,853	1,780	
Subordinated notes			
USD335 million fixed rate notes due 2025 issued by Credit Card Inc.	322	311	
\$1.1 billion fixed rate notes due 2025/2026	998	989	
\$2 billion fixed rate write-down bonds	1,998	–	
\$270 million floating rate notes due 2026/2027	246	243	
	3,564	1,543	
Convertible financial liabilities			
5% Contingent convertible bonds redeemable due 2027	115	107	
3.7% Convertible bonds callable after 2023 due 2040	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 2020 or 2019. IFRS 7.18

\$ 1.2bn fixed rate notes due in 2022

In 2012, the Bank issued notes with a nominal value of \$1.2bn and a fixed rate of 5% due in 2022. In 2012, 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 adoption 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. 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 2025 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

On 31 March 2020, 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 7.20(a)(v)
IFRS 7.B11F(f)

Notes to the Financial Statements

39. Debt issued and other borrowed funds *continued*

Write-down bonds *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

On 15 February 2017, the Bank issued 12 million contingent convertible bonds maturing on 15 February 2027. 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 Bank's CET1 ratio fall under 7%.

IFRS 7.B11F(h)
IAS 32.15
IAS 1.79(a)(v)

The equity component of the contingent convertible bonds is recorded in Other reserves ([Note 39](#)).

Convertible bonds

On 15 January 2018, 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 2023 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 39](#)).

IAS 32.15
IFRS 7.17
IFRS 7.B11F(h)

During the year, the effective interest on the bond recorded in Interest expense was \$37 million (2019: \$37 million). The actual interest paid during the year was \$33 million (2019: \$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.

Covid-19 commentary

In some jurisdictions, banks may have benefitted from specific financing programmes set-up by central banks to help them support the real economy. Banks should consider disclosing where relevant, whether such financing programmes include an element of a government grant under IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* and, if so, how that has been accounted for, including a description of judgements and estimates involved, such as for example the judgment applied where the interest paid may vary throughout the duration of the financing or where the rate is indexed to the bank's volume of loans.

Notes to the Financial Statements

40. Issued capital and reserves

Authorised

	2020	2019	
	Thousands	Thousands	
Ordinary shares of \$1 each	752,000	752,000	IAS 1.78(e) IAS 1.79(a)(xi)
	752,000	752,000	IAS 1.79(a)(iii),(c)

Ordinary shares

Issued and fully paid

	Thousands	In \$ million	
At 1 January 2019	673,992	674	IAS 1.79(a)(ii)
Issued on 1 December 2019	530	1	IAS 1.79(a)(iv)
At 31 December 2019	674,522	675	IAS 1.106(d)
At 31 December 2020	674,522	675	

Treasury shares

	No. thousand	In \$ million	
At 1 January 2019	2,620	15	IAS 1.79(a)(vi)
Purchase of treasury shares	1,186	7	
Sale of treasury shares	(536)	(3)	
At 31 December 2019	3,270	19	
Purchase of treasury shares	806	5	
Sale of treasury shares	(308)	(2)	
At 31 December 2020	3,768	22	

The treasury shares are bought and sold as part of the Bank's Investment Banking operations.

Notes to the Financial Statements

41. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities presented 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 reflects the contractual coupon amortisation.

IAS 1.77
IAS 1.61
EDTF 20

As at 31 December 2020 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
<i>of which pledged as collateral</i>	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	418	208	626
Property, equipment and right-of-use assets	–	1,790	1,790
Deferred tax assets	–	240	240
Goodwill and other intangible assets	–	58	58
Total assets	56,053	48,579	104,632
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	1,356	2,215
Provisions	313	273	586
Deferred tax liabilities	90	412	502
Total liabilities	36,858	60,524	97,382
Net	19,195	(11,945)	7,250

Notes to the Financial Statements

41. Maturity analysis of assets and liabilities *continued*

As at 31 December 2019

In \$ million

IAS 1.61

	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
<i>of which pledged as collateral</i>	3,000	1,003	4,003
Financial assets at fair value through profit or loss	825	416	1,241
Debt instruments at fair value through other comprehensive income	4,737	5,300	10,037
Equity instruments at fair value through other comprehensive income	–	624	624
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
Debt instruments at amortised cost	321	1,449	1,770
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	43,898	57,592	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	992	2,101
Provisions	190	186	376
Deferred tax liabilities	110	436	546
Total liabilities	38,067	57,461	95,528
Net	5,831	131	5,962

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 48.5.4](#))

Notes to the Financial Statements

42. 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.

42.1. 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)

42.2. Regulatory capital

In \$ million	Actual	Required	Actual	Required
	2020	2020	2019	2019
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%	

EDTF 9, 11

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 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 Economic Area (EEA) Credit institutions.

EDTF commentary

This section would generally include the following Enhanced Disclosure 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.

Notes to the Financial Statements

42. Capital continued

42.2 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.

43. Additional cash flow information

IAS 1.77

Cash and cash equivalents

In \$ million	2020	2019
Cash on hand (Note 22)	180	172
Current account with the Central Bank of Goodland (Note 22)	2,183	1,868
Due from banks (Note 23)	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 22) 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	2020	2019
Net change in balances with central bank	70	(354)
Net change in financial assets held for trading	2,462	3
Net change in due from banks	617	(251)
Net change in reverse repurchase agreements and cash collateral on securities borrowed	(39)	(163)
Net change in derivative financial instruments	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	-

Notes to the Financial Statements

43. Additional cash flow information *continued*

Change in operating assets *continued*

In \$ million	2020	2019	IAS 7.22
Net change in Debt instruments at fair value through other comprehensive income	(2,289)	(145)	
Net change in Equity instruments at fair value through other comprehensive income	(177)	(144)	
Net change in Debt Instruments at amortised cost	17	(20)	
Net change in other assets	(144)	(27)	
	2,822	(2,311)	IAS 7.20(a)

Change in operating liabilities

In \$ million	2020	2019	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	239	120	
Net change in other liabilities	(144)	355	
	210	2,116	IAS 7.20(a)

Other non-cash items included in profit before tax

In \$ million	2020	2019	IAS 7.22
Depreciation of property, equipment and right-of-use assets	239	242	
Amortisation of intangibles	37	35	
Non-trading foreign exchange	10	9	
Dividend income	(15)	(13)	
Other	388	(13)	
	659	260	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

Notes to the Financial Statements

44. Contingent liabilities, commitments and leasing arrangements

44.1. 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 37.1](#).

44.2. 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.

44.3. 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. There are no restrictions placed upon the lessee by entering into these. IFRS 16.59(b)(i)
IFRS 16.B49

The Bank has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Bank's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised (refer to [Note 8.11](#)).

Set out below are the undiscounted potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term: IFRS 16.59(b)(ii)
IFRS 16.B50

In \$ million	Within five years	More than five years	Total
31 December 2020			
Extension options expected not to be exercised	525	403	928
Termination options expected to be exercised	424	202	626
	949	605	1,554
31 December 2019			
Extension options expected not to be exercised	504	398	902
Termination options expected to be exercised	388	176	564
	892	574	1,466

Notes to the Financial Statements

44. Contingent liabilities, commitments and leasing arrangements *continued*

44.4. 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. Rental income recognised by the Bank during the year is \$4 million (2019: \$4 million).

IFRS 16.90
IFRS 16.91
IFRS 16.92

Future minimum lease payments under non-cancellable operating leases as at 31 December were, as follows:

	2020	2019
	\$ million	\$ million
Within one year	4	4
After one year but not more than five years	10	11
More than five years	–	–
	14	15

Covid-19 commentary

As also indicated in [Note 7.22.2](#), the IASB issued *Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases* to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic.

Many lessors have provided rent concessions to lessees as a result of the Covid-19 pandemic. Rent concessions can include rent holidays or rent reductions for a period of time, possibly followed by increased rent payments in future periods. Applying the requirements in IFRS 16 for changes to lease payments, particularly assessing whether the rent concessions are lease modifications and applying the required accounting, could be practically difficult in the current environment. The objective of the amendment is to provide lessees that have been granted Covid-19 related rent concessions with practical relief, while still providing useful information about leases to users of the financial statements.

However, as the amendment does not address lessor accounting, lessors may face some challenges in assessing how to account for rent concessions.

Entities will need to assess whether the regulator in their jurisdiction allows the use of the relief and the date from which it is effective.

The Bank did not have any leases impacted by the amendment. More detailed illustrative disclosures are provided in our publication [Good Group \(International\) Limited - December 2020](#).²

45. Related party disclosures

Disclosures for Related parties would need to be inserted here. An illustrative example of such disclosures are available in [Good Group \(International\) Limited - December 2020](#).²

Notes to the Financial Statements

46. 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."

Covid-19 commentary

As the Covid-19 pandemic evolves, governments are implementing additional measures to address the resulting public health issues and the economic impact. Entities need to assess if they are affected, or expect to be impacted, by developments and measures taken after the end of their reporting period. A critical judgement and evaluation management needs to make is whether these events provide evidence of conditions that existed at the end of the reporting period for the entity's activities or their assets and liabilities and therefore represent adjusting events.

If management concludes that an event is a non-adjusting event, but the impact of it is material, the entity is required to disclose the nature of the event and an estimate of its financial effect unless it is impractical to do so.

Areas that an entity should consider disclosing in its subsequent events note may include:

- ▶ The measures taken by the entity to minimise the impact of the Covid-19 pandemic and to continue operations
- ▶ That the entity continues to monitor the Covid-19 pandemic situation and will take further action as necessary in response to the economic disruption
- ▶ Any issuance of debt or equity or refinancing undertaken after reporting
- ▶ Organisational restructurings to reduce the impact of the Covid-19 pandemic and whether any disposals of business units have been decided
- ▶ The impact of the subsequent restrictions imposed by governments that caused disruption to businesses and economic activity and the expected effects on ECL measurement, revenue and operations (unless those could have been reasonably expected at the reporting date, in which case, those would have to be considered, e.g., on the ECL measurement)
- ▶ Any decisions to suspend or alter dividends made after considering the inherent uncertainty surrounding the financial impact of the Covid-19 pandemic
- ▶ Whether the Covid-19 outbreak may continue to cause disruption to economic activity and whether there could be further adverse impact on revenue or ECL measurement

Notes to the Financial Statements

47. Fair value measurement

This note describes the fair value measurement of both financial and non-financial instruments and is structured as follows:

47.1	Valuation principles	47.8	Reconciliation of opening balances in Level 3 financial instruments measured at fair value
47.2	Valuation governance	47.9	Movements in level 3 financial instruments measured at fair value
47.3	Financial instruments by fair value hierarchy	47.10	Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions
47.4	Valuation techniques	47.11	Quantitative analysis of significant unobservable inputs
47.5	Valuation adjustments and other inputs and considerations	47.12	Sensitivity of fair value measurements to changes in unobservable market data
47.6	Impact of valuation adjustments and other inputs	47.13	Fair value of financial instruments not measured at fair value
47.7	Transfers between Level 1 and Level 2		

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.

Covid-19 commentary

There is likely to be an impact on fair value measurement (FVM) arising from the Covid-19 pandemic. When valuations are subject to significant measurement uncertainty due to the current environment and there is a wider range of estimates of FVM, the entity is required to apply judgement to determine the point within that range that is most representative of FVM in the circumstances. While market volatility may suggest that the prices are aberrations and do not reflect fair value, it would not be appropriate for an entity to disregard market prices at the measurement date, unless those prices are from transactions that are not orderly. A significant decrease in volume or activity in a market can also influence the valuation techniques used in the FVM. Entities will need to assess how those techniques are applied and whether inputs are observable at the measurement date and provide additional disclosures if material where relevant.

47.1. 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*

47.2. 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.

Notes to the Financial Statements

47. Fair value measurement *continued*

47.2. Valuation governance *continued*

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 47.4](#) and [47.5](#).

Commentary

IFRS 13 *Fair Value Measurement*, paragraph 93 (g) and paragraph IE65 only require 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

47. Fair value measurement *continued*

47.3. 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 2020

In \$ million	Level 1	Level 2	Level 3	Total
Assets measured at fair value on a recurring basis				
<u>Derivative financial instruments</u>				
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
	<u>528</u>	<u>6,788</u>	<u>157</u>	<u>7,473</u>
<u>Financial assets held for trading</u>				
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
	<u>8,118</u>	<u>3,715</u>	<u>997</u>	<u>12,830</u>
<u>Financial assets at fair value through profit or loss</u>				
Loans and advances to customers (designated)	-	1,066	200	1,266
Loans and advances to customers (mandatory)	-	-	894	894
Asset backed securities	-	-	102	102
	<u>-</u>	<u>1,066</u>	<u>1,196</u>	<u>2,262</u>
<u>Debt instruments at fair value through OCI</u>				
Government debt securities	2,015	117	-	2,132
Other debt securities	1,417	3,182	670	5,269
	<u>3,432</u>	<u>3,299</u>	<u>670</u>	<u>7,401</u>
<u>Equity Instruments at fair value through OCI</u>				
Equity instruments	298	-	149	447
	<u>298</u>	<u>-</u>	<u>149</u>	<u>447</u>
Total assets measured at fair value on a recurring basis	12,376	14,868	3,169	30,413
Total financial assets measured at fair value	12,376	14,868	3,169	30,413
Liabilities measured at fair value on a recurring basis				
<u>Derivative financial instruments</u>				
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
	<u>78</u>	<u>7,905</u>	<u>82</u>	<u>8,065</u>
<u>Other financial liabilities held for trading</u>				
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
	<u>4,160</u>	<u>-</u>	<u>-</u>	<u>4,160</u>
<u>Financial liabilities designated at fair value through profit or loss</u>				
Structured notes	-	3,620	-	3,620
	<u>-</u>	<u>3,620</u>	<u>-</u>	<u>3,620</u>
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

47. Fair value measurement continued

47.3. Assets and liabilities by fair value hierarchy continued

IFRS 13.93(a)
IFRS 13.93(b)

31 December 2019

In \$ million	Level 1	Level 2	Level 3	Total
Assets measured at fair value on a recurring basis				
<u>Derivative financial instruments</u>				
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
	<u>483</u>	<u>6,218</u>	<u>443</u>	<u>7,144</u>
<u>Financial assets held for trading</u>				
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
	<u>7,939</u>	<u>1,748</u>	<u>681</u>	<u>10,368</u>
<u>Financial assets designated at fair value through profit or loss</u>				
Loans and advances to customers (designated)	-	1,021	220	1,241
Loans and advances to customers (mandatory)	-	-	-	-
Asset backed securities	-	-	-	-
	<u>-</u>	<u>1,021</u>	<u>220</u>	<u>1,241</u>
<u>Debt instruments at fair value through OCI</u>				
Government debt securities	1,959	2,790	-	4,749
Other debt securities	1,445	3,207	636	5,288
	<u>3,404</u>	<u>5,997</u>	<u>636</u>	<u>10,037</u>
<u>Equity Instruments at fair value through OCI</u>				
Equity instruments	425	-	199	624
Total assets measured at fair value on a recurring basis	<u>12,251</u>	<u>14,984</u>	<u>2,179</u>	<u>29,414</u>
Total financial assets measured at fair value	<u>12,251</u>	<u>14,984</u>	<u>2,179</u>	<u>29,414</u>
Liabilities measured at fair value on a recurring basis				
<u>Derivative financial instruments</u>				
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
	<u>175</u>	<u>7,616</u>	<u>35</u>	<u>7,826</u>
<u>Other financial liabilities held for trading</u>				
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
	<u>4,078</u>	<u>-</u>	<u>-</u>	<u>4,078</u>
<u>Financial liabilities designated at fair value through profit or loss</u>				
Structured notes	-	4,536	-	4,536
	<u>-</u>	<u>4,536</u>	<u>-</u>	<u>4,536</u>
Total Liabilities measured at fair value on a recurring basis	<u>4,253</u>	<u>12,152</u>	<u>35</u>	<u>16,440</u>

Notes to the Financial Statements

47. Fair value measurement *continued*

47.3. Assets and liabilities by fair value hierarchy *continued*

Commentary

The assessment of which level of the hierarchy financial instruments should be allocated to needs to be re-assessed on an ongoing basis.

47.4. Valuation techniques

IFRS 13.93(d)

IFRS 13.91

IFRS 13.93(d)

Government debt securities

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.

Debt securities issued by financial institutions and other debt securities

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.

Asset backed securities

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.

Commodity futures

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.

IFRS 13.93(d)

Equity instruments

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.

Notes to the Financial Statements

47. Fair value measurement *continued*

47.4 Valuation techniques *continued*

Loans and receivables at fair value through profit or loss

IFRS 13.93(d)

For loans and receivables designated at FVPL and mandatorily required to be measured 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.

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 47.5](#).

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 47.5](#).

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 47.5](#).

Notes to the Financial Statements

47. Fair value measurement *continued*

47.5. 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.

Credit and debit valuation adjustments

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 2020 or 2019.

Funding value adjustment

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 Interbank Offered Rate (IBOR) 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 2020 or in 2019.

Bid-offer

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).

IFRS 13.93(d)
IFRS 13.51
IFRS 13.53
IFRS 13.71

Day 1 profit

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.

Model uncertainty

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.

Notes to the Financial Statements

47. Fair value measurement *continued*

47.6. Impact of valuation adjustments and other inputs

The following table shows the amount recorded in the income statement:

In \$ million	2020	2019
Type of adjustment		
Risk related		
Credit value adjustment	(10)	(30)
Debit value adjustment	26	15
Funding value adjustment	(4)	(5)
	<u>12</u>	<u>(20)</u>
Model uncertainty	5	5
Bid-offer adjustment	10	5
Day 1 profit (See below)	19	16
Total	<u><u>46</u></u>	<u><u>6</u></u>

Commentary

Disclosing the income statement effect of valuation adjustments is market practice as an interpretation of additional useful information under IFRS 13.92 (d).

47.6.1. 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	2020	2019
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	<u>21</u>	<u>17</u>

47.7. 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)

In \$ million	Transfers from Level 1 to Level 2	
	2020	2019
Financial assets held for trading		
Debt securities issued by financial institutions	270	125
Government securities	112	-
Other debt securities	35	12
Equities	125	-
Debt instruments at fair value through OCI		
Government securities	117	-
Other debt securities	50	100
Equity Instruments at fair value through OCI		
Equities	8	45

IFRS 13.93(c)

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 2020 or 2019. 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 2020 and 2019.

Notes to the Financial Statements

47. Fair value measurement *continued*

47.8. Movements in Level 3 financial instruments measured at fair value

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.

IFRS 13.93(e)

Notes to the Financial Statements

47. Fair value measurement *continued*

47.8 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	At 01 January 2020	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 2020	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	405	134	(434)	15	(60)	-	-	54	-	(7)	107	8
	443	159	(454)	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)	-	1,184	(110)	23	(260)	-	-	63	-	(6)	894	8
Asset backed securities	-	456	(300)	-	-	-	-	(54)	-	-	102	1
	220	1,640	(410)	23	(290)	-	-	19	-	(6)	1,196	11
Debt instruments at fair value through OCI												
Other debt securities	636	520	(501)	-	-	40	(80)	-	45	10	670	-
	636	520	(501)	-	-	40	(80)	-	45	10	670	-
Equity Instruments at fair value through OCI												
Equity instruments	199	128	(191)	-	-	-	(20)	-	23	10	149	-
	199	128	(191)	-	-	-	(20)	-	23	10	149	-
Total financial assets measured at fair value	2,179	2,716	(1,624)	70	(365)	73	(153)	183	68	22	3,169	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

47. Fair value measurement *continued*

47.8 Movements in Level 3 financial instruments measured at fair value *continued*

In \$ million	At 01 January 2019	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 2019	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	22	9	(21)	11	(10)	-	(14)	43	-	(2)	38	5
Credit derivatives contracts	444	110	(189)	51	(50)	-	-	45	-	(6)	405	13
	<u>466</u>	<u>119</u>	<u>(210)</u>	<u>62</u>	<u>(60)</u>	<u>-</u>	<u>(14)</u>	<u>88</u>	<u>-</u>	<u>(8)</u>	<u>443</u>	<u>18</u>
Financial assets held for trading												
Asset backed securities	150	76	(45)	-	-	-	-	24	-	5	210	13
Other debt securities	455	17	(67)	-	-	33	(21)	43	-	11	471	3
	<u>605</u>	<u>93</u>	<u>(112)</u>	<u>-</u>	<u>-</u>	<u>33</u>	<u>(21)</u>	<u>67</u>	<u>-</u>	<u>16</u>	<u>681</u>	<u>16</u>
Financial assets designated at fair value through profit or loss (FVPL)												
Loans and advances to customers (designated)	210	-	-	-	-	-	-	10	-	-	-	-
	<u>210</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2)</u>	<u>-</u>	<u>-</u>	<u>10</u>	<u>-</u>	<u>-</u>	<u>220</u>	<u>3</u>
Debt instruments at fair value through OCI												
Other debt securities	638	25	(56)	-	(2)	40	(60)	-	42	9	636	-
	<u>638</u>	<u>25</u>	<u>(56)</u>	<u>-</u>	<u>(2)</u>	<u>40</u>	<u>(60)</u>	<u>-</u>	<u>42</u>	<u>9</u>	<u>636</u>	<u>-</u>
Equity Instruments at fair value through OCI												
Equity instruments	20	188	(10)	-	-	3	(40)	-	32	9	4	-
	<u>20</u>	<u>188</u>	<u>(10)</u>	<u>-</u>	<u>-</u>	<u>3</u>	<u>(40)</u>	<u>-</u>	<u>32</u>	<u>9</u>	<u>4</u>	<u>-</u>
Total financial assets measured at fair value	1,939	425	(338)	62	(62)	73	(135)	165	74	26	2,008	37
Liabilities measured at fair value on a recurring basis												
Derivative financial instruments												
Interest rate options/futures	17	-	-	1	(2)	-	-	2	-	-	18	(3)
Credit derivatives contracts	6	-	-	6	(10)	-	-	3	-	(5)	5	(2)
Equity swap and options	13	-	-	2	(5)	-	-	4	-	(6)	12	(3)
	<u>36</u>	<u>-</u>	<u>-</u>	<u>9</u>	<u>(17)</u>	<u>-</u>	<u>-</u>	<u>9</u>	<u>-</u>	<u>(11)</u>	<u>35</u>	<u>(8)</u>

Notes to the Financial Statements

47. Fair value measurement *continued*

47.9. 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)

In \$ million	31 December 2020		Valuation technique	Significant unobservable inputs ¹	31 December 2020				
	Fair Value of				Range of inputs				
	Level 3 Assets	Level 3 Liabilities			Full range of inputs		Core range of inputs		
				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.

Notes to the Financial Statements

47. Fair value measurement *continued*

47.9 Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions *continued*

In \$ million	31 December 2019		Valuation technique	Significant unobservable inputs	31 December 2019				
	Fair Value of				Range of inputs				
	Level 3 Assets	Level 3 Liabilities			Full range of inputs		Core range of inputs		Unit
				Low	High	Low	High		
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 fair value through profit and loss	636		Market proxy	Equivalent bond price/Market proxy	–	102	52	61	Basis points
Equities	199		Market proxy	Instrument Price					
Loans and receivables (designated and mandatory)	220		Discounted projected cash flow	Prepayment rate	–	9	4	6	%
				Recovery rates	–	93	84	91	%
				Discount margin/spread	1	21	4	12	%

Notes to the Financial Statements

47. Fair value measurement *continued*

47.10. 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.

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:

IFRS 13.92
IFRS 13.93(d)

IFRS 13.93(h)(i)
IFRS 13.IE66

- ▶ 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 (IBOR 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

Notes to the Financial Statements

47. Fair value measurement *continued*

47.10. Quantitative analysis of significant unobservable inputs *continued*

Equity dividend yields

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 13.92
IFRS 13.93(d)

Equivalent bond prices/market proxies

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
IFRS 13.92
IFRS 13.93(d)

IFRS 13.93(h)(i)
IFRS 13.IE66

47.11. 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.

In \$ million	31 December 2020		31 December 2019	
	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)
Debt instruments at fair value through OCI	72	(26)	5	(4)
Equity instruments at fair value through OCI	14	(26)	38	(30)
Equities	18	(14)	10	(10)
Total	212	(196)	128	(155)

IFRS 13.93(h)(ii)

Notes to the Financial Statements

47. Fair value measurement *continued*

47.12. 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 2020	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					
<i>Corporate lending</i>	12,342	–	7,193	8,428	15,621
<i>Small business lending</i>	4,440	–	987	3,326	4,313
<i>Consumer lending</i>	17,814	–	–	16,894	16,894
<i>Residential mortgages</i>	13,328	–	–	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

Notes to the Financial Statements

47. Fair value measurement *continued*

47.12. Fair value of financial instruments not measured at fair value *continued*

IFRS 7.25
IFRS 13.97

31 December 2019	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					
<i>Corporate lending</i>	12,015	–	6,952	5,717	12,669
<i>Small business lending</i>	4,482	–	871	5,498	6,369
<i>Consumer lending</i>	17,897	–	–	17,298	17,298
<i>Residential mortgages</i>	12,769	–	–	12,941	12,941
Total loans and advances	47,163	–	7,823	41,454	49,277
Debt Instruments at amortised cost	1,770	–	690	824	1,514
Total financial assets	69,909	11,600	17,938	42,278	71,816
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

Notes to the Financial Statements

47. Fair value measurement *continued*

47.13. 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 47.4](#) and [47.5](#).

Short-term financial assets and liabilities

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.

IFRS 13.97
IFRS 7.29a

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.

IFRS 13.97

Loans and advances to customers

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.

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

48. Risk Management

This note describes the Bank's risk management and is structured, as follows:

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Notes to the Financial Statements

Commentary

The risk management disclosures included in these illustrative financial statements concentrate on the key quantitative requirements of IFRS 7. Certain entity-specific qualitative disclosures required by IFRS 7 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

48. Risk Management *continued*

48.1. Overview of EDTF Principles

EDTF commentary

EDTF 1

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.

48.2. 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.

Notes to the Financial Statements

48. Risk Management *continued*

48.2. 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](#). 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

48.2.1. 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.

48.2.2. 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 48.7.1](#)), 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 document 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.

Notes to the Financial Statements

48. Risk Management *continued*

48.2. Introduction and risk profile *continued*

48.2.2. Risk mitigation and risk culture *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)

48.2.3. 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.

Notes to the Financial Statements

48. Risk Management *continued*

48.2. Introduction and risk profile *continued*

48.2.3. Risk measurement and reporting systems *continued*

Commentary

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)

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.

EDTF 6

48.3. Risk governance and risk management strategies and systems

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.

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.

IFRS 7.IG15

Notes to the Financial Statements

48. Risk Management *continued*

48.3. Risk governance and risk management strategies and systems *continued*

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.

Notes to the Financial Statements

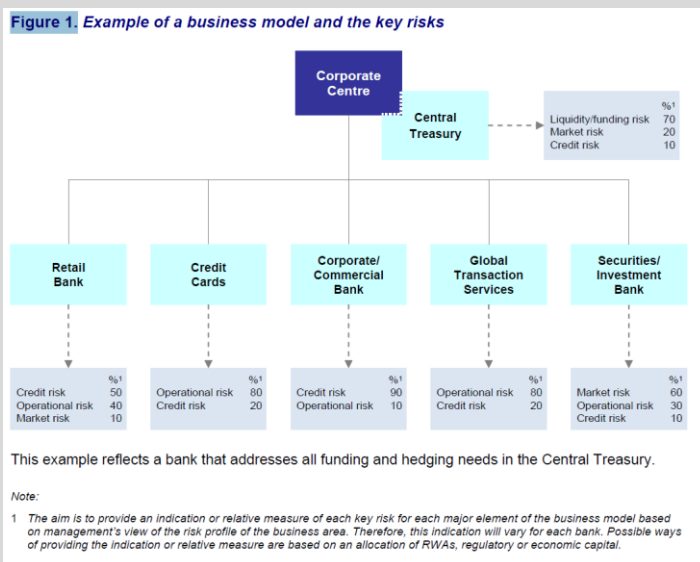
48. Risk Management *continued*

48.3. Risk governance and risk management strategies and systems *continued*

EDTF commentary *continued*

EDTF 8

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:



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 EDTF document published on 7 December 2015.

Notes to the Financial Statements

48. Risk Management *continued*

48.3. Risk governance and risk management strategies and systems *continued*

48.3.1. 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. IFRS 7.IG15(c)

Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

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.

48.4. 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.

48.4.1. 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 47.5](#). 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.

48.4.2. 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.

48.4.3. Impairment assessment

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*.

Commentary

The Bank's definition and assessment of default and cure ([Note 48.4.4.1](#)).

An explanation of the Bank's internal grading system ([Note 48.4.3.2](#))

How the Bank defines, calculates and monitors the probability of default, exposure at default and loss given default ([Notes 48.4.3.2, 48.4.3.3](#) and [48.4.3.4](#), respectively)

When the Bank considers there has been a significant increase in credit risk of an exposure ([Note 48.4.3.5](#))

The Bank's policy of segmenting financial assets where ECL is assessed on a collective basis ([Note 48.4.3.6](#))

The details of the ECL calculations for Stage 1, Stage 2 and Stage 3 assets ([Note 7.13.2](#)).

Notes to the Financial Statements

48. Risk Management *continued*

48.4. Credit risk *continued*

48.4.3. Impairment assessment *continued*

48.4.3.1. Definition of default, impaired and cure

The Bank considers a financial instrument defaulted 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.

IFRS 7.35F(b)(d)
EDFT 2, 27
IFRS 7.B8A
IFRS 7.35G(a),(iii)
IFRS 7 Appendix A
IFRS 9.B5.5.36,37

The Bank has aligned its definition of credit impaired assets under IFRS 9 to the European Banking Authority (EBA) definition of non-performing loans (NPLs).

As a part of a qualitative assessment of whether an exposure is credit-impaired, the Bank also considers a variety of instances that may indicate unlikelihood 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:

IFRS 7.B8A
IFRS 7.35G(a)(iii)
IFRS 7 Appendix A

- ▶ An exposure is forbore or modified due to financial difficulties of the borrower
- ▶ 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 12 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 7.16](#).

IFRS 7.B8.A(c)

Commentary

New definition of default by the EBA

Following the financial crisis, the EBA established tighter standards around the definition of default (CRR Article 178) to achieve greater alignment across banks and jurisdictions.

The new definition of default comprises a new set of standards that are more detailed and prescriptive, and is expected to have a significant impact on governance, data, processes, systems and credit models.

The impact on capital requirements depends on several influencing factors, including type of approach for estimating capital requirements (IRB or Standardised Approach), current implemented default definition and portfolio specifics. For approved IRB capital models, the new standards are deemed to be a material change and hence requiring formal re-approval of a Competent Authority, irrespective of capital impact.

All banks in affected jurisdictions need to implement the new standard by 31 December 2020 for reporting to start 1 January 2021.

This change may impact the allocation of exposures between stage 2 and stage 3 as well as the models used to estimate PD and LGD. Where the impact is significant, it could be included in the reconciliation of gross exposures and corresponding ECL by stage by asset class in the relevant notes - refer to [Note 31.1](#).

48.4.3.2. The Bank's internal rating and PD estimation process

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 framework. The internal credit grades are assigned based on these Basel 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 scenario as appropriate.

IFRS 7.33(b)

Notes to the Financial Statements

48. Risk Management *continued*

48.4. Credit risk *continued*

48.4.3. Impairment assessment *continued*

48.4.3.2. The Bank's internal rating and PD estimation process *continued*

EDTF commentary

EDTF 2

To comply with EDTF 2, banks that derive their IFRS 9 PDs from Basel 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.

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.

Notes to the Financial Statements

48. Risk Management *continued*

48.4. Credit risk *continued*

48.4.3. Impairment assessment *continued*

48.4.3.2. The Bank's internal rating and PD estimation process *continued*

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

Internal rating grade	Internal rating description	12 month Basel PD range	Good Rating Agency's rating (when applicable)	IFRS 7.IG20C
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

This disclosure would need to be repeated for each asset class and operating segment as appropriate.

IFRS 7.IG20C

Notes to the Financial Statements

48. Risk Management *continued*

48.4. Credit risk *continued*

48.4.3. Impairment assessment *continued*

48.4.3.2. 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 requires entities to tabulate credit risk in the banking book, showing average PD and LGD as well as EAD, total 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 ECL. 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.

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 2019

Internal rating grade under IFRS 9	12 month Basel III PD range	External rating equivalent	Average 12 month		Average LGD	Average risk	
			Exposure at default \$ million	Basel III PDs %		RWAs \$ million	weighting %
Performing							
1-2	0.00%-0.06%	Very good+	X	X	X	X	X
			X	X	X	X	X
3	0.06%-0.1%	Very Good	X	X	X	X	X
4	0.10%-0.50%	Very Good-	X	X	X	X	X
5-7	0.50%-0.90%	Good+	X	X	X	X	X
8-9	0.90%-1.5%	Good	X	X	X	X	X
10-12	1.5%-3.00%	Good-	X	X	X	X	X
13-15	3.2%-6.1%	Average+	X	X	X	X	X
16	6.1%-11.7%	Average	X	X	X	X	X
17-18	11.7%-25.20%	Average-	X	X	X	X	X
18-19	25.20%-29.5%	Bad+	X	X	X	X	X
20-21	29.5%-50%	Bad	X	X	X	X	X
22-24	50%-100%	Bad-	X	X	X	X	X
			X			X	
Non- performing							
25	100%	Very bad	X	X	X	X	X
Total			X			X	

EDTF 15

EDTF 15

EDTF 15

Notes to the Financial Statements

48. Risk Management *continued*

48.4. Credit risk *continued*

48.4.3. Impairment assessment *continued*

48.4.3.3. 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 7.13.5](#).

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.

48.4.3.4. 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 estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

IFRS 7.35F(c)

48.4.3.5. Significant increase in credit risk

The Bank continuously monitors all assets subject to ECL. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

IFRS 7.35F (f)
IFRS 9.5.5.9

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information. The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

IFRS 9.B5.5.9

- ▶ The remaining lifetime PD as at the reporting date, with
- ▶ The remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure

The Bank uses three criteria for determining whether there has been a significant increase in credit risk:

- ▶ A quantitative test based on movement in PD
- ▶ Qualitative indicators

And

A backstop of 30 days past due for all financial assets (regardless of the change in internal credit grades)

Notes to the Financial Statements

48. Risk Management *continued*

48.4. Credit risk *continued*

48.4.3. Impairment assessment *continued*

48.4.3.5. Significant increase in credit risk

Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk grade deteriorates so, for example, the difference in risk of default between credit risk grades in high grades is smaller than the difference between credit risk grades in standard grades.

For wholesale portfolios, the quantitative measure of significance varies depending on the credit quality at origination using the internal rating assigned at initial recognition. For customers with internal rating 1-4 the trigger is an increase in lifetime PD of 20bps, for internal ratings of 4 - 8 the trigger is an increase in lifetime PD of 30 bps and for unimpaired exposures with a higher internal rating, a significant increase in credit risk is considered to have occurred when the lifetime PD is double the PD at initial recognition.

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 48.4.3.1](#) are a significant increase in credit risk as opposed to a default.

IFRS 9.5.5.11

When estimating ECL on a collective basis for a group of similar assets (as set out in [Note 48.4.3.6](#)), the Bank applies the same principles as those above for assessing whether there has been a significant increase in credit risk since initial recognition.

EDTF 2
IFRS 9.B5.5.3

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.

Covid-19 commentary

Significant Increase in Credit Risk (SICR)

Where banks have made amendments to their SICR criteria compared to their last annual financial statements, these should be disclosed (normally as changes in estimates). These would include, for example, whether enrolling into a payment deferral programme, or applying for an extension, is considered an indicator of a SICR. For further considerations on this point, please refer to our publication, [Applying IFRS - Accounting considerations of the coronavirus pandemic which is available on ey.com/ifrs](#).

Where banks have applied a collective approach to measure a SICR (IFRS 9 B5.5.4), this should be disclosed. The disclosure should include a description of the approach applied, considering the grouping of instruments by shared risk characteristics in accordance with IFRS 9 B5.5.5. Such disclosure could be aligned with the recommended disclosures in respect of 'high risk sectors' in [Note 48.4.4](#), if the collective staging approach considers the sector as a significant input.

Banks should also consider disclosing whether, in order to identify a SICR trigger, they have considered the information provided in the request for application to a relief programme (e.g., whether the customer indicated to have become unemployed or to be in a furlough scheme) or whether they have considered any other information available in respect of the customer, and what such specific information is comprised of (e.g., customer behaviour on other facilities provided by the bank or by other banks).

Notes to the Financial Statements

48. Risk Management *continued*

48.4. Credit risk *continued*

48.4.3. Impairment assessment *continued*

48.4.3.6. Grouping financial assets measured on a collective basis

As explained in [Note 7.13.1](#) dependant on the factors below, the Bank calculates the allowance for ECL either on a collective or an individual basis. *EDTF 3
IFRS 7.35F(c)*

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)
- ▶ Large 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:

- ▶ Product type (buy to let/owner occupied)
- ▶ Property type (prime, standard grade, low grade)
- ▶ Geographic location
- ▶ Loan-to-value ratios
- ▶ Internal grade
- ▶ Exposure value

*EDTF 2
EDTF 5*

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.

Notes to the Financial Statements

48. Risk Management *continued*

48.4. Credit risk *continued*

48.4.4. *Analysis of inputs to the ECL model under multiple economic scenarios per geographic regions*

An overview of the approach to estimating the allowance for ECL is set out in [Note 7.13](#) 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, allowance for ECL 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 2020 and 2019.

IFRS 7.35G(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 "Long term rate" represent a long-term average and so are the same for each scenario.

Some of the information presented 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.

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.

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.

This disclosure should provide information on the key parameters for which the effect of the parameter is considered to be material to the overall ECL.

In other circumstances, it may be appropriate to disclose forward looking information separately by geographical region, in which case the level of detail should be proportionate to the significance of macro-economic factors in driving ECL.

The Bank has projected economic indicators for five years ahead and a long-term average rate. In respect of all scenarios, it is assumed that parameters will revert to long term rates over the 5 years subsequent to the forecast period.

Notes to the Financial Statements

48. Risk Management *continued*

48.4. Credit risk *continued*

48.4.4. *Analysis of inputs to the ECL model under multiple economic scenarios per geographic regions continued*

Covid-19 commentary

As indicated above, as the impact of Covid-19 on the IFRS financial statements of banks largely depends on the nature of an entity's business and the extent to which it has been affected, the potential impact has not been illustrated in the numbers reported by Good Bank, including the tables presented in this note.

Multiple economic scenarios and economic forecasts

IAS 1.125 requires entities to disclose information about the assumptions made about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Considering the significant changes in the macroeconomic situation due to the Covid-19 crisis, it is particularly important that banks provide the following qualitative and quantitative disclosures where relevant:

- ▶ Any significant changes to the economic outlook and the value of the key macroeconomic assumptions used in the estimate of ECL since the last annual reporting period and the reason for these changes
- ▶ If there has been a change in the number of scenarios and/or weights assigned to individual scenarios since the last annual reporting period, how these alternative economic scenarios have been selected and the weights assigned
- ▶ Any changes in the assumptions made in relation to the forecast period used for scenario modelling, including the length of the period beyond the forecast period and how assumptions are modelled to revert to a long-term average

Further examples of additional disclosures banks may consider providing where relevant include, but are not limited to, the following:

- ▶ An explanation of whether and why correlations and key economic drivers in the model are still valid and whether any adjustments to these have been made
- ▶ A narrative description of the facts and circumstances that underpin the economic scenarios. This could include, for example: considerations around possible medical developments and the evolution of the pandemic, expectations around magnitude and length of restrictions imposed by government, the impact of any government support programmes, consumer and corporate responses, etc
- ▶ If there are material differences in the assumptions used for the multiple economic scenarios compared to any regulatory expectations, an explanation of the reasons for those differences
- ▶ How material non-linear relationships between economic factors and credit losses are reflected in the estimate
- ▶ Where relevant, how the bank applies forecast scenarios differently for specific portfolios with idiosyncratic features and to specific sectors (e.g. those more directly and materially affected by the coronavirus pandemic, such as the travel, hospitality and leisure sectors)
- ▶ The governance in place to support the ECL estimation process

Notes to the Financial Statements

48. Risk Management *continued*

48.4. Credit risk *continued*

48.4.4. Analysis of inputs to the ECL model under multiple economic scenarios per geographic regions *continued*

48.4.4.1. Goodland

31 December 2020

Key drivers	ECL Scenario	Assigned Weightings %						Long term rate %
			2020 %	2021 %	2022 %	2023 %	2024 %	
GDP growth %¹								
	Upside	30	1.5	3.0	2.8	2.3	2.1	1.4
	Base case	40	1.0	1.3	1.4	1.3	1.2	1.4
	Downside 1	15	(1.4)	(2.5)	(1.4)	(1.0)	(0.5)	1.4
	Downside 2	15	(2.5)	(4.0)	(2.8)	(2.1)	(1.5)	1.4
Unemployment rates %²								
	Upside	30	4.7	4.3	4.2	4.2	4.0	4.8
	Base case	40	5.5	5.8	5.6	5.4	5.2	4.8
	Downside 1	15	6.1	7.3	7.5	7.6	7.7	4.8
	Downside 2	15	7.0	8.3	8.8	9.0	9.2	4.8
Central Bank base rates %²								
	Upside	30	2.8	2.8	3.0	3.2	3.3	6.0
	Base case	40	2.5	2.5	2.4	2.3	2.3	6.0
	Downside 1	15	2.3	2.1	2.0	2.1	2.1	6.0
	Downside 2	15	2.1	1.8	1.9	1.5	0.5	6.0
House price index %¹								
	Upside	30	0.9	2.1	2.0	1.8	1.7	2.7
	Base case	40	0.5	1.1	1.5	2.0	2.0	2.7
	Downside 1	15	(0.5)	(1.1)	(0.9)	(0.8)	(0.6)	2.7
	Downside 2	15	(1.5)	(2.4)	(2.0)	(1.9)	(1.6)	2.7

IFRS 7.35G(a)
EDTF 2
EDTF 3

¹ GDP Growth and the house price index are expressed as an annual percentage change.

² Unemployment rates and central bank base rates are expressed as a percentage as at the end of the forecast year.

31 December 2019

Key drivers	ECL Scenario	Assigned Weightings %						Long term rate %
			2019 %	2020 %	2021 %	2022 %	2023 %	
GDP growth¹								
	Upside	30	1.7	1.8	2.9	2.8	2.3	1.4
	Base case	40	1.1	1.0	1.2	1.4	1.3	1.4
	Downside 1	15	(1.2)	(1.3)	(2.6)	(1.6)	(1.1)	1.4
	Downside 2	15	(2.4)	(2.7)	(4.1)	(2.9)	(2.2)	
Unemployment rates²								
	Upside	30	4.2	4.1	4.2	4.3	4.3	4.8
	Base case	40	5.5	5.5	5.8	5.6	5.4	4.8
	Downside 1	15	6.3	6.1	6.6	6.8	6.9	4.8
	Downside 2	15	7.1	7.0	8.3	8.8	8.9	4.8
Central Bank base rates²								
	Upside	30	2.8	2.9	2.8	2.7	2.8	6.0
	Base case	40	2.5	2.6	2.5	2.4	2.3	6.0
	Downside 1	15	2.3	2.2	2.2	1.9	2.1	6.0
	Downside 2	15	2.1	2.1	1.9	2.0	2.0	6.0
House price index¹								
	Upside	30	1.0	1.2	2.2	1.9	1.8	2.7
	Base case	40	0.6	0.5	1.1	1.6	2.0	2.7
	Downside 1	15	(0.4)	(0.6)	(1.0)	(0.7)	(0.6)	2.7
	Downside 2	15	(1.6)	(1.5)	(2.5)	(2.1)	(1.8)	2.7

IFRS 7.35G(a)
EDTF 2
EDTF 3

¹ GDP Growth and the house price index are expressed as an annual percentage change.

² Unemployment rates and central bank base rates are expressed as a percentage as at the end of the forecast year.

Notes to the Financial Statements

48. Risk Management *continued*

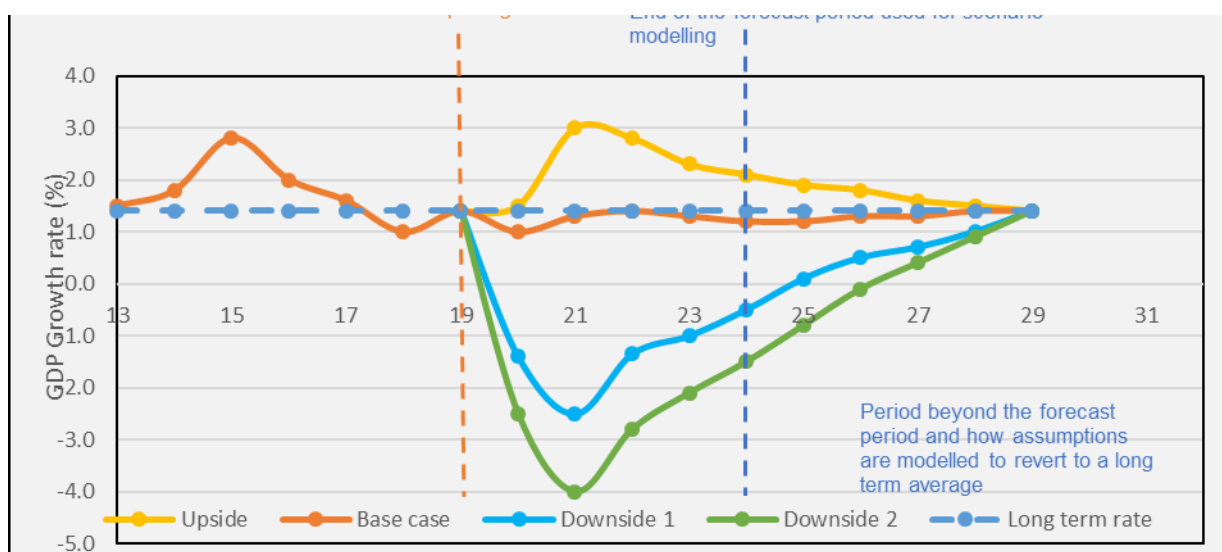
48.4. Credit risk *continued*

48.4.4. Analysis of inputs to the ECL model under multiple economic scenarios per geographic regions *continued*

48.4.4.1. Goodland *continued*

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)



Commentary

In respect of the central scenario and the alternative scenarios the information provided should be designed amongst other things to help users understand the assumptions made as to how the key parameters change over the forecast period. It may be sufficient to provide a graph for only for one macroeconomic assumption, such as GDP to illustrate the overall shape of the scenario. To the extent that other macroeconomic assumptions are expected to behave differently and not follow the overall shape, it may be appropriate to provide additional graphs.

To illustrate the expected period-on-period evolution of the macro-economic assumptions used for scenario modelling an entity might disclose, in a tabular form, the annual average value of each key input for the central scenario for each year of the forecast period.

Alternatively, an entity might disclose in tabular form, the forecast average annual rate or percentage increase/decrease for each of the key inputs for the central scenario. In such case, the disclosure might also include the cumulative expected growth or fall of each of the inputs from the reporting date to the forecast peak (in an upside scenario) or trough (in a downside scenario) during the forecast period.

To help users of the financial statements understand the trend of the inputs over the forecast period and allow a visualisation in a concise and effective way, banks should also consider using a graph to show how the inputs are expected to change over the forecast period. This would illustrate when any peaks or troughs are assumed to occur and how values are assumed to revert to a long term rate. This could be particularly useful when there is more than one peak and/or trough forecast in any scenario.

Notes to the Financial Statements

48. Risk Management *continued*

48.4. Credit risk *continued*

48.4.4. Analysis of inputs to the ECL model under multiple economic scenarios per geographic regions *continued*

48.4.4.1. Goodland *continued*

The following tables outline the impact of multiple scenarios on the allowance. This table shows both the contribution to total ECL of each probability weighted scenario in addition to the total incremental effect on ECL of applying multiple economic scenarios compared to the ECL that would have resulted from applying a 100% weighting to the base case scenario:

IAS 1.125
EDTF 3

31 December 2020	Due from Banks	Debt instrument s 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
Effect of multiple economic scenarios	9	3	5	51	35	8	34	7	1	6	157

31 December 2019	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
Effect of multiple economic scenarios	1	(2)	5	50	40	(2)	24	15	(1)	6	136

Notes to the Financial Statements

48. Risk Management *continued*

48.4. Credit risk *continued*

48.4.4. Analysis of inputs to the ECL model under multiple economic scenarios per geographic regions *continued*

48.4.4.1. Goodland *continued*

The following tables outline the impact on ECL from applying a 100% weighting to each scenario:

31 December 2020 In \$ million	Debt instruments		Debt instruments at amortised cost					Undrawn commitments			Total
	Due from Banks	at FVOCI	Corporate lending	Small business lending	Consumer lending	Retail mortgages	Financial guarantees	Letters of credit	to lend		
Gross exposure ²	10,618	7,401	1,642	12,883	4,787	18,402	13,692	3,260	523	14,198	87,406
ECL											
Upside	43	20	23	297	190	357	300	107	23	77	1,437
Base case	60	35	38	490	313	580	330	138	38	120	2,140
Downside 1	80	47	47	627	400	680	380	160	47	147	2,613
Downside 2	133	73	87	1,080	700	980	567	220	60	220	4,120
Proportion of assets in stage 2 (%)											
Upside	–	1	10	11	13	17	9	11	17	14	10
Base case	–	2	14	16	19	21	9	14	22	17	13
Downside 1	3	3	17	19	23	23	10	16	25	19	15
Downside 2	5	5	32	34	34	31	14	21	32	29	23

² The total gross exposure (fair value for Debt instruments at FVOCI) is not expected to change for each scenario.

Under current and forecasted economic conditions, stage 3 instruments are not expected to be materially sensitive to changes in macroeconomic assumptions and therefore have not been included in this sensitivity analysis. Instead, ECL on stage 3 instruments is more sensitive to idiosyncratic obligor-specific factors and recovery strategies that are independent of macroeconomic factors.

Notes to the Financial Statements

48. Risk Management *continued*

48.4. Credit risk *continued*

48.4.4. Analysis of inputs to the ECL model under multiple economic scenarios per geographic regions *continued*

48.4.4.1. Goodland *continued*

31 December 2019 In \$ million	Debt instruments at amortised cost										Total
	Due from Banks	Debt instruments at FVOCI	Corporate lending	Small business lending	Consumer lending	Retail mortgages	Financial guarantees	Letters of credit	Undrawn commitments to lend		
Gross exposure²	10,489	10,037	1,770	12,452	4,752	18,463	13,075	3,084	589	13,740	88,451
ECL											
Upside	40	37	20	280	177	343	267	103	23	77	1,367
Base case	60	58	28	388	230	568	283	110	33	115	1,870
Downside 1	73	67	40	507	313	660	287	147	40	140	2,273
Downside 2	93	80	60	813	520	913	467	187	40	207	3,380
Proportion of assets in stage 2 (%)											
Upside	–	9	10	12	22	27	14	13	22	26	17
Base case	–	14	15	18	32	33	15	17	28	32	21
Downside 1	3	17	17	21	39	36	16	19	32	37	24
Downside 2	5	28	32	37	58	49	23	25	42	55	36

Commentary

The above format is not mandated by the standard. In this presentation, the effect of applying a 100% weighting to each scenario in addition to the percentage of assets that would be in stage 2. See [Note 48.4.4.1](#) for key economic indicator inputs for each scenario.

In relation to the sensitivity analysis disclosures required by IAS 1.125 and 1.129, in its publication '*Impact of expected credit loss approaches on risk disclosures*', 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.

"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."

To the extent that stage 3 exposures are considered to be sensitive to macroeconomic assumptions, it is expected that a sensitivity analysis is also provided for these exposures. For example, under certain conditions the LGD for retail mortgage or commercial real estate exposures may be sensitive to changes in macroeconomic assumptions.

Good Bank does not use any model adjustments, also known as 'overlays', to reflect management judgements and assumptions not captured in the models when estimating ECL. However an example is provided in the Covid-19 commentary included in [Note 48.4.7 Model adjustments](#). To the extent that overlays have been used in estimating ECL and where the effect of these are material, best practise would be to provide an explanation of why the overlays are needed, how they are calculated, their effect, their interplay with the modelled ECL and the extent to which they have been applied to the sensitivity analyses.

EDTF 8
EDTF 3
IAS 1.125
IAS 1.129

Notes to the Financial Statements

48. Risk Management *continued*

48.4. Credit risk *continued*

48.4.4. Analysis of inputs to the ECL model under multiple economic scenarios per geographic regions *continued*

48.4.4.1. Goodland *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.

48.4.4.2. Europe

Commentary

The disclosures on the previous pages would need to be replicated here for Europe.

48.4.4.3. Americas

Commentary

The disclosures on the previous pages would need to be replicated here for the Americas.

48.4.4.4. Asia Pacific

Commentary

The disclosures on the previous pages would need to be replicated here for Asia Pacific.

Notes to the Financial Statements

48. Risk Management *continued*

48.4. Credit risk *continued*

48.4.5. *Vintage analysis*

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 ECL.

EDTF 26

48.4.6. *Quantitative analysis of the reliability of the information used to calculate the ECL allowance*

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 ECL, 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.

EDTF 24

48.4.7. *Model adjustments*

EDTF commentary

EDTF 2 recommends entities to provide an explanation of the use and nature of material additional adjustments that 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 ECL.

EDTF 2

Covid-19 commentary

Given the degree of uncertainty surrounding the economic impact of coronavirus and the lack of reliable data to model the impact on the banking book, as well as operational and timing challenges in incorporating the latest available macroeconomic inputs into the ECL models, it is expected that many banks will include overlays and post-model adjustments in their ECL provision. To promote consistency and enable comparability of the ECL estimate in those instances, banks should provide additional quantitative and qualitative disclosures.

The disclosures should include the following where relevant:

- ▶ An explanation of the nature of the adjustments and how these were calculated for each material overlay and post-model adjustment.
- ▶ The reasons for the adjustment, specifically what risks it addresses, including whether it was made to incorporate scenarios that could not be modelled without undue cost or effort (for example to incorporate the impact of certain forms of government support or to include the most recent macroeconomic information available), to address model limitations (for example, the fact that the model results were based on outdated correlations or assumptions), adjust the expected increase in delinquency currently masked by moratoria or reflect increased sectorial idiosyncrasies.
- ▶ Quantitative analysis, including as a minimum the absolute size of the adjustment, the overall effect on the ECL estimate resulting from it, especially if materially changed compared to the last year-end. Alternatively, the impact could be disclosed as a percentage of the overall ECL.

Further examples of additional disclosures banks may consider providing where relevant include, but are not limited to, the following:

- ▶ The impact of the adjustment on staging;
- ▶ What governance has been in place;
- ▶ What specific customer segment, product type and geographical region the adjustment covers, including a breakdown of the ECL for each asset class, geographical and / or operating segment;
- ▶ Whether the adjustment relates to a specific impairment stage;
- ▶ Movements in the adjustments compared to the previous financial year should be explained.

Notes to the Financial Statements

48. Risk Management continued

48.4. Credit risk continued

48.4.7. Model adjustments

An illustrative example of how the above information could be disclosed is provided below. Banks may elect to provide the disclosures provided in the "Assessment and calculation of ECL" section below in their respective accounting policies and accounting judgements, estimates and assumptions notes.

Assessment and calculation of ECL

The calculation of ECL involves significant accounting judgements, estimates and assumptions. These are set out in [Note 7.13 Impairment of financial assets](#) under [Note 7 Summary of significant accounting policies](#) and [Note 8.1 Impairment losses of financial assets](#) under [Note 8 Significant accounting judgements, estimates and assumptions](#).

The level of estimation uncertainty has increased since 31 December 2019 as a result of the economic disruption and consequential impact of the Covid-19 pandemic. This includes significant judgements relating to:

- ▶ The selection and weighting of macro-economic scenarios;
- ▶ The effect of government and other support measures put in place to mitigate the negative economic impact;
- ▶ The uncertainty over the duration and severity of the effect of the pandemic as well as the timing and duration of the recovery;
- ▶ Determination of the impact of the macro-economic scenarios on ECL and whether the required parameters can be modelled given the unavailability of historical information for a similar event;
- ▶ Identification and assessment of significant increases in credit risk and impairment especially for customers who have received support under the various government and bank support schemes and the inherent limitations in data availability to facilitate a reliable segmentation.

Impact on modelled ECL allowance

The Bank's models have been constructed and calibrated using historical trends and correlations as well as forward looking economic scenarios. The severity of the current macro-economic projections and the added complexity caused by the various support schemes and regulatory guidance across the main regions in which the Bank operates could not be reliably modelled for the time being. As a consequence, the existing models may generate results that are either overly conservative or overly optimistic depending on the specific portfolio / segment. As a result, post-model adjustments are needed. Given model changes take a significant amount of time to develop and test and the data limitation issues noted above, the Bank expects that post-model adjustments will be applied for the foreseeable future.

Post-model adjustments and management overlays made in estimating the reported ECL as at 31 December 2020 are set out in the following table:

In \$ million						Adjustments as
31 December 2020	Modelled ECL	Post-model adjustments	Management overlays	Total ECL	a % of total ECL	
Corporate lending	X	X	X	X	X	X%
Small business lending	X	X	X	X	X	X%
Consumer lending	X	X	X	X	X	X%
Residential mortgages	X	X	X	X	X	X%
Total	X	X	X	X	X	X%

Post-model adjustments

Post-model adjustments (both positive and negative) represent adjustments in relation to data and model limitations as a result of the Covid-19 economic disruption. The adjustments are based on a combination of portfolio level credit risk analysis and an evaluation of ECL coverage at an exposure level. They include the effect of government and other support programmes.

Management overlays

Management overlays reflect the significant uncertainty as a consequence of the Covid-19 pandemic. Considerations included the potential severity and duration of the economic disruption and the heightened credit risk of specific sectors and loan classes / segments, such as energy, aviation and hospitality.

Additional information and sensitivity analysis in respect of the inputs to the ECL model under multiple economic scenarios is provided in [Note 48.4.4](#).

Notes to the Financial Statements

48. Risk Management *continued*

48.4. Credit risk *continued*

48.4.8. Impact on regulatory capital

EDTF commentary

EDTF 8 states that Banks should 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 8
EDTF 9

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 ECL is shown below:

	Corporate lending		Small business lending		Consumer lending		Residential mortgages	
	Capital	ECL	Capital	ECL	Capital	ECL	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 ECL has on regulatory capital.

EDTF 12 recommends entities to qualitatively and quantitatively discuss capital planning, including:

- ▶ An explanation of how ECL requirements impact 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.

Covid-19 commentary

Regulators in various jurisdictions have provided regulatory capital reliefs to mitigate the increased ECL allowances as a result of Covid-19, for example by extending or modifying the transitional reliefs granted previously and imposing restrictions on the payment of dividends. Banks should consider disclosing a description and the effect of such measures.

Notes to the Financial Statements

48. Risk Management *continued*

48.4. Credit risk *continued*

48.4.9. 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, 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 due to financial difficulties of the borrower, the Bank's special department for distressed assets continues to monitor the exposure until it is completely and ultimately derecognised.

IFRS 7.35F (f) (i)-
(ii)
IFRS 7.88B

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.

In \$ million	2020	2019	
Amortised cost of financial assets modified during the period	231	157	IAS 1.77
Net modification loss	(9)	(7)	IFRS 7.35J(a)

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:

31 December 2020

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 12mECL (Stage 1)	98	2	120	6	IFRS 7.35J(b) IFRS 7.35F (f) (i)- (ii) IFRS 7.88B
Facilities that reverted to (Stage 2/3) LTECL having once cured	23	1	22	2	

31 December 2019

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 12mECL (Stage 1)	87	3	97	7	
Facilities that reverted to (Stage 2/3) LTECL having once cured	12	1	19	2	

Commentary

IFRS 7.88B states, "To assist users of financial statements in evaluating an entity's restructuring and modification policies, paragraph 35F(f)(ii) of IFRS7 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 7.35J(b), which requires disclosure of the gross carrying amount of assets that have been modified when measured using LTECL and, for which, the loss allowance has changed during the reporting period to 12mECL.

Notes to the Financial Statements

48. Risk Management *continued*

48.4. Credit risk *continued*

48.4.9. 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 7.17](#).

EDTF 28

31 December 2020	Stage 2				Stage 3				Total non-performing forborne loans	Total forborne loans	Forbearance ratio ²
	Gross carrying amount	Temporary modification to T&Cs ¹	Permanent modification to T&Cs	Refinancing	Total performing forborne loans	Temporary modification to T&Cs	Permanent modification to T&Cs	Refinancing			
In \$ million											
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%

31 December 2020

In \$ million	Gross amount of forborne loans			ECL		
	Stage 2	Stage 3	Total	Stage 2	Stage 3	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	23	45	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	102	110	212

¹ Terms and conditions.

² Total forborne loans/Gross Carrying amount.

Notes to the Financial Statements

48. Risk Management *continued*

48.4. Credit risk *continued*

48.4.9. Overview of modified and forborne loans *continued*

The following tables provide a summary of the Bank's forborne assets as of 31 December 2019. Accounting policies for forbearance are described in [Note 7.17](#).

EDTF 28

31 December 2019	Performing portfolio					Non-performing portfolio					
	Gross carrying amount	Temporary modification to T&Cs ¹	Permanent modification to T&Cs	Refinancing	Total performing forborne loans	Temporary modification to T&Cs	Permanent modification to T&Cs	Refinancing	Total non-performing forborne loans	Total forborne loans	Forbearance ratio ²
In \$ million											
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	18,463	790	158	61	1,009	304	122	172	598	1,607	8.70%
Residential mortgages	13,075	605	121	47	773	267	93	121	481	1,254	9.47%
Total loans and advances to customers	48,742	2,482	476	184	3,142	948	426	495	1,869	5,011	10.28%

31 December 2019	Gross amount of forborne loans			ECL allowance		
	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total
In \$ million						
Due from banks	-	-	-	-	-	-
Loans and advances to customers						
Corporate lending	1,163	671	1,834	34	52	86
Small business lending	197	119	316	22	42	64
Consumer lending	1,009	598	1,607	5	4	9
Residential mortgages	773	481	1,254	39	5	44
Total loans and advances to customers	3,142	1,869	5,011	100	103	203

¹ Terms and conditions.

² Total forborne loans/Gross carrying amount.

Notes to the Financial Statements

48. Risk Management *continued*

48.4. Credit risk *continued*

48.4.10. *Payment deferrals, guaranteed loans and other customer support*

Covid-19 commentary

In the current economic circumstances, banks are encouraged, recommended or required by governments and regulators in many jurisdictions to provide various forms of payment deferral schemes and other forms of customer support to existing customers (e.g., by reducing or waiving interest and/or fees on certain facilities, such as credit cards and other unguaranteed retail exposures) and to offer new loans to customers under different types of government backed schemes. Further forms of relief and support programmes may be offered by banks on a voluntary basis.

Banks should provide disclosures in respect of the key characteristics of such relief and support programmes where relevant, including (but not limited to) the following:

- ▶ A description of the key terms of the programme, such as:
 - ▶ Whether it is an interest payment holiday or another form of economic or financial support, such as a loan provided with the support of a government guarantee or a low-interest (or interest-free) loan and other similar facilities
 - ▶ How deferred payments are treated after the end of the holiday period (e.g., as additional payments at the end of the original maturity of the loan, which is therefore extended, or added to the existing payments over the original duration of the contract)
 - ▶ Whether there are any waivers of interest or fees
 - ▶ Where loans are supported by government guarantees:
 - ▶ The percentage of exposure guaranteed
 - ▶ Whether it is on a 'first loss' or 'pari passu' basis
 - ▶ Under what conditions the guarantee can be triggered by the bank
 - ▶ Whether the guarantee constitutes a government grant or another form of government assistance for the bank in accordance with IAS 20
- ▶ For low-interest (or interest-free) loans and other similar facilities:
 - ▶ The base interest rate charged and the credit spread
 - ▶ Any other relevant terms and conditions (amount, maturity, etc.)
 - ▶ Whether there is corresponding funding to the bank provided by the government and whether it constitutes a government grant or a form of government assistance for the bank in accordance with IAS 20. Also refer to the Covid-19 commentary in [Note 39](#) which may be relevant
 - ▶ Who the affected customers / loan categories are (e.g., retail or wholesale) and whether there are specific eligibility criteria
 - ▶ The duration of the programme
- ▶ In order to show the magnitude and impact of these programmes, banks should consider providing disclosures for each programme such as for example:
 - ▶ The total gross carrying amount of the related exposures and corresponding ECL by stage
 - ▶ The number of approved and pending applications as of the reporting period end and whether there are specific eligibility criteria applied
 - ▶ Whether it is a mandatory scheme by law (or government order) or a voluntary initiative of the bank, and if the scheme is considered to be in the scope of regulatory guidelines on moratoria granted in response to the Covid-19 crisis
 - ▶ Geographical and sectoral distribution of exposures subject to deferral programmes or government guaranteed loans
 - ▶ The bank's process for processing applications

An illustrative example of how the above information could be disclosed is provided below. Also refer to the Covid-19 commentary in respect of SICR in Note [48.4.3.5](#).

Notes to the Financial Statements

48. Risk Management continued

48.4. Credit risk continued

48.4.10. Payment deferrals, guaranteed loans and other customer support continued

The following table presents the number of customer accounts and associated loan values of customers under government and bank specific schemes as at 31 December 2020:

31 December 2020		Corporate lending	Small business lending	Consumer lending	Residential mortgages	Total
Scheme						
Government supported programmes¹						
Number of accounts with pending applications	000s	X	X	X	X	X
Number of approved accounts	000s	X	X	X	X	X
Loan value of customers under the scheme	\$ million	X	X	X	X	X
% of portfolio	%	X	X	X	X	X
Bank specific programmes¹						
Number of accounts with pending applications	000s	X	X	X	X	X
Number of approved accounts	000s	X	X	X	X	X
Loan value of customers under the scheme	\$ million	X	X	X	X	X
% of portfolio	%	X	X	X	X	X
Total						
Number of accounts with pending applications	000s	X	X	X	X	X
Number of approved accounts	000s	X	X	X	X	X
Loan value of customers under the scheme	\$ million	X	X	X	X	X
% of portfolio	%	X	X	X	X	X

The table below sets out the gross carrying amount and corresponding ECL by stage for loans and advances to customers subject to payment reliefs provided under government and bank-specific schemes respectively:

31 December 2020		Stage 1	Stage 2	Stage 3	Total
Scheme					
Government supported programmes¹					
Gross carrying amount	\$ million	X	X	X	X
% of portfolio	%	X	X	X	X
ECL	\$ million	X	X	X	
% of total ECL	%	X	X	X	X
Bank specific programmes¹					
Gross carrying amount	\$ million	X	X	X	X
% of portfolio	%	X	X	X	X
ECL	\$ million	X	X	X	X
% of total ECL	%	X	X	X	X
Total					
Gross carrying amount	\$ million	X	X	X	X
% of portfolio	%	X	X	X	X
ECL	\$ million	X	X	X	X
% of total ECL	%	X	X	X	X

¹ This disclosure would need to be repeated for each scheme, asset class and geographical segment as appropriate.

Notes to the Financial Statements

48. Risk Management *continued*

48.4. Credit risk *continued*

48.4.11. Analysis of risk concentration

The Bank's concentrations of risk are managed by client/counterparty, geographical region (see [Note 48.8.1](#)) and industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2020 was \$352 million (2019: \$373 million), before taking into account collateral or other credit enhancements and \$97 million (2019: \$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 48.8](#).

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 23.1, 24.2, 30.1, 31.1](#), and [0](#). IFRS 7.34

48.4.11.1. Industry analysis

31 December 2020 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	1,740	7,580	-	-	-	1,315	-	10,635
Financial assets designated at fair value through profit or loss	2,135	-	-	-	-	127	-	2,262
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
	<u>3,939</u>	<u>-</u>	<u>28,054</u>	<u>3,077</u>	<u>6,368</u>	<u>4,203</u>	<u>2,283</u>	47,924
	33,511	16,575	28,811	3,163	6,952	6,932	2,846	98,790
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
	<u>89</u>	<u>1,211</u>	<u>1,011</u>	<u>2,763</u>	<u>4,736</u>	<u>7,032</u>	<u>1,139</u>	17,981
	33,600	17,786	29,822	5,926	11,688	13,964	3,985	116,771

Notes to the Financial Statements

48. Risk Management *continued*

48.4. Credit risk *continued*

48.4.11. Analysis of risk concentration *continued*

48.4.11.1. Industry analysis *continued*

31 December 2019 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	1,324	5,574	-	-	-	1,285	-	8,183
Debt instruments at fair value through OCI	6,831	1,991	972	243	-	-	-	10,037
Debt instruments at amortised cost	990	-	-	-	-	666	-	1,656
Financial assets designated at fair value through profit or loss	1,116	-	-	-	-	125	-	1,241
Loans and advances to customers								-
Corporate lending	457	-	-	-	6,025	3,689	1,844	12,015
Small business lending	115	-	-	3,218	276	460	413	4,482
Consumer lending	2,113	-	15,784	-	-	-	-	17,897
Residential mortgages	1,186	-	11,583	-	-	-	-	12,769
	<u>3,871</u>	<u>-</u>	<u>27,367</u>	<u>3,218</u>	<u>6,301</u>	<u>4,149</u>	<u>2,257</u>	47,163
	36,888	11,914	28,339	3,461	6,606	6,834	2,358	96,400
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
	<u>89</u>	<u>1,211</u>	<u>1,011</u>	<u>2,689</u>	<u>4,758</u>	<u>6,516</u>	<u>1,139</u>	17,413
	36,977	13,125	29,350	6,150	11,364	13,350	3,497	113,813

Notes to the Financial Statements

48. Risk Management *continued*

48.4. Credit risk *continued*

48.4.11. Analysis of risk concentration *continued*

48.4.11.2. 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

31 December 20xx	Stage 1	Stage 2	Stage 3	POCI	Total
Per portfolio					
Debt instruments at FVOCI	x	x	x	x	x
Debt instruments at amortised cost	x	x	x	x	x
Due from banks	x	x	x	x	x
Cash collateral on securities borrowed and reverse repurchase agreements	x	x	x	x	x
Loans and advances	x	x	x	x	x
<i>corporate lending</i>	x	x	x	x	x
<i>small business lending</i>	x	x	x	x	x
<i>consumer lending</i>	x	x	x	x	x
<i>residential mortgages</i>	x	x	x	x	x
Financial guarantees	x	x	x	x	x
Letters of credit	x	x	x	x	x
Undrawn commitments to lend	x	x	x	x	x
Per industry segment(*)					
Financial services	x	x	x	x	x
Government	x	x	x	x	x
Consumers	x	x	x	x	x
Retail and wholesale	x	x	x	x	x
Construction	x	x	x	x	x
Oil and gas	x	x	x	x	x
Services	x	x	x	x	x
Per region					
Goodland	x	x	x	x	x
Europe	x	x	x	x	x
Americas	x	x	x	x	x
Asia	x	x	x	x	x

IFRS 7.35M
IFRS 7.B8H
EDTF 26

(*) Includes financial assets measured at FVOCI and also financial assets measured amortised cost.

The above analysis has been provided for loans and advances to customers in [Note 31.2](#).

Covid-19 commentary

Entities that have identified concentrations of activities in areas or industries affected by the Covid-19 pandemic and have not previously disclosed the concentration because they did not believe that the entity was vulnerable to the risk of a near-term severe impact, should now reconsider making such a disclosure - refer to [Note 31.1.1](#).

Notes to the Financial Statements

48. Risk Management *continued*

48.4. Credit risk *continued*

48.4.12. 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 7.B8G

The main types of collateral obtained are, as follows:

IFRS 7.36(b)

- ▶ For securities lending and reverse repurchase transactions, cash or securities
- ▶ 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

IFRS 7.IG22(b)

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 commentary

EDTF 30

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."

Notes to the Financial Statements

48. Risk Management *continued*

48.4. Credit risk *continued*

48.4.11. Collateral and other credit enhancements *continued*

EDTF commentary

IFRS 7.36(a) and IFRS 7.35K(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 7.35K(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 48.4.12](#). Please also refer to the EDTF 30 commentary above.

IFRS 7.36(a)-(b)
IFRS 7.35K(a)-(b)
IFRS 7.B9-B10

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 23.1](#), [24.2](#), [30.1](#), [31.1](#), and [0](#).

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.

IFRS 7.36(a)

Notes to the Financial Statements

48. Risk Management *continued*

48.4. Credit risk *continued*

48.4.11. Collateral and other credit enhancements *continued*

Type of collateral or credit enhancement In \$ million	Maximum exposure to credit risk	Fair value of collateral and credit enhancements held							Total collateral	Net exposure	Associated ECL
		Cash	Securities	3 rd party/gov guarantees	Property	Other	Offsetting agreements	Surplus collateral			
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 loss¹	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

IFRS 7.35K(a)-(c)

IFRS 7.36(a)-(b)

IFRS 7.B9-10

Notes to the Financial Statements

48. Risk Management *continued*

48.4. Credit risk *continued*

48.4.11. 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 ECL when the expected value of the collateral, measured using multiple economic scenarios, is greater than the LGD. However, the Stage 3 ECL can be higher than net exposure shown below when the future value of collateral, measured using multiple economic scenarios, is lower than fair value at the reporting date. IFRS 7.35K(b)(iii)

Type of collateral or credit enhancement for stage 3 assets

31 December 2020 In \$ million	Maximum exposure to credit risk	Fair value of collateral and credit enhancements held under the base case scenario							Net exposure	Associated ECL
		Securities	3 rd party/gov guarantees	Property	Other	Offsetting agreements	Surplus collateral	Total collateral		
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 7.35K(c)

Type of collateral or credit enhancement for stage 3 assets

31 December 2019 In \$ million	Maximum exposure to credit risk	Fair value of collateral and credit enhancements held under the base case scenario							Net exposure	Associated ECL
		Securities	3 rd party/gov guarantees	Property	Other	Offsetting agreements	Surplus collateral	Total collateral		
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

IFRS 7.35K(c)

Notes to the Financial Statements

48. Risk Management *continued*

48.4. Credit risk *continued*

48.4.11. Collateral and other credit enhancements *continued*

Type of collateral or credit enhancement	Fair value of collateral and credit enhancements held									
	Maximum exposure to credit risk	Cash	Securities	3 rd party/gov guarantees	Property	Other*	Offsetting agreements	Surplus collateral	Total collateral	Net exposure
31 December 2019										
In \$ million										
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	12,015	-	2,023	310	7,608	1,409	1,555	(1,490)	11,415	600
Small business lending	4,482	-	-	390	2,590	1,623	302	(2,409)	2,496	1,986
Consumer lending	17,897	-	-	-	-	3,109	2,465	(346)	5,228	12,669
Residential mortgages	12,769	-	-	-	14,023	-	1,186	(6,750)	8,459	4,310
	47,163	-	2,023	700	24,221	6,141	5,508	(10,995)	27,598	19,565
Debt instruments at amortised cost	1,770									1,656
Total financial assets at amortised cost	69,909		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 loss¹	16,568	3,390	-	-	285	510	3,296	-	7,481	9,087
Debt instruments at fair value through OCI	10,037	-	-	-	-	-	-	-	-	10,037
Total debt instruments at fair value through OCI	10,037	-	-	-	-	-	-	-	-	10,037
	96,563	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
	113,976	7,352	10,870	700	24,506	6,651	10,591	(12,169)	48,501	66,050

¹ Excluding equity instruments

IFRS 7.36(a)-(b)

Notes to the Financial Statements

48. Risk Management *continued*

48.4. Credit risk *continued*

48.4.11. Collateral and other credit enhancements *continued*

The tables below summarise the Bank's collateral for loans and advances:

	Gross carrying amount			Collateral			Net exposure		
	Total	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total	Stage 2	Stage 3
31 December 2020									
In \$ million	Total	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total	Stage 2	Stage 3
Corporate lending	12,883	2,063	343	11,502	1,477	185	1,381	586	158
Small business lending	4,787	1,460	205	3,479	915	108	1,308	545	97
Consumer lending	18,402	5,871	567	5,342	1,939	210	13,060	3,932	357
Residential mortgages	13,692	1,253	415	9,260	929	335	4,432	324	80
Total	49,764	10,647	1,530	29,583	5,260	838	20,181	5,387	692

	Gross carrying amount			Collateral			Net exposure		
	Total	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total	Stage 2	Stage 3
31 December 2019									
In \$ million	Total	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total	Stage 2	Stage 3
Corporate lending	12,452	2,203	415	11,415	1,710	264	1,037	493	151
Small business lending	4,752	1,544	208	2,496	869	125	2,256	675	83
Consumer lending	18,463	6,060	481	5,228	2,209	210	13,235	3,851	271
Residential mortgages	13,075	1,928	302	8,459	1,383	238	4,616	545	64
Total	48,742	11,735	1,406	27,598	6,171	837	21,144	5,564	569

Notes to the Financial Statements

48. Risk Management *continued*

48.4. Credit risk *continued*

48.4.13. Analysis of stage 2 loans and advances to customers reflecting the criteria for inclusion in stage 2

An analysis of stage 2 balances at the balance sheet date reflecting the reasons for inclusion in stage 2 by class of loans and advances to customers (gross carrying amount and corresponding ECL) is presented below. For the purposes of that analysis, where balances satisfy more than one criteria for determining a significant increase in credit risk, the corresponding gross carrying amount and ECL have been assigned in order of the categories presented. As a result, the amounts presented in the ageing analysis for each loan class in [Note 31](#) as "Less than 30 dpd" for Stage 2 balances differ from those presented using the same description in the analysis presented for each class of loans and advances in [Note 31](#).

The indicators of significant increases in credit risk (SICR) are explained in [Note 48.4.3.5](#).

In \$ million 31 December 2020	Corporate lending		Small business lending		Consumer lending		Residential mortgages		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
PD movement	703	33	860	69	3,178	138	214	18	4,955	258
Forbearance support provided	1,075	44	202	10	1,029	19	792	32	3,098	105
Other qualitative reasons	79	4	200	14	1,100	53	144	11	1,523	82
More than 30 dpd	206	36	198	15	564	27	103	10	1,071	88
Total	2,063	117	1,460	108	5,871	237	1,253	71	10,647	533

In \$ million 31 December 2019	Corporate lending		Small business lending		Consumer lending		Residential mortgages		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
PD movement	513	24	863	40	2,651	96	711	39	4,738	199
Forbearance support provided	1,163	42	197	12	1,009	34	773	25	3,142	113
Other qualitative reasons	218	9	311	17	2,066	73	311	13	2,906	112
More than 30 dpd	309	13	173	9	334	23	133	11	949	56
Total	2,203	88	1,544	78	6,060	226	1,928	88	11,735	480

Notes to the Financial Statements

48. Risk Management *continued*

48.5. Liquidity risk and funding management

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 7.39(c)
IFRS 7.B11F(c)
IFRS 7.11F(e)
IFRS 7.33(a),(b)

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:

48.5.1. Liquidity ratios

Advances to deposit ratios

EDTF 19

	<u>2020</u>	<u>2019</u>
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% (2019: 105.1%) and 110.3% (2019: 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 (NSFR) or other regulatory ratios required in the relevant jurisdictions.

Notes to the Financial Statements

48. Risk Management *continued*

48.5. 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)

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).

Covid-19 commentary

Liquidity risk in the current economic environment is increased. Therefore, it is expected that the disclosures required under IFRS 7 in this area will reflect any significant changes in the liquidity position as a result of the Covid-19 pandemic. Entities should be mindful that this disclosure is consistent with their assessment of the going concern assumption.

48.5.2. 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.

Notes to the Financial Statements

48. Risk Management *continued*

48.5. Liquidity risk and funding management *continued*

48.5.3. *Analysis of financial assets and liabilities by remaining contractual maturities*

The table below summarises the maturity profile of the Bank's financial assets and the undiscounted cash flows of its financial 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.

Notes to the Financial Statements

48. Risk Management *continued*

48.5. Liquidity risk and funding management *continued*

48.5.4. Analysis of financial assets and liabilities by contractual maturities *continued*

IFRS 7.39(a)(b)
IFRS 7.B11E

As at 31 December 2020 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 IFRS 7.B11E
Financial assets								
Cash and balances with central bank	2,242	–	121	294	550	–	3,207	
<i>Of which restricted balance</i>	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	
<i>Financial assets held for trading pledged as collateral</i>	–	–	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	2,400	1,204	7,848	
Debt instruments at amortised cost	–	–	–	–	1,603	39	1,642	
Other assets	–	–	632	582	1,955	31	3,200	
Total undiscounted financial assets*	4,882	3,435	31,482	18,859	31,553	14,021	104,232	
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	1,820	
Covered bond	–	–	2	25	111	0	138	
RMBS	–	–	5	28	121	0	154	
Subordinated	–	–	90	650	950	1,980	3,670	
Convertible	–	–	45	130	220	760	1,155	
Lease liabilities (Note 36)	–	–	–	160	419	–	579	
Other financial liabilities	–	–	–	669	1,413	863	1,945	
Total undiscounted financial liabilities*	30,430	4,884	26,866	16,285	12,625	10,970	101,060	
Net liquidity position *	(25,548)	(1,449)	4,616	2,574	18,928	3,051	3,172	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.

Notes to the Financial Statements

48. Risk Management continued

48.5. Liquidity risk and funding management continued

48.5.3. Analysis of financial assets and liabilities by contractual maturity continued

As at 31 December 2019 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 IFRS 7.B11E
Financial assets								
Cash and balances with central bank	1,019	–	1,021	–	774	–	2,814	
<i>Of which restricted balance</i>	(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	
<i>Financial assets held for trading pledge as collateral</i>	–	–	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 instruments held at fair value through other comprehensive income	–	–	1,988	1,991	1,995	4,801	10,775	
Debt instruments held at amortised cost	–	–	48	829	100	679	1,656	
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	
Lease liability (Note 36)	–	–	–	174	579	–	753	
Other financial liabilities	–	–	–	1,792	727	58	2,577	
Total undiscounted financial liabilities	33,118	3,604	29,796	15,039	9,860	8,463	99,880	
Net undiscounted financial assets/(liabilities) *	(28,834)	(1,038)	6,219	2,051	23,323	(312)	1,409	
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.

Notes to the Financial Statements

48. Risk Management *continued*

48.5. Liquidity risk and funding management *continued*

48.5.3. 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)

As at 31 December 2020

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 2019

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

IFRS 7.B11C(b),(c)
IFRS 7.B11B(b)
IFRS 7.B11D(e)

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

48.5.5. 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

Notes to the Financial Statements

48. Risk Management *continued*

48.5. Liquidity risk and funding management *continued*

48.5.4. *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.

	Encumbered		Unencumbered		Total
	Pledged as collateral	Other	Available as collateral	Other	
As at 31 December 2020					
In \$ million					
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	–	–	–	12,917	12,917
Total	12,667	844	12,015	79,106	104,632
	Encumbered		Unencumbered		
	Pledged as collateral	Other	Available as collateral	Other	Total
As at 31 December 2019					
In \$ million					
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
Debt instruments at fair value through other comprehensive income	–	–	1,884	8,153	10,037
Loans and advances to customers	246	–	–	46,917	47,163
Other assets	–	–	–	12,234	12,234
Total	9,069	774	6,248	85,399	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.

Notes to the Financial Statements

48. Risk Management *continued*

48.5. Liquidity risk and funding management *continued*

48.5.4. *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.

48.6. 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 48.6.2](#).

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 48.6.3](#).
- ▶ Prepayment risk in [Note 48.6.3.3](#).
- ▶ Currency risk in [Note Error! Reference source not found..](#)
- ▶ Equity price risk in [Note Error! Reference source not found..](#)

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 its 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.

Notes to the Financial Statements

48. Risk Management *continued*

48.6. Market risk *continued*

EDTF 22

48.6.1. Total market risk exposure

In \$ million	Carrying amount	Traded risk	Non-traded risk	Carrying amount	Traded risk	Non-traded risk	Primary risk	IFRS 7.33(a) IFRS 7.41(a) IFRS 7.B17(a) EDTF 23
	2020	2020	2020	2019	2019	2019	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	
Debt instruments at FVOCI	7,401	–	7,401		10,037	–	Interest rate	
Equity instruments at FVOCI	447	–	447		624	–	FX Equity price	
Loans and advances to customers	47,924	–	47,924		47,163	–	Interest rate FX	
Debt instruments at amortised cost	1,642	–	1,642		1,770	–	Interest rate FX	
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	2,215	–	2,215		2,101	–	Interest rate FX	

¹:Foreign Exchange Rates

Notes to the Financial Statements

48. Risk Management *continued*

48.6. Market risk *continued*

48.6.2. Market risk – trading (trading book) (including financial assets and financial liabilities designated at fair value through profit or loss)

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 7.33(a)
IFRS 7.41(a)
IFRS 7.B17(a)
EDTF 23

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
2020 - 31 December	8	10	3	9	(3)	27
2020 - Average daily	7	9	3	11	(4)	26
2020 - Highest	9	12	4	18	(4)	39
2020 - Lowest	4	6	2	6	(3)	15
2019 - 31 December	7	8	2	5	(3)	19
2019 - Average daily	6	8	2	10	(4)	22
2019 - Highest	7	10	3	12	(4)	28
2019 - 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)

Notes to the Financial Statements

48. Risk Management *continued*

48.6. Market Risk *continued*

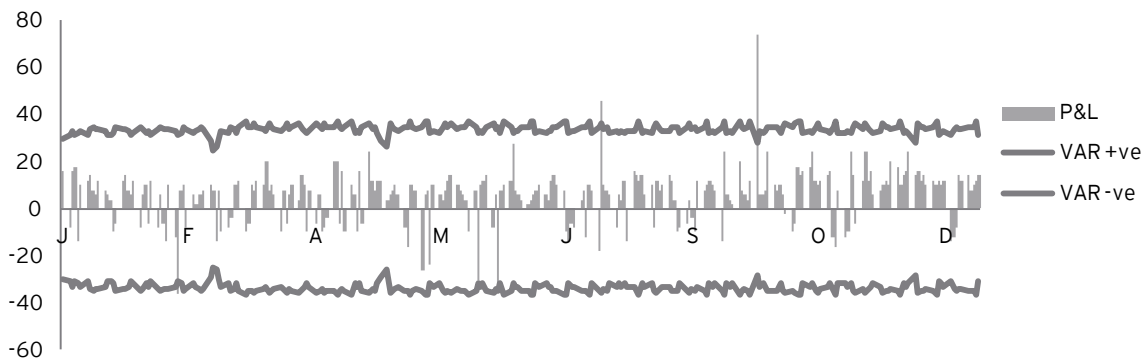
48.6.2. Market risk – trading (trading book) (including financial assets and financial liabilities designated at fair value through profit or loss) *continued*

Backtesting

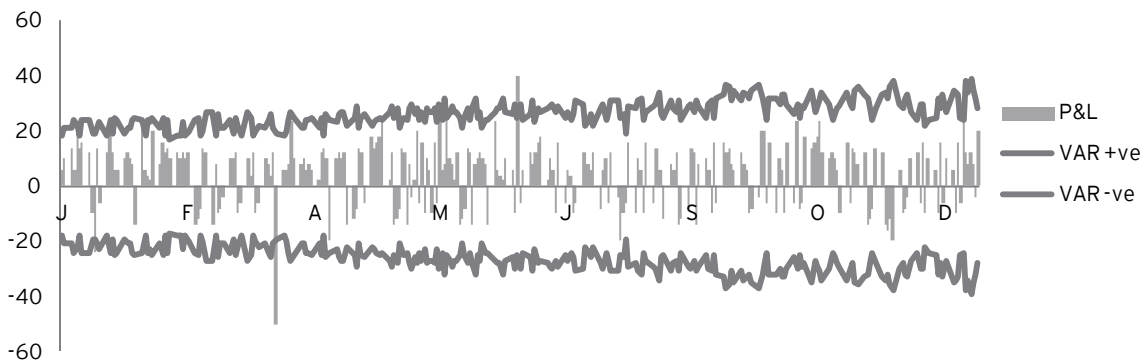
It is the Bank’s policy to perform regular back-testing to validate the Bank’s VaR calculations. When back-testing, ^{EDTF 24} the Bank compares daily profits and losses with the estimates derived from the Bank’s VaR model. The Board discusses the back-testing results of the Bank on a monthly basis.

During 2020, the Bank recorded five back-testing exceptions (2019: four exceptions), when actual losses exceeded daily VaR limits.

Var Backtesting – VaR (1-Day, 99% in millions of Goodland dollars (\$) – 2020)



Var Backtesting – VaR (1-Day, 99% in millions of Goodland dollars (\$) – 2019)



Notes to the Financial Statements

48. Risk Management *continued*

48.6. Market Risk *continued*

48.6.2. 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 part of 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.

Notes to the Financial Statements

48. Risk Management *continued*

48.6. Market Risk *continued*

48.6.2. 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)

48.6.3. Interest rate risk

48.6.3.1. IBOR reform

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, the Bank has established a project to manage the transition for any of its contracts that could be affected. The project is sponsored by the Group CFO and is being led by senior representatives from functions across the Bank including the client facing teams, Legal, Finance, Operations and Technology. The project provides monthly progress updates to the Managing Board and bi-annually to the Audit Committee. During 2020, the Bank has successfully completed the transition of a significant portion of its IBOR exposure to RFRs and has in place detailed plans, processes and procedures to support the transition of the remainder during 2021. Following the progress made during 2020, the Bank is confident that it has the operational capability to process the large volume of transitions to RFRs that will be necessary during 2021 for those interest rate benchmarks such as £ LIBOR that will cease to be available and so will be replaced by SONIA. For other benchmark interest rates such as EURIBOR that have been reformed and can therefore continue, financial instruments referencing those rates will not need to transition.

IFRS 7.24H(c)

IBOR reform exposes the Bank to various risks, which the project is managing and monitoring closely. These risks include but are not limited to the following:

IFRS 7.24H(b)
IFRS 7.24H(a)

- ▶ Conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform
- ▶ Financial risk to the Bank and its clients that markets are disrupted due to IBOR reform giving rise to financial losses
- ▶ Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable
- ▶ Operational risk arising from changes to the Bank's IT systems and processes, also the risk of payments being disrupted if an IBOR ceases to be available
- ▶ Accounting risk if the Bank's hedging relationships fail and from unrepresentative income statement volatility as financial instruments transition to RFRs

Notes to the Financial Statements

48. Risk Management *continued*

48.6. Market Risk *continued*

48.6.3. Interest rate risk *continued*

48.6.3.1. IBOR reform *continued*

The table below shows the Bank's exposure at the year end to significant IBORs subject to reform that have yet to transition to RFRs. These exposures will remain outstanding until the IBOR ceases and will therefore transition in future, e.g., the table excludes exposures to IBOR that will expire before transition is required.

In \$ million 31 December 2020	Non- derivative financial assets - carrying value	Non-derivative financial liabilities carrying value	Derivatives Nominal amount ¹
Goodland IBOR \$ (1 month)	2,367	2,610	3,374
Goodland IBOR \$ (2 months)	1,459	2,945	3,800
Goodland IBOR \$ (3 months)	1,185	2,066	2,340
LIBOR GBP (3 months)	1,272	1,984	1,975
LIBOR USD (2 months)	1,453	1,787	2,206
LIBOR USD (3 months)	1,306	1,430	2,221
LIBOR EUR (1 month)	854	926	2,585
Other	464	541	562
	<u>10,359</u>	<u>14,289</u>	<u>19,063</u>
Cross currency swaps			
LIBOR GBP (3 months) to Goodland IBOR \$ (3 months)			960
	<u>10,359</u>	<u>14,289</u>	<u>20,023</u>

¹ The IBOR exposures for derivative nominal amounts include loan commitments.

Commentary

In this illustrative disclosure, the Bank presents disaggregated by significant interest rate benchmark subject to interest rate benchmark reform, quantitative information about financial instruments that have yet to transition to an alternative benchmark rate as at the year end. This disclosure addresses the IBOR reform Phase 2 requirements, which are incremental and in addition to the IBOR reform Phase 1 disclosures provided in [Note 48.7.1.1](#) that relate only to the hedging relationships to which the IBOR reform Phase 1 reliefs have been applied.

The Bank may select the basis for the quantitative information provided in this disclosure. Examples of approaches which could be followed may include:

- ▶ The carrying amounts of non-derivative financial assets, the carrying amount of non-derivative financial liabilities and the nominal amount of derivatives (as used in the disclosure above)
 - ▶ The amounts related to recognised financial instruments (e.g., the contractual par amount of non-derivative financial assets and non-derivative financial liabilities, and nominal amounts of derivatives)
 - ▶ The amounts provided internally to key management personnel of the entity (as defined in IAS 24), for example, the entity's board of directors or chief executive officer, about these financial instruments
- Or
- ▶ A risk-based measure which is used by the Bank for the purpose of tracking and reporting internally to management and to regulators, its exposure to IBOR reform

This flexibility is intended by the IASB to minimise the incremental effort required by the Bank to produce the disclosures. However, the Bank will need to ensure that the data is sufficiently complete and accurate to be capable of being audited and to meet regulatory requirements such as those of the Sarbanes Oxley Act.

The purpose of the disclosure is to provide information that disaggregates the Bank's exposure by significant interest rate benchmark which is subject to IBOR reform. There is no requirement to analyse the quantitative information further, for example, by product type. Nor is there a requirement to include within the disclosure those exposures indirectly affected by IBOR reform, for example, where a discount rate used by the Bank in a valuation technique to calculate fair value is expected to change from IBOR to RFR. However, if the Bank considers that different product types or some other subdivision of the information, represent materially different risks in relation to IBOR reform, providing a further level of disaggregation would be consistent with the broader IFRS 7 principles and the intention for this disclosure.

Notes to the Financial Statements

48. Risk Management *continued*

48.6. Market Risk *continued*

48.6.3. Interest rate risk *continued*

48.6.3.1. IBOR reform *continued*

Commentary *continued*

The information disclosed by the Bank excludes exposures that are expected to expire or mature before the IBOR ceases. This is because for these instruments the Bank does not consider itself to be exposed to the risks relating to IBOR reform. However, if an entity wished to include these exposures, it could arguably be justified as they could still be affected by IBOR reform related risk, such as reduced liquidity in the IBOR before it expires or matures.

The disclosures include within derivatives nominal amount, IBOR exposure that relates to loan commitments. It is included here because whilst providing information on loan commitments is not directly specified in the IBOR reform Phase 2 disclosures, the amendments to IFRS 7 are for all financial instruments within its scope, which include loan commitments.

The table above provides the IBOR reform Phase 2 quantitative disclosures for each IBOR, split by tenor. This is consistent with the approach applied for the IBOR reform Phase 1 disclosures in [Note 48.7.1.1](#). This approach arguably provides the most useful information where entities have significant separate exposures to different tenors of the same IBOR.

Some entities' exposure to IBOR reform may not require such detailed numerical information, in which case it may be appropriate to provide reduced or predominately qualitative disclosure.

Please note the numerical information included in the table above is intended purely for illustrative purposes. For the derivative nominals, the total is based on the maturity analysis in [Note 48.5.3](#) with maturity greater than 1 year (since they will be subject to IBOR reform) and assumes they all reference a floating interest rate. For non- derivative assets, the total is taken from the interest rate repricing profile for maturities from one year or more, reduced by 40% as an approximate reduction for fixed rate exposures. For non-derivative liabilities, the same approach is used with the assumption that the vast majority are floating rate, so no reduction is applied. In all cases, the allocation to different IBORs assigns greater value to Goodland IBORs than others, on an approximate basis.

Notes to the Financial Statements

48. Risk Management *continued*

48.6. Market Risk *continued*

48.6.3. Interest rate risk *continued*

48.6.3.2. 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.

31 December 2020	Carrying amount	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	<i>IFRS 7.34(a)</i>
In \$ million							
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	
31 December 2019							
In \$ million	Carrying amount	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	<i>IFRS 7.34(a)</i>
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	-	
Debt instruments at fair value through other comprehensive income	10,037	4,000	3,150	1,988	899	-	
Loans and advances to customers	47,163	23,981	9,612	7,613	5,957	-	
Debt instruments at amortised cost	1,770	210	219	409	932	-	
	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	4,439	(6,170)	4,949	1,932	2,628	1,100	
Derivatives used for risk management	596	2,931	(2,345)	(1,231)	1,241	-	
Total interest sensitivity gap after risk management	5,035	(3,239)	2,604	701	3,869	1,100	

Notes to the Financial Statements

48. Risk Management *continued*

48.6. Market Risk *continued*

48.6.3. Interest rate risk *continued*

48.6.3.3. 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 project the 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 7.22A
IFRS 7.22
EDTF 23

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 7.22A
IFRS 7.22B
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 (2019: \$11 million) and OCI would be reduced by \$9 million (2019: \$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; (2019: loss of \$33m/\$31m).

IFRS 7.40(a),(b)
IAS 1.129(b)

48.6.4. Currency risk

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.B23
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	2020	2019
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 7.22A
EDTF 23

Notes to the Financial Statements

48. Risk management continued

48.6. Market risk continued

48.6.4. Currency risk continued

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 7.18.2.1](#), 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 7.22A
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 7.22A
IFRS 7.22B
EDTF 23

The Bank applies hedge accounting, as set out in [Note 48.6.4.1](#), 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 28.3.

IFRS 7.22A
EDTF 23

48.6.4.1. 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 2020 was a borrowing of USD335 million (equivalent to 322 million Goodland dollars) (2019: USD315 million, equivalent to 333 million Goodland dollars).

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 2020 and 2019, respectively.

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 7.24B

In \$ million	Change in		Balances remaining in the Translation reserve for hedge accounting is no longer applied
	fair value of hedged item for ineffectiveness assessment	Translation reserve	
Investment in US subsidiaries	(13)	(42)	-
	(13)	(42)	-

Information regarding the foreign currency borrowings used as hedging instruments and hedge effectiveness is, as follows:

In \$ million	Changes in fair value of hedging instruments used for measuring hedge ineffectiveness					
	Carrying value		Changes in fair value of hedging instruments used for measuring hedge ineffectiveness			
	Notional amount	Liabilities	In Total	Effective portion Recognised in OCI	Hedge ineffectiveness recognised in the income statement in Other interest expense ¹	Reclassified into income statement into 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	-	-

IFRS 7.24A

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 7.23B

As at 31 December 2019	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

Notes to the Financial Statements

48. Risk management *continued*

48.7. Banking Book *continued*

48.7.3. Currency risk *continued*

48.6.4.2. Currency sensitivity analysis

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

	2020			2019			
	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	IFRS 7.B24
GBP	+10	(6)	3	+10	(16)	2	
EUR	+10	(8)	(2)	+10	(4)	4	

IFRS 7.40(a)
IFRS 7.34

IFRS 7.IG32(b)
IFRS 7.IG33(b)

48.6.5. 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 fair value through other comprehensive income (FVOCI). A 10 per cent increase in the value of the Bank's equities at FVOCI at 31 December 2020 would have increased equity by \$62 million (2019: \$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 (2019: \$14 million).

IFRS 7.40(a)

Covid-19 commentary

Covid-19 and the ensuing economic and market disruption have created an increased volatility in prices which affects the fair value of financial assets both directly for those traded in an active market and indirectly for those where a valuation technique is used with market inputs. These circumstances need to be considered when determining the range of possible estimates of fair value as well as the extent and content of the disclosures required by IFRS 13 *Fair Value Measurement* in respect of valuation techniques and sensitivity analysis. Refer to additional guidance provided in [Note 47 - Fair value measurement](#).

Notes to the Financial Statements

48. Risk Management *continued*

48.6. Market 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)

48.7. Banking book

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 48.6.2](#). 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 7.22A

48.7.1. Hedging activities

The Bank employs hedging activities, utilising derivative instruments, investments in debt securities, and other funding instruments, to ensure interest rate and foreign currency risk positions are maintained within the established limits. The details of the Bank's hedging activities are described in the following paragraphs.

The Bank's policy is to monitor risk 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

Notes to the Financial Statements

48. Risk Management *continued*

48.7. Banking Book *continued*

48.7.1. Hedging activities *continued*

48.7.1.1. IBOR reform

The effect of IBOR reform on the Bank's interest rate risk management is described in [Note 48.6.3.1](#). The specific impact on the Bank's hedging activities is being carefully managed as part of the overall project to achieve IBOR reform.

IFRS 7.24H(c)

The table below indicates the nominal amount and weighted average maturity of derivatives in hedging relationships that will be affected by IBOR reform as financial instruments transition to RFRs, analysed by interest rate basis. The derivative hedging instruments provide a close approximation to the extent of the risk exposure the Bank manages through hedging relationships.

IBOR reform Phase 1
IFRS 7.24H(b)
IFRS 7.24H(a)

IFRS 7.24H(e)

In \$ million

31 December 2020

	Nominal amount	Average maturity (years)
Interest rate swaps		
Goodland IBOR \$ (1 month)	2,374	4.9
Goodland IBOR \$ (2 months)	2,800	5.2
Goodland IBOR \$ (3 months)	1,340	6.3
LIBOR GBP (3 months)	975	4.3
LIBOR USD (2 months)	1,206	5.3
LIBOR USD (3 months)	1,221	6.5
LIBOR EUR (1 month)	1,585	4.8
Other	522	5.3
	<u>12,023</u>	
Cross currency swaps		
LIBOR GBP (3 months) to Goodland IBOR \$ (3 months)	860	4.7
	<u>860</u>	
	<u>12,883</u>	

In \$ million

31 December 2019

	Nominal amount	Average maturity (years)
Interest rate swaps		
Goodland IBOR \$ (1 month)	3,263	4.8
Goodland IBOR \$ (2 months)	2,700	5.3
Goodland IBOR \$ (3 months)	2,230	6.2
LIBOR GBP (3 months)	864	4.4
LIBOR USD (2 months)	1,105	5.2
LIBOR USD (3 months)	1,110	6.6
LIBOR EUR (1 month)	1,474	4.7
Other	511	5.2
	<u>13,257</u>	
Cross currency swaps		
LIBOR GBP (3 months) to Goodland IBOR \$ (3 months)	750	4.6
	<u>750</u>	
	<u>14,007</u>	

Notes to the Financial Statements

48. Risk Management *continued*

48.7. Banking Book *continued*

48.7.1. Hedging activities *continued*

48.7.1.1. IBOR reform

Commentary

In this illustrative disclosure, which is a requirement of IBOR reform Phase 1, the Bank presents the nominal amount and weighted average maturity (duration) for each of the benchmark interest rates affected by IBOR reform to which the Bank is exposed to in its hedging relationships. Presenting the information in a tabular form is one way for the Bank to meet the requirement to disclose the extent of the risk exposure the Bank manages that is directly affected by interest rate benchmark reform for its hedging relationships. The use of derivative notional values for this purpose is appropriate, provided they closely approximate the corresponding risk exposure the entity manages through hedging relationships. If this were not the case, for example, if the Bank were hedging only a net position, the disclosure would need to directly reference the underlying risk exposure that the Bank has hedged, rather than the nominal value of the hedging derivatives.

If the Bank had material exposures to only one or two benchmarks, this information could be disclosed in narrative rather than in a tabular form. However, although a purely qualitative description of the exposure could be provided, providing the quantitative information is potentially more insightful.

The table above provides the IBOR reform Phase 1 quantitative disclosures for each IBOR, split by tenor. This approach arguably provides the most useful information where entities have significant separate exposures to different tenors of the same IBOR.

48.7.1.2. 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 48.6.3.3](#).

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.

IFRS 7.22A
IFRS 7.22B
EDTF 23

Commentary

IFRS 7.24B(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 7.24B(a)(ii), which would not provide the most useful information.

Notes to the Financial Statements

48. Risk Management *continued*

48.7. Banking Book *continued*

48.7.1. Hedging activities *continued*

48.7.1.2 Fair value hedges *continued*

31 December 2020		Carrying amount of hedged items		Accumulated amount of fair value adjustments on the hedged items		IFRS 7.24B IFRS 7.22A(c)
		Assets	Liabilities	Assets	Liabilities	
In \$ million						
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 (2019: \$190), the *Changes in the fair value of hedged items in portfolio hedges of interest rate risk* balance sheet line of \$486m (2019: \$393m) also includes the accumulated unamortised fair value hedge adjustments of \$233m (2019: \$200m) related to hedges that have been discontinued and are now amortised, as outlined in [Note 7.18.1.2](#).

Sensitivities relevant for prepayment risk are disclosed in [Note 48.6.3.3](#).

IFRS 7.40(a)

IAS 1.129

Notes to the Financial Statements

48. Risk management continued

48.7. Banking Book continued

48.7.1. Hedging activities continued

48.7.1.2. Fair value hedges continued

31 December 2019		Carrying amount of hedged items		Accumulated amount of fair value adjustments on the hedged items	
		Assets	Liabilities	Assets	Liabilities
In \$ million					
Micro fair value hedges					
Fixed rate corporate loans	A	863	-	26	-
Fixed rate small business loans	A	1,127	-	133	-
Fixed rate FVOCI debt instruments	B	310	-	10	-
Fixed rate customer deposits	C	-	1,950	-	(209)
		2,300	1,950	169	(209)
Portfolio fair value hedges					
Fixed rate mortgages	D	7,845	-	190 ^E	-
		7,845	-	190	-
		10,145	1,950	359	(209)

IFRS 7.24B
IFRS 7.22A(c)

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 2020	Notional amount	Carrying amount	
		Assets (Note 28)	Liabilities (Note 28)
Micro fair value hedges			
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

EDTF 29
IFRS 7.24A
IFRS 7.24C(a)

Included within these notional amounts are hedging instruments which reference interest rate benchmarks for micro fair value hedges of \$3,300 million (2019: \$3,210 million) and portfolio fair value hedges of \$5,523 million (2019: \$5,635 million), to which the IBOR reform Phase 1 reliefs described in [Note 7.18.1](#) above have been applied. For the remaining hedging instruments, the hedged exposures are expected to mature prior to the date of reform.

IBOR reform
Phase 1 IFRS
7.24H(e)

31 December 2019	Notional amount	Carrying amount	
		Assets (Note 28)	Liabilities (Note 28)
Micro fair value hedges			
Interest rate swaps	4,250	320	165
	4,250	320	165
Portfolio fair value hedges			
Interest rate swaps	7,845	160	509
	7,845	160	509
	12,095	480	674

Notes to the Financial Statements

48. Risk management *continued*

48.7. Banking Book *continued*

48.7.1. Hedging activities *continued*

48.7.1.2. Fair value hedges *continued*

The below table sets out the outcome of the Bank's hedging strategy, set out in [Notes 7.18.1](#) and [48.7.1](#), 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:

In \$ million		2020			2019			IFRS 7.24C(a) IFRS 7.24(a)(i) IFRS 7.24(a)(ii)
Hedged items	Hedging instruments	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		
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	

The maturity profile of the Bank's hedging instruments used in micro fair value hedge relationships is, as follows: IFRS 7.23B

As at 31 December 2020 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

Notes to the Financial Statements

48. Risk management *continued*

48.7. Banking Book *continued*

48.7.1. Hedging activities *continued*

48.7.1.2. Fair value hedges *continued*

The maturity profile of the Bank's hedging instruments used in micro fair value hedge relationships is, as follows: IFRS 7.23B

As at 31 December 2019 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	35	60	580	245	930
Fixed rate small business loans						
Interest rate swaps	10	35	95	430	414	984
Fixed rate FVOCI debt instruments						
Interest rate swaps	5	10	30	110	91	246
Fixed rate customer deposits						
Interest rate swaps	100	250	440	1,050	250	2,090
Total	125	330	625	2,170	1,000	4,250

Commentary

IFRS 7.23A 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 7.23B(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 7.23B(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 7.23B(b).

IFRS 7.23C provides an exemption of the IFRS 7.23A and IFRS 7.23B disclosures for portfolio fair value hedges and requires quantitative information such as that set out [Note 7.18.1.2](#), instead.

48.7.1.3. 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 7.22A
IFRS 7.22B
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 48.7.1.3](#). 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:

31 December 2020

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.

Notes to the Financial Statements

48. Risk management *continued*

48.7. Banking Book *continued*

48.7.1. Hedging activities *continued*

48.7.1.3. Cash flow hedges *continued*

The table below sets out the outcome of the Bank's hedging strategy, as described in [Notes 7.18.2](#), and [48.7.1](#), in particular, the notional and the carrying amounts of the derivatives the Bank uses as hedging instruments and the changes in fair values used for measuring hedge ineffectiveness separately showing the effective and ineffective portions: IFRS 7.24A

31 December 2020

In \$ million	Carrying value			Changes in fair value of hedging instruments used for measuring hedge ineffectiveness			Reclassified into income statement as		
	Notional amount (Note 28)	Assets (Note 28)	Liabilities (Note 28)	In Total	Effective portion	Hedge ineffectiveness	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

Included within the notional amounts as at 31 December 2020, are hedging instruments which reference interest rate benchmarks for micro cash flow hedges of \$860 million (2019: \$950 million) and portfolio cash flow hedges of \$3,200 million (2019: \$2,465 million), to which the IBOR Phase 1 reliefs described in [Note 48.7.1](#) above have been applied. For the remaining hedging instruments, the hedged exposures are expected to mature prior to the date of reform.

31 December 2019

In \$ million	Carrying value			Changes in fair value of hedging instruments used for measuring hedge ineffectiveness			Reclassified into income statement as		
	Notional amount	Assets (Note 28)	Liabilities (Note 28)	In Total	Effective portion	Hedge ineffectiveness	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	1,170	379	45	34	27	7		5	7
	1,170	379	45	34	27	7		5	7
Portfolio cash flow hedges									
Interest rate swaps	2,865	262	-	77	56	21		13	-
	2,865	262	-	77	56	21		13	-
	4,035	641	45	111	83	28		18	7

Notes to the Financial Statements

48. Risk management *continued*

48.7. Banking Book *continued*

48.7.1. Hedging activities *continued*

48.7.1.3. Cash flow hedges *continued*

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 7.23F). 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.

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 7.23B

As at 31 December 2020 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%	
As at 31 December 2019 In \$ million						
Micro cash flow hedges						
Cross currency interest rate swaps						
Notional principal	–	150	210	380	580	1,170
Average fixed rate	3%	3%	3%	3%	3%	
Average EUR/\$ rate	1.2582	1.2829	1.2835	1.2957	1.3002	
Micro cash flow hedges						
Interest rate swaps						
Notional principal	40	220	350	563	1,692	2,865
Average fixed rate	5.17%	5.17%	5.17%	5.17%	5.17%	

Covid-19 commentary

Hedging

If the Covid-19 pandemic affects the probability of hedged forecast transactions occurring and/or the time period designated at the inception of a hedge, an entity would need to determine whether it can continue to apply hedge accounting to the forecast transaction or a proportion of it and whether any immediate recycling of the cash flow hedge reserve is required, and for continuing hedges whether any additional ineffectiveness has arisen.

- ▶ If an entity determines that a forecast transaction is no longer highly probable, but still expected to occur, the entity must discontinue hedge accounting prospectively.
- ▶ If an entity determines that the timing of a forecast transaction has changed, and the cash flows are now expected to occur at a different time than initially forecast, the outcome would depend on the nature of the hedged item and how the hedge relationship was documented and judgement will be needed in considering the appropriate accounting treatment.
- ▶ If an entity determines that a forecast transaction is no longer expected to occur, in addition to discontinuing hedge accounting prospectively, it must immediately reclassify to profit or loss any accumulated gain or loss on the hedging instrument that has been recognised in other comprehensive income.

Notes to the Financial Statements

48. Risk management *continued*

48.7. Banking Book *continued*

48.7.2. Hedging activities impact on equity

In \$ million	Cash flow hedging reserve	Translation reserve	<small>IFRS 7.24E(a) IFRS 7.24F-F</small>
Opening balance as at 1 January 2020	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 31 December 2020	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 (2019: loss of \$56m)

Commentary

IFRS 7.24E(b)-(c) are only relevant to entities applying IFRS 9 for hedge accounting. Therefore, these requirements are not addressed in this publication.

48.8. 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 Bank 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 Bank'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

48. Risk Management *continued*

48.8. Country risk *continued*

48.8.1. 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 2020	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	626	-	-	-	-	626
Financial assets at fair value through profit or loss	1,471	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	1,019	47	377	640	5	2,088
Total other assets	41,732	1,858	14,868	25,238	15,226	98,922
Total assets	44,127	2,104	16,836	25,941	15,624	104,632
Commitments and guarantees	6,752	362	2,899	4,922	3,046	17,981

Notes to the Financial Statements

48. Risk Management *continued*

48.8. Country risk *continued*

48.8.1. Geographical analysis *continued*

31 December 2019	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
Debt instruments at fair value through other comprehensive income	3,021	2,182	1,000	705	542	7,450
Equity instruments at fair value through other comprehensive income	170	107	112	117	118	624
Total sovereign debt	4,363	2,463	2,504	1,076	789	11,195
Financial assets held for trading <i>of which pledged as collateral</i>	2,471	127	1,018	271	116	4,003
Other assets						
Financial assets held for trading	4,253	97	772	1,312	813	7,247
Debt instruments at fair value through other comprehensive income	1,219	119	95	16	1,138	2,587
Debt instruments at amortised cost	460	316	318	338	338	1,770
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	36,287	2,118	13,890	22,594	15,406	90,295
Total assets	40,650	4,581	16,394	23,670	16,195	101,490
Commitments and guarantees	6,538	351	2,807	4,766	2,951	17,413

Notes to the Financial Statements

48. Risk Management *continued*

48.9. 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

48.10. 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 practice (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 Management. 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										

Appendix 1 - Information in other illustrative financial statements available

		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					✓					

Appendix 1 - Information in other illustrative financial statements available

Good Bank
 Good Group
 Good Group - Alternative Format
 Good Group Interim
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Interpretations *continued*

SIC 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓	✓	✓	✓
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.

*Good Life Insurance (International) Limited and Good General Insurance (International Limited) provide illustrative disclosures to meet the requirements of IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments*

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