Lloyds Bank plc

{Formerly Lloyds TSB Bank plc}

Report and Accounts
2013

Member of Lloyds Banking Group

Contents

Strategic Report

Principal activities

Lloyds Bank plc (the Bank) and its subsidiary undertakings (the Group) provide a wide range of banking and financial services through branches and offices in the UK and overseas.

The Group's revenue is earned through interest and fees on a broad range of financial services products including current and savings accounts, personal loans, credit cards and mortgages within the retail market; loans and capital market products to commercial, corporate and asset finance customers; life, pensions and investment products; general insurance; and private banking and asset management.

Business review

For the year ended 31 December 2013, the Group recorded a profit before tax of £894 million compared with a loss before tax in 2012 of £510 million; the result in 2013 included a provision in respect of redress to customers relating to past sales of Payment Protection Insurance of £3,050 million and there was a charge of £3,575 million in the year ended 31 December 2012. Excluding these charges from both years, profit before tax was £879 million, or 29 per cent, higher at £3,944 million in the year ended 31 December 2013 compared to £3,065 million in the previous year.

Total income decreased by £585 million, or 2 per cent, to £38,217 million in 2013 compared with £38,802 million in 2012, comprising a £177 million decrease in other income and a decrease of £408 million in net interest income.

Net interest income was £6,990 million in 2013; a decrease of £408 million, or 6 per cent compared to £7,398 million in 2012. There was a credit of £109 million in 2012 arising from liability management gains but no similar item in 2013 and there was an adverse impact of £293 million in 2013 from an increase in the amounts payable to unit holders in those Open-Ended Investment Companies (OEICs) included in the consolidated results of the Group. After adjusting for these items, net interest income was little changed at £10,081 million in 2013 compared to £10,087 million in 2012 reflecting a decrease in average interest-earning assets across all Divisions, mainly the disposal of assets outside of the Group's risk appetite more than offsetting targeted lending growth, offset by an increase in net interest margin, which resulted from improvements in deposit pricing.

Other income was £177 million, or 1 per cent, lower at £31,227 million in 2013 compared to £31,404 million in 2012. Fee and commission income was £532 million, or 11 per cent, lower at £4,119 million compared to £4,651 million in 2012. Fee and commission expense decreased by £61 million, or 4 per cent, to £1,383 million compared with £1,444 million in 2012. The decrease in net fee and commission income largely reflects the deconsolidation of St James's Place from April 2013. Net trading income increased by £1,771 million, or 12 per cent, to £17,039 million in 2013 compared to £15,268 million in 2012; this increase included an improvement of £1,662 million in gains on policyholder investments held within the insurance business as a result of movements in financial markets, offset by a similar increase in the related claims expense. Insurance premium income was £87 million, or 1 per cent, lower at £8,197 million in 2013 compared with £8,284 million in 2012; an increase of £31 million in life insurance premiums being more than offset by a £118 million decrease in general insurance premiums reflecting the continued run-down of the closed creditor book and the focus on the most profitable home insurance products. Other operating income was £1,390 million, or 30 per cent, lower at £3,255 million in 2013 compared to £4,645 million in 2012. Other operating income includes gains and losses on disposal of available-for-sale financial assets which were £2,918 million, or 82 per cent, lower at £629 million in 2013 compared to £3,547 million in 2012 following the completion of the repositioning of the Group's government bond portfolio in early 2013. Other operating income also includes gains and losses on liability management. During 2012 the Group had exchanged certain existing subordinated debt securities for new securities and also took advantage of opportunities to buy back some of its other issued securities; these exchanges resulted in a loss on extinguishment of the existing securities of £338 million, being the difference between the carrying amount of the securities extinguished and the fair value of the new securities issued and other consideration paid. The Group did not undertake any similar transactions in respect of its subordinated liabilities in 2013, however it did take advantage of opportunities to exchange some of its debt securities in issue for new instruments, generating losses in 2013 of £142 million. Excluding gains and losses on sale of available-for-sale financial assets and the impact of liability management activities, other operating income was £1,332 million higher at £2,768 million in 2013 compared to £1,436 million in 2012 including the gain of £540 million from the sales of shares in St James's Place.

Insurance claims expense was £1,111 million, or 6 per cent, higher at £19,507 million in 2013 compared to £18,396 million in 2012. The insurance claims expense in respect of life and pensions business was £1,120 million, or 6 per cent, higher at £19,151 million in 2013 compared to £18,031 million in 2012; this increase in claims was matched by a similar improvement in net trading income, reflecting the improved performance of policyholder investments. Insurance claims in respect of general insurance business were £9 million, or 2 per cent, lower at £356 million in 2013 compared to £365 million in 2012.

Operating expenses decreased by £692 million, or 4 per cent to £15,075 million in 2013 compared with £15,767 million in 2012; the main reason for the decrease being the £720 million reduction in charges for regulatory provisions from £4,175 million in 2012 to £3,455 million in 2013. In addition, 2013 included a past service pension charge of £104 million compared to a credit of £250 million in 2012. Staff costs were £350 million, or 6 per cent higher at £5,841 million in 2013 compared with £5,491 million in 2012. Excluding the past service pension charge from 2013 and credit from 2012, staff costs were flat at £5,737 million in 2013 compared with £5,741 million in 2012; annual pay rises and an increase in pension costs have offset the impact of headcount reductions resulting from business disposals and the Group's rationalisation programmes. Premises and equipment costs were £21 million, or 2 per cent, higher at £970 million in 2013 compared with £949 million in 2012. Other expenses (excluding the charges in respect of payment protection insurance and other regulatory provisions of £3,455 million from 2013 and £4,175 million from 2012) were £157 million, or 5 per cent, lower at £2,869 million in 2013 compared with £3,026 million in 2012 as increased technology-related spend and a higher charge in respect of the UK bank levy were more than offset by reductions in professional fees and in other costs. Depreciation and amortisation costs were £186 million, or 9 per cent, lower at £1,940 million in 2013 compared to £2,126 million in 2012.

Impairment losses decreased by £2,408 million, or 47 per cent, to £2,741 million in 2013 compared with £5,149 million in 2012. Impairment losses in respect of loans and advances to customers were £2,400 million, or 47 per cent, lower at £2,725 million compared with £5,125 million in 2012. The overall performance of the portfolio reflects improving credit quality and, particularly for Commercial Banking, improvements in the economic environment. The impairment charge in respect of debt securities classified as loans and receivables was a charge of £1 million in 2013 compared to a small credit of £4 million in 2012 and the impairment charge in respect of available-for-sale financial assets was £22 million, or 59 per cent, lower at £15 million in 2013 compared to £37 million in 2012. There was no charge in respect of other credit provisions; there had been a release of £9 million in 2012 following the draw-down of a number of commitments.

In 2013, the Group recorded a tax charge of £1,260 million compared to a tax charge of £721 million in 2012. The tax charge in 2013 was £1,052 million higher than the charge that would arise at the standard UK corporation tax rate of 23.25 per cent; principally as a result of a £602 million charge arising from the change in corporation tax rate, a £348 million write-off of deferred tax assets following the sale of the Group's Australian operations and a £251 million policyholder tax charge. The tax charge of £721 million in 2012 arose on a loss before tax of £510 million; this tax charge reflected a policyholder tax charge arising from the revaluation of policyholder tax credits in light of economic forecasts and changes to the taxation of life insurance companies and the impact of the UK corporation tax rate reduction to 23 per cent on the net deferred tax asset.

Strategic Report

Over the course of 2013 the Group has made further progress with its aim of strengthening the balance sheet and reducing risk, while continuing to manage down wholesale funding. Total assets were £90,459 million, or 9 per cent, lower at £862,004 million at 31 December 2013 compared to £952,463 million at 31 December 2012, reflecting the run-down of assets which are outside of the Group's risk-appetite, the sale of St James's Place plc and reduced placings with central banks. Customer deposits were £14,399 million, or 3 per cent, higher at £441,311 million compared to £426,912 million at 31 December 2013, driven by the effect of our strong product offerings but deposits from banks were £24,423 million, or 64 per cent, lower at £13,982 million at 31 December 2013 compared to £38,405 million at 31 December 2012 and debt securities in issue were £30,135 million, or 26 per cent, lower at £86,566 million at 31 December 2013 compared to £116,701 million at the end of 2012. Liabilities arising from non-participating investment contracts were £26,782 million, or 49 per cent, lower at £27,590 million at 31 December 2013 compared to £54,372 million at 31 December 2012 primarily as a result of the sale of St James' Place plc.

The Group's funding structure and liquidity position remain robust. The Group has further reduced wholesale funding by £32.0 billion, representing a 19 per cent decrease in the year, with the proportion of funding with a maturity of less than a year at 32 per cent. The Group continues to maintain a strong liquidity position including £89.3 billion of cash and highly rated, low-risk securities. The 3 per cent increase in customer deposits, together with the reduction in assets which are outside of the Group's risk appetite, drove a further improvement in the Group's loan to deposit ratio to 113 per cent at the end of 2013 from 121 per cent at the end of 2012.

In acknowledgement of the progress made in improving the Group's capitalisation and transforming its financial profile, the rating agencies Fitch and Standard & Poor's upgraded Lloyds Bank plc's standalone rating to 'bbb+' in September and December 2013 respectively, and affirmed their long-term credit ratings of Lloyds Bank plc as 'A'.

Future developments
Information about the future developments is provided with the Principal risks and uncertainties section below.

Capital position at 31 December 2013

The Group's capital position applying prevailing rules as at 31 December 2013 is set out in the following section.

Table 1.1: Capital resources (audited)

Capital resources	2013 £m	2012[1] £m
Core tier 1		
Shareholders' equity per balance sheet	**43,739**	48,401
Non-controlling interests per balance sheet	**347**	685
Regulatory adjustments:		
Regulatory adjustments to non-controlling interests	**(315)**	(628)
Adjustment for own credit	**185**	217
Defined benefit pension adjustment	**(78)**	(1,438)
Unrealised reserve on available-for-sale debt securities	**1,408**	315
Unrealised reserve on available-for-sale equity investments	**(135)**	(56)
Cash flow hedging reserve	**827**	(590)
Other items	**452**	33
	46,430	46,939
Less: deductions from core tier 1		
Goodwill	**(2,016)**	(2,016)
Intangible assets	**(1,799)**	(2,091)
50 per cent excess of expected losses over impairment provisions	**(373)**	(636)
50 per cent of securitisation positions	**(71)**	(183)
Core tier 1 capital	**42,171**	42,013
Non-controlling preference shares[2]	**2,585**	2,343
Preferred securities[2]	**3,882**	4,766
Less: deductions from tier 1		
50 per cent of material holdings	**(3,859)**	(46)
Total tier 1 capital	**44,779**	49,076
Tier 2		
Undated subordinated debt	**1,150**	1,996
Dated subordinated debt	**19,815**	21,082
Unrealised gains on available-for-sale equity investments provisions	**135**	56
Eligible provisions	**359**	977
Less: deductions from tier 2		
50 per cent excess of expected losses over impairment provisions	**(373)**	(636)
50 per cent of securitisation positions	**(71)**	(183)
50 per cent of material holdings	**(3,859)**	(46)
Total tier 2 capital	**17,156**	23,246
Supervisory deductions		
Unconsolidated investments – life	**–**	(10,104)
– general insurance and other	**–**	(929)
Connected lending of a capital nature	**(3,275)**	(10,159)
Total supervisory deductions	**(3,275)**	(21,192)
Total capital resources	**58,660**	51,130

[1]The 31 December 2012 comparatives have not been restated to reflect the implementation of IAS 19R and IFRS 10.

[2]Covered by existing grandfathering provisions.

Table 1.2: Risk-Weighted Assets and Capital Ratios (unaudited)

	2013 £m	2012[1] £m
Risk-weighted assets	**263,850**	310,299
Core tier 1 capital ratio	**16.0%**	13.5%
Tier 1 capital ratio	**17.0%**	15.8%
Total capital ratio	**22.2%**	16.5%

As at 31 December 2013, the Group's capital ratios had increased with a total capital ratio on a Basel II basis of 22.2 per cent (compared to 16.5 per cent at 31 December 2012, before restatement for the impact of IAS 19R); a tier 1 capital ratio of 17.0 per cent compared to 15.8 per cent and a core tier 1 ratio of 16.0 per cent compared to 13.5 per cent. During 2013 risk-weighted assets decreased by £46.4 billion to £263.9 billion at 31 December 2013 compared with £310.3 billion at 31 December 2012; this decrease reflected reductions in assets outside of the Group's risk appetite and movements in external economic factors.

Principal risks and uncertainties

The most significant risks faced by the Group which could impact on the success of delivering against the Group's long-term strategic objectives are outlined below.

Credit risk

Principal risks

As a provider of credit facilities to personal and commercial customers, together with financial institutions and Sovereigns, any adverse changes in the economic and market environment we operate in, or the credit quality and/or behaviour of our borrowers and counterparties would reduce the value of our assets and increase our write-downs and allowances for impairment losses, adversely impacting profitability.

Mitigating actions

- Credit policy incorporating prudent lending criteria aligned with the Lloyds Banking Group Board approved risk appetite to effectively manage credit risk.
- Clearly defined levels of authority ensure we lend appropriately and responsibly with separation of origination and sanctioning.
- Robust credit processes and controls including well-established committees to ensure distressed and impaired loans are identified, considered and controlled.

Conduct risk

Principal risks

As a major financial services provider we face significant conduct risk, including selling products to customers which do not meet their needs; failing to deal with customers' complaints effectively; not meeting customer expectations; and exhibiting behaviours which do not meet market or regulatory standards.

Mitigating actions

- Customer focused conduct strategy implemented to ensure customers are at the heart of everything we do.
- Product approval and review processes and outcome testing supported by conduct management information.
- Clearer customer accountabilities for colleagues, including rewards with customer-centric metrics.
- Learn from past mistakes, including root cause analysis.

Market risk

Principal risks

We face a number of key market risks including interest rate risk across the Banking and Insurance businesses. However, our most significant market risk is from the Defined Benefit Pension Schemes where asset and liability movements impact on our capital position.

Mitigating actions

- A rates hedging programme is in place to reduce liability risk.
- Lloyds Banking Group Board approved pensions risk appetite covering interest rate, credit spreads and equity risks.
- Credit assets are being purchased by the schemes as equities are sold.
- Stress and scenario testing

Operational risk

Principal risks

We face a number of key operational risks including fraud losses and failings in our customer processes. The availability, resilience and security of our core IT systems is the most significant.

Mitigating actions

- Continually review IT system architecture to ensure systems are resilient, readily available for our customers and secure from cyber attack.
- Implement actions from the Lloyds Banking Group IT resilience review conducted in 2013 to reflect enhanced demands on IT both in terms of customer and regulator expectations.

Funding and liquidity

Principal risks

Our funding and liquidity position is supported by a significant and stable customer deposit base. However, a deterioration in either our or the UK's credit rating or sudden and significant withdrawal of customer deposits could adversely impact our funding and liquidity position.

Mitigating actions

- Hold a large pool of liquid primary assets to meet cash and collateral outflows.
- Maintain a further large pool of secondary assets which can be used to access Central Bank liquidity facilities.
- Stress test the Group's liquidity position against a range of scenarios.

Capital risk

Principal risks

Our future capital position is potentially at risk from adverse financial performance and the introduction of higher capital requirements for distinct risks, sectors or as a consequence of specific UK regulatory requirements.

Mitigating actions

- Close monitoring of actual capital ratios to ensure that we comply with current regulatory capital requirements and are well positioned to meet future requirements.
- Internal stress testing results to evidence sufficient levels of capital adequacy for the Group under various scenarios.
- Lloyds Banking Group can accumulate additional capital in a variety of ways including raising equity via a rights issue or debt exchange and by raising tier 1 and tier 2 capital.

Regulatory risk

Principal risks

Due to the nature of the industry we operate in we have to comply with a complex and demanding regulatory change agenda. Regulatory initiatives we have been working on in 2013 include CRD IV, Mortgage Market Review, Dodd-Frank and Foreign Account Tax Compliance Act 2010. The sanctions for failing to comply far outweigh the costs of implementation.

Mitigating actions

- The Lloyds Banking Group Legal, Regulatory and Mandatory Change Committee ensures we drive forward activity to develop plans for regulatory changes and tracks progress against those plans.

Principal risks and uncertainties (continued)

– Continued investment in our people, processes and IT systems is enabling us to meet our regulatory commitments.

State aid

Principal risks

HM Treasury currently holds 32.7 per cent of the Group's share capital. Lloyds Banking Group continues to operate without Government interference in the day-to-day management decisions, however there is a risk that a change in Government priorities could result in the current framework agreement being replaced, leading to interference in the operations of the Group. Failure to meet the EU State Aid commitments arising from this Government support could lead to sanctions.

Mitigating actions

– Most EU State Aid commitments now met with the divestment of the rebranded (TSB) retail banking business outstanding.
– Now progressing the divestment of TSB through an Initial Public Offering, subject to regulatory and European Commission approval, to ensure best value for Lloyds Banking Group shareholders and certainty for our customers and colleagues.
– The divested business, rebranded TSB has operated as a separate business within Lloyds Banking Group since September 2013.

Financial risk management objectives and policies

Information regarding the financial risk management objectives and policies of the Group, in relation to the use of financial instruments, is given in note 54 on page 135. Additional information can be found in the annual report of Lloyds Banking Group plc, the Bank's ultimate parent, which does not form part of this report.

The 2013 Strategic Report has been approved by the Board of Directors

On behalf of the Board

Sir Winfried Bischoff
Lloyds Bank plc
6 March 2014

Directors' report

Results
The consolidated income statement on page 13 shows a loss attributable to equity shareholders for the year ended 31 December 2013 of £402 million.

Post balance sheet events
There have been no material post balance sheet events.

Going concern
The going concern of the Bank and the Group is dependent on successfully funding their respective balance sheets and maintaining adequate levels of capital. In order to satisfy themselves that the Bank and the Group have adequate resources to continue to operate for the foreseeable future, the Directors have considered a number of key dependencies including the continued functioning of the money and capital markets, the reduction in wholesale funding requirements resulting from Lloyds Banking Group's strategy to right-size the balance sheet and the absence of significant and sudden withdrawals of customer deposits. The Directors have also considered projections for the Group's capital and funding position. Having considered these, the Directors consider that it is appropriate to continue to adopt the going concern basis in preparing the accounts.

Branches, future developments and financial risk management objective sand policies
Information regarding the existence of branches, future developments and financial risk management objectives and policies of the Group, in relation to the use of financial instruments, can be found in the strategic report and is incorporated into this report by reference.

Directors
The names of the Directors of the Bank are shown on page 9. Changes to the composition of the Board since 1 January 2013 up to the date of this report are shown in the table below:

	Joined the Board	Retired from the Board
Nick Luff	5 March 2013	
Martin Scicluna		31 March 2013
Timothy T Ryan, Jr		18 April 2013
Juan Colombás	29 November 2013	
Dyfrig John	1 January 2014	

Sir Winfried Bischoff will retire from the Board on 3 April 2014 and will be succeeded as Chairman by Lord Blackwell.

Appointment and retirement of Directors
The appointment of Directors is governed by the Bank's articles of association and the Companies Act 2006. The Bank's articles of association may only be amended by a special resolution of the shareholders in a general meeting.

Directors' interests
The Directors are also Directors of Lloyds Banking Group plc and their interests in shares in Lloyds Banking Group plc are shown in the report and accounts of that company.

Directors' conflicts of interest
The Board, as permitted by the Bank's articles of association, has authorised all potential conflicts of interest that have been declared by individual Directors. Decisions regarding these conflicts of interest could be and were only taken by Directors who had no interest in the matter. In taking the decision, the Directors acted in a way they considered, in good faith, would be most likely to promote the Bank's success. The Directors have the ability to impose conditions, if thought appropriate, when granting authorisation. Any authorities given are reviewed periodically, and as considered appropriate, and at least every 15 months. No Director is permitted to vote on any resolution or matter where he or she has an actual or potential conflict of interest.

Directors' indemnities
The Directors of the Bank, including the former Directors who retired during the year and since the year end, have entered into individual deeds of indemnity with Lloyds Banking Group plc which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deeds indemnify the Directors to the maximum extent permitted by law and remain in force for the duration of a Director's period of office. The deeds were in force during the whole of the financial year or from the date of appointment in respect of the Directors appointed in 2013 and 2014. Deeds for existing Directors are available for inspection at the Bank's registered office. In addition, Lloyds Banking Group had appropriate Directors and Officers Liability Insurance cover in place throughout 2013.

Lloyds Banking Group plc has also granted a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' to the Directors of the Bank's subsidiary companies, including to former Directors who retired during the year and since the year end. Qualifying pension scheme indemnities were also granted to the Trustees of the Lloyds Banking Group's Pension Schemes.

Share capital and dividends
Information about share capital and dividends is shown in notes 45 and 49 on pages 94 and 96 and is incorporated into this report by reference.

The Bank did not repurchase any of its shares during the year (2012: none). There are no restrictions on the transfer of shares in the Bank other than set out in the articles of association and certain restrictions which may from time to time be imposed by law and regulations.

The directors have authority to allot and issue shares in the Bank.

Change of control
The Bank is not party to any significant contracts that are subject to change of control provisions in the event of a takeover bid. There are no agreements between the Bank and its Directors or employees providing compensation for loss of office or employment that occurs because of a takeover bid.

Research and development activities
During the ordinary course of business the Bank develops new products and services within the business units.

Directors' report

Employees
The Bank, as part of Lloyds Banking Group, is committed to providing employment practices and policies which recognise the diversity of its workforce. The Group will not unfairly discriminate in the recruitment or employment practices on the basis of any factor which is not relevant to individuals' performance including sex, race, disability, age, sexual orientation or religious belief. The Group works hard to ensure Lloyds Banking Group is inclusive for all colleagues.

To support this aim, Lloyds Banking Group belongs to a number of major UK employment equality campaign groups, including the Business Disability Forum, The Age and Employment Network, Stonewall and Race for Opportunity. Involvement with these organisations enables the Group to identify and implement best practice for staff. The Bank, as part of Lloyds Banking Group, has a range of programmes to support colleagues who become disabled or acquire a long-term health condition. These include a workplace adjustment programme to provide physical equipment or changes to the way a job is done. The Group also runs residential Personal and Career Development Programmes to help colleagues deal positively with the impact of a disability and the colleague disability network, Access, provides peer support.

Employees are kept closely involved in major changes affecting them through such measures as team meetings, briefings, internal communications and opinion surveys. There are well established procedures, including regular meetings with recognised unions, to ensure that the views of employees are taken into account in reaching decisions.

Schemes offering share options or the acquisition of shares are available for most staff, to encourage their financial involvement in Lloyds Banking Group.

Lloyds Banking Group is committed to providing employees with comprehensive coverage of the economic and financial issues affecting the Group. The Group has established a full suite of communication channels, including an extensive face-to-face briefing programme, which allows it to update employees on performance and any financial issues throughout the year.

Significant contracts
Details of related party transactions are set out in note 51 on pages 105 to 108.

Statement of directors' responsibilities
The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group and Bank financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Bank and of the profit or loss of the Bank and Group for that period. In preparing these financial statements, the Directors are required to: select suitable accounting policies and then apply them consistently; make judgements and accounting estimates that are reasonable and prudent; and state whether applicable IFRSs as adopted by the European Union have been followed.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Bank and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

A copy of the financial statements is placed on the website www.lloydsbankinggroup.com. The Directors are responsible for the maintenance and integrity in relation to the Bank on that website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the current Directors, whose names are shown on page 9 of this annual report, confirms that, to the best of his or her knowledge:

– the financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities and financial position of the Bank and Group and the profit or loss of the Group; and
– the management report contained in the strategic report and the directors' report includes a fair review of the development and performance of the business and the position of the Bank and Group; together with a description of the principal risks and uncertainties faced by the Bank and the Group.

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Bank's performance, business model and strategy. The Directors have also separately reviewed and approved the new strategic report.

Independent auditor and audit information
Each person who is a Director at the date of approval of this report confirms that, so far as the Director is aware, there is no relevant audit information of which the Bank's auditor is unaware and each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Bank's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of the Companies Act 2006.

A resolution will be proposed at the 2014 annual general meeting to reappoint PricewaterhouseCoopers LLP as auditor. The Bank's Audit Committee is satisfied that the external auditor remains independent and effective.

On behalf of the Board

Marc Boston
Company Secretary
6 March 2014

Lloyds Bank plc
Registered in England & Wales
Company Number 2065

Directors

Sir Winfried Bischoff *Chairman* (retiring 3 April 2014)

A Horta-Osório *Executive Director and Group Chief Executive*

M G Culmer *Executive Director and Chief Financial Officer*

J Colombás *Executive Director and Chief Risk Officer*

Lord Blackwell (Chairman from 3 April 2014)

C J Fairbairn

A M Frew

D John CBE

D L Roberts

N Luff

A Watson CBE

S V Weller

Forward looking statements

This annual report contains certain forward looking statements with respect to the business, strategy and plans of Lloyds Bank Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about Lloyds Bank Group or its directors' and/or management's beliefs and expectations, are forward looking statements. Words such as 'believes', 'anticipates', 'estimates', 'expects', 'intends', 'aims', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'estimate' and variations of these words and similar future or conditional expressions are intended to identify forward looking statements but are not the exclusive means of identifying such statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future.

Examples of such forward looking statements include, but are not limited to: projections or expectations of the Group's future financial position including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, expenditures or any other financial items or ratios; statements of plans, objectives or goals of the Group or its management including in respect of certain synergy targets; statements about the future business and economic environments in the United Kingdom (UK) and elsewhere including, but not limited to, future trends in interest rates, foreign exchange rates, credit and equity market levels and demographic developments; statements about competition, regulation, disposals and consolidation or technological developments in the financial services industry; and statements of assumptions underlying such statements.

Factors that could cause actual business, strategy, plans and/or results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements made by the Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; inflation, deflation, interest rates and policies of the Bank of England, the European Central Bank and other G8 central banks; fluctuations in exchange rates, stock markets and currencies; the ability to access sufficient funding to meet the Group's liquidity needs; changes to the Group's or Lloyds Banking Group plc's credit ratings; the ability to derive cost savings and other benefits including, without limitation, as a result of the Lloyds Banking Group's Simplification Programme; changing demographic developments including mortality and changing customer behaviour including consumer spending, saving and borrowing habits; changes in customer preferences; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes; natural and other disasters, adverse weather and similar contingencies outside the Group's control; inadequate or failed internal or external processes, people and systems; terrorist acts and other acts of war or hostility and responses to those acts, geopolitical, pandemic or other such events; changes in laws, regulations, taxation, accounting standards or practices; regulatory capital or liquidity requirements and similar contingencies outside the Group's control; the policies and actions of governmental or regulatory authorities in the UK, the European Union (EU), the US or elsewhere; the implementation of the draft EU crisis management framework directive and banking reform, following the recommendations made by the Independent Commission on Banking; the ability to attract and retain senior management and other employees; requirements or limitations imposed on Lloyds Banking Group plc and the Group as a result of HM Treasury's investment in Lloyds Banking Group plc; the ability to complete satisfactorily the disposal of certain assets as part of Lloyds Banking Group plc's EU State Aid obligations; the extent of any future impairment charges or write-downs caused by depressed asset valuations, market disruptions and illiquid markets; market related trends and developments; exposure to regulatory scrutiny, legal proceedings, regulatory investigations or complaints; changes in competition and pricing environments; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services and lending companies; and the success of the Group in managing the risks of the foregoing. Please refer to the latest Annual Report of Lloyds Banking Group plc on Form 20-F filed with the US Securities and Exchange Commission for a discussion of certain factors, together with examples of forward looking statements.

Lloyds Banking Group may also make or disclose written and/or oral forward looking statements in reports filed with or furnished to the US Securities and Exchange Commission, Lloyds Banking Group annual reviews, half-year announcements, proxy statements, offering circulars, prospectuses, press releases and other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group to third parties, including financial analysts. Except as required by any applicable law or regulation, the forward looking statements contained in this annual report are made as of the date hereof, and Lloyds Bank Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this annual report to reflect any change in Lloyds Bank Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Independent auditors' report

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LLOYDS BANK PLC (formerly Lloyds TSB Bank plc)

Report on the financial statements

Our opinion

In our opinion:

- The financial statements, defined below, give a true and fair view of the state of the Group's and of the Bank's affairs as at 31 December 2013 and of the Group's loss and of the Group's and Bank's cash flows for the year then ended;
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- The Bank financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Group financial statements and Bank financial statements (the "financial statements"), which are prepared by Lloyds Bank plc (formerly Lloyds TSB Bank plc), comprise:

- the Group and Bank balance sheets as at 31 December 2013;
- the Group income statement and the Group and Bank statements of comprehensive income for the year then ended;
- the Group and Bank statements of changes in equity and statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRSs as adopted by the European Union and, as regards the Bank, as applied in accordance with the provisions of the Companies Act 2006.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and Bank's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Report and Accounts (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinions on matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Bank, or returns adequate for our audit have not been received from branches not visited by us; or
- the Bank financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

Independent auditors' report

Responsibilities for the financial statement audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the Group and Bank financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the Group and Bank financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Bank's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Philip Rivett
Senior Statutory Auditor
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
6 March 2014

a) The maintenance and integrity of the Lloyds Banking Group plc website is the responsibility of the Group directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement

for the year ended 31 December 2013

	Note	2013 £ million	2012[1] £ million
Interest and similar income		**21,367**	23,945
Interest and similar expense		**(14,377)**	(16,547)
Net interest income	5	**6,990**	7,398
Fee and commission income		**4,119**	4,651
Fee and commission expense		**(1,383)**	(1,444)
Net fee and commission income	6	**2,736**	3,207
Net trading income	7	**17,039**	15,268
Insurance premium income	8	**8,197**	8,284
Other operating income	9	**3,255**	4,645
Other income		**31,227**	31,404
Total income		**38,217**	38,802
Insurance claims	10	**(19,507)**	(18,396)
Total income, net of insurance claims		**18,710**	20,406
Regulatory provisions		**(3,455)**	(4,175)
Other operating expenses		**(11,620)**	(11,592)
Total operating expenses	11	**(15,075)**	(15,767)
Trading surplus		**3,635**	4,639
Impairment	12	**(2,741)**	(5,149)
Profit (loss) before tax		**894**	(510)
Taxation	14	**(1,260)**	(721)
Loss for the year		**(366)**	(1,231)

Profit attributable to non-controlling interests		**36**	84
Loss attributable to equity shareholders		**(402)**	(1,315)
Loss for the year		**(366)**	(1,231)

[1]Restated – see note 1.

The accompanying notes are an integral part of the financial statements.

Statements of comprehensive income

for the year ended 31 December 2013

The Group	2013 £ million	2012[1] £ million
(Loss) for the year	**(366)**	(1,231)
Other comprehensive income		
Items that will not subsequently be reclassified to profit or loss:		
Post-retirement defined benefit scheme remeasurements:		
Remeasurements before taxation	**(136)**	(2,136)
Taxation	**28**	491
	(108)	(1,645)
Items that may subsequently be reclassified to profit or loss:		
Movements in revaluation reserve in respect of available-for-sale financial assets:		
Adjustment on transfer from held-to-maturity portfolio	**–**	1,168
Change in fair value	**(680)**	900
Income statement transfers in respect of disposals	**(629)**	(3,547)
Income statement transfers in respect of impairment	**18**	42
Other income statement transfers	**–**	169
Taxation	**277**	339
	(1,014)	(929)
Movements in cash flow hedging reserve:		
Effective portion of changes in fair value taken to other comprehensive income	**(1,229)**	100
Net income statement transfers	**(566)**	(92)
Taxation	**378**	6
	(1,417)	14
Currency translation differences, (tax: nil)	**(19)**	(14)
Other comprehensive income for the year, net of tax	**(2,558)**	(2,574)
Total comprehensive income for the year	**(2,924)**	(3,805)
Total comprehensive income attributable to non-controlling interests	**36**	82
Total comprehensive income attributable to equity shareholders	**(2,960)**	(3,887)
Total comprehensive income for the year	**(2,924)**	(3,805)

The Bank	2013 £ million	2012[1] £ million
Profit (loss) for the year	**2,772**	(2,187)
Other comprehensive income:		
Items that will not subsequently be reclassified to profit or loss:		
Post-retirement defined benefit scheme remeasurements:		
Remeasurements before taxation	**400**	(934)
Taxation	**(80)**	215
	320	(719)
Items that may subsequently be reclassified to profit or loss:		
Movements in revaluation reserve in respect of available-for-sale financial assets:		
Adjustment on transfer from held-to-maturity portfolio	**–**	1,168
Change in fair value	**(889)**	155
Income statement transfers in respect of disposals	**(842)**	(3,118)
Other income statement transfers	**–**	169
Taxation	**366**	366
	(1,365)	(1,260)
Movements in cash flow hedging reserve:		
Effective portion of changes in fair value taken to other comprehensive income	**21**	(5)
Taxation	**(5)**	1
	16	(4)
Currency translation differences (tax: nil)	**(26)**	(21)
Other comprehensive income for the year, net of tax	**(1,055)**	(2,004)
Total comprehensive income for the year	**1,717**	(4,191)

[1] Restated – see note 1.

Balance sheets

at 31 December 2013

		The Group			The Bank		
	Note	**2013 £ million**	2012[1] £ million	At 1 January 2012[1] £ million	**2013 £ million**	2012[1] £ million	At 1 January 2012[1] £ million
Assets							
Cash and balances at central banks		**49,915**	80,298	60,722	**42,283**	74,078	57,500
Items in the course of collection from banks		**1,007**	1,256	1,408	**663**	806	898
Trading and other financial assets at fair value through profit or loss	16	**143,207**	160,974	148,347	**40,167**	6,462	4,665
Derivative financial instruments	17	**31,913**	55,136	64,902	**30,392**	32,247	37,517
Loans and receivables:							
Loans and advances to banks	18	**25,365**	32,757	32,877	**3,095**	4,888	5,327
Loans and advances to customers	19	**495,281**	517,225	565,638	**167,903**	179,283	185,304
Debt securities	22	**1,355**	5,273	12,470	**150**	454	633
Due from fellow Lloyds Banking Group undertakings		**15,453**	18,882	18,599	**262,977**	244,629	226,378
		537,454	574,137	629,584	**434,125**	429,254	417,642
Available-for-sale financial assets	24	**43,976**	31,374	37,952	**41,348**	31,092	31,351
Held-to-maturity investments		**–**	–	8,098	**–**	–	8,098
Investment properties	25	**4,864**	5,405	6,122	**–**	–	–
Goodwill	26	**2,016**	2,016	2,016	**–**	–	–
Value of in-force business	27	**5,335**	6,800	6,638	**–**	–	–
Other intangible assets	28	**2,279**	2,792	3,196	**564**	411	329
Tangible fixed assets	29	**7,570**	7,342	7,673	**2,627**	2,186	1,731
Current tax recoverable		**169**	751	428	**1,646**	1,102	830
Deferred tax assets	42	**5,132**	4,929	4,704	**4,165**	4,188	3,313
Investment in subsidiary undertakings	30	**–**	–	–	**40,929**	39,958	40,289
Retirement benefit assets	41	**98**	741	1,262	**–**	3	266
Other assets	31	**27,069**	18,512	15,016	**1,857**	1,547	1,263
Total assets		**862,004**	952,463	998,068	**640,766**	623,334	605,692

[1] Restated – see note 1.

The accompanying notes are an integral part of the financial statements.

Balance sheets

at 31 December 2013

		The Group			The Bank		
Equity and liabilities	Note	**2013 £ million**	2012[1] £ million	At 1 January 2012[1] £ million	**2013 £ million**	2012[1] £ million	At 1 January 2012[1] £ million
Liabilities							
Deposits from banks	32	**13,982**	38,405	39,810	**10,448**	29,675	35,808
Customer deposits	33	**441,311**	426,912	413,831	**187,399**	187,620	184,046
Due to fellow Lloyds Banking Group undertakings		**8,797**	9,950	10,546	**244,025**	229,203	162,291
Items in course of transmission to banks		**774**	996	844	**432**	445	487
Trading and other financial liabilities at fair value through profit or loss	34	**43,625**	33,392	22,357	**43,106**	10,841	10,905
Derivative financial instruments	17	**30,704**	48,948	58,754	**31,114**	30,616	35,031
Notes in circulation		**1,176**	1,198	1,145	**–**	–	–
Debt securities in issue	35	**86,566**	116,701	184,409	**53,195**	61,494	102,237
Liabilities arising from insurance contracts and participating investment contracts	36	**82,801**	82,968	79,001	**–**	–	–
Liabilities arising from non-participating investment contracts	38	**27,590**	54,372	49,636	**–**	–	–
Unallocated surplus within insurance businesses	39	**391**	267	300	**–**	–	–
Other liabilities	40	**41,120**	47,450	44,804	**4,406**	4,524	4,364
Retirement benefit obligations	41	**1,096**	1,905	858	**413**	1,121	473
Current tax liabilities		**111**	138	104	**5**	10	24
Deferred tax liabilities	42	**3**	327	314	**–**	–	1
Other provisions	43	**4,337**	3,961	3,166	**2,485**	2,371	1,624
Subordinated liabilities	44	**33,534**	37,590	37,330	**22,600**	26,249	25,045
Total liabilities		**817,918**	905,480	947,209	**599,628**	584,169	562,336
Equity							
Share capital	45	**1,574**	1,574	1,574	**1,574**	1,574	1,574
Share premium account	46	**35,533**	35,533	35,533	**35,533**	35,533	35,533
Other reserves	47	**4,123**	6,573	7,500	**(501)**	874	2,159
Retained profits	48	**2,509**	2,618	5,578	**4,532**	1,184	4,090
Shareholders' equity		**43,739**	46,298	50,185	**41,138**	39,165	43,356
Non-controlling interests		**347**	685	674	**–**	–	–
Total equity		**44,086**	46,983	50,859	**41,138**	39,165	43,356
Total equity and liabilities		**862,004**	952,463	998,068	**640,766**	623,334	605,692

[1]Restated – see note 1.

The accompanying notes are an integral part of the financial statements.

The directors approved the financial statements on 6 March 2014.

Sir Winfried Bischoff
Chairman

António Horta-Osório
Chief Executive

George Culmer
Chief Financial Officer

Statement of changes in equity

for the year ended 31 December 2013

The Group	Attributable to equity shareholders: Share capital and premium £ million	Other reserves £ million	Retained profits £ million	Total £ million	Non-controlling interests £ million	Total £ million
Balance at 1 January 2012						
As previously reported	37,107	7,500	5,992	50,599	674	51,273
Restatement (notes 1 and 57)	–	–	(414)	(414)	–	(414)
Restated	37,107	7,500	5,578	50,185	674	50,859
Comprehensive income						
(Loss) profit for the year	–	–	(1,315)	(1,315)	84	(1,231)
Other comprehensive income						
Post-retirement defined benefit scheme remeasurements, net of taxation	–	–	(1,645)	(1,645)	–	(1,645)
Movements in revaluation reserve in respect of available-for-sale financial assets, net of tax	–	(927)	–	(927)	(2)	(929)
Movements in cash flow hedging reserve, net of tax	–	14	–	14	–	14
Currency translation differences, net of tax	–	(14)	–	(14)	–	(14)
Total other comprehensive income	–	(927)	(1,645)	(2,572)	(2)	(2,574)
Total comprehensive income	–	(927)	(2,960)	(3,887)	82	(3,805)
Transactions with owners						
Dividends	–	–	–	–	(56)	(56)
Change in non-controlling interests	–	–	–	–	(15)	(15)
Total transactions with owners	–	–	–	–	(71)	(71)
Balance at 31 December 2012[1]	37,107	6,573	2,618	46,298	685	46,983
Comprehensive income						
(Loss) profit for the year	**–**	**–**	**(402)**	**(402)**	**36**	**(366)**
Other comprehensive income						
Post-retirement defined benefit scheme remeasurements, net of taxation	**–**	**–**	**(108)**	**(108)**	**–**	**(108)**
Movements in revaluation reserve in respect of available-for-sale financial assets, net of tax	**–**	**(1,014)**	**–**	**(1,014)**	**–**	**(1,014)**
Movements in cash flow hedging reserve, net of tax	**–**	**(1,417)**	**–**	**(1,417)**	**–**	**(1,417)**
Currency translation differences, net of tax	**–**	**(19)**	**–**	**(19)**	**–**	**(19)**
Total other comprehensive income	**–**	**(2,450)**	**(108)**	**(2,558)**	**–**	**(2,558)**
Total comprehensive income	**–**	**(2,450)**	**(510)**	**(2,960)**	**36**	**(2,924)**
Transactions with owners						
Dividends	**–**	**–**	**–**	**–**	**(25)**	**(25)**
Value of employee services:						
Share option schemes	**–**	**–**	**401**	**401**	**–**	**401**
Change in non-controlling interests	**–**	**–**	**–**	**–**	**(349)**	**(349)**
Total transactions with owners	**–**	**–**	**401**	**401**	**(374)**	**27**
Balance at 31 December 2013	**37,107**	**4,123**	**2,509**	**43,739**	**347**	**44,086**

[1]Restated – see note 1.

Further details of movements in the Group's share capital and reserves are provided in notes 45, 46, 47 and 48.

The accompanying notes are an integral part of the financial statements.

Statement of changes in equity

for the year ended 31 December 2013

	Attributable to equity shareholders			
The Bank	**Share capital and premium £ million**	**Other reserves £ million**	**Retained profits £ million**	**Total £ million**
Balance at 1 January 2012				
As previously reported	37,107	2,159	4,648	43,914
Restatement (notes 1 and 57)	–	–	(558)	(558)
Restated	37,107	2,159	4,090	43,356
Comprehensive income				
Loss for the year	–	–	(2,187)	(2,187)
Other comprehensive income				
Post-retirement defined benefit scheme remeasurements, net of taxation	–	–	(719)	(719)
Movements in revaluation reserve in respect of available-for-sale financial assets, net of tax	–	(1,260)	–	(1,260)
Movements in cash flow hedging reserve, net of tax	–	(4)	–	(4)
Currency translation differences, net of tax	–	(21)	–	(21)
Total other comprehensive income	–	(1,285)	(719)	(2,004)
Total comprehensive income	–	(1,285)	(2,906)	(4,191)
Balance at 31 December 2012[1]	37,107	874	1,184	39,165
Comprehensive income				
Loss for the year	**–**	**–**	**2,772**	**2,772**
Other comprehensive income				
Post-retirement defined benefit scheme remeasurements, net of taxation	**–**	**–**	**320**	**320**
Movements in revaluation reserve in respect of available-for-sale financial assets, net of tax	**–**	**(1,365)**	**–**	**(1,365)**
Movements in cash flow hedging reserve, net of tax	**–**	**16**	**–**	**16**
Currency translation differences, net of tax	**–**	**(26)**	**–**	**(26)**
Total other comprehensive income	**–**	**(1,375)**	**320**	**(1,055)**
Total comprehensive income	**–**	**(1,375)**	**3,092**	**1,717**
Transactions with owners				
Value of employee services	**–**	**–**	**256**	**256**
Total transactions with owners	**–**	**–**	**256**	**256**
Balance at 31 December 2013	**37,107**	**(501)**	**4,532**	**41,138**

[1] Restated – see note 1.

There were no transactions with owners in 2012.

Cash flow statements

for the year ended 31 December 2013

		The Group		The Bank	
	Note	**2013 £ million**	2012[1] £ million	**2013 £ million**	2012[1] £ million
Profit (loss) before tax		**894**	(510)	**2,514**	(2,731)
Adjustments for:					
Change in operating assets	56(a)	**20,138**	47,160	**(34,109)**	(8,710)
Change in operating liabilities	56(b)	**(45,583)**	(46,715)	**21,113**	20,191
Non-cash and other items	56(c)	**11,759**	2,944	**962**	134
Tax received (paid)		**120**	(370)	**(8)**	(26)
Net cash provided by (used in) operating activities		**(12,672)**	2,509	**(9,528)**	8,858
Cash flows from investing activities					
Purchase of financial assets		**(36,959)**	(22,050)	**(30,009)**	(18,825)
Proceeds from sale and maturity of financial assets		**21,552**	38,228	**16,671**	28,490
Purchase of fixed assets		**(2,982)**	(3,003)	**(1,093)**	(1,042)
Proceeds from sale of fixed assets		**2,090**	2,595	**30**	15
Additional capital injections to subsidiaries	56(e)	**–**	–	**(621)**	(37)
Acquisition of businesses, net of cash acquired	56(e)	**(6)**	(11)	**(773)**	–
Disposal of businesses, net of cash disposed	56(f)	**696**	37	**(9)**	362
Net cash (used in) provided by investing activities		**(15,609)**	15,796	**(15,804)**	8,963
Cash flows from financing activities					
Dividends paid to non-controlling interests		**(25)**	(56)	**–**	–
Interest paid on subordinated liabilities		**(2,354)**	(2,231)	**(1,694)**	(1,442)
Proceeds from issue of subordinated liabilities		**1,500**	–	**–**	–
Repayment of subordinated liabilities		**(5,048)**	(864)	**(3,539)**	(215)
Change in non-controlling shareholders		**–**	23	**–**	–
Net cash provided by financing activities		**(5,927)**	(3,128)	**(5,233)**	(1,657)
Effect of exchange rate changes on cash and cash equivalents		**(53)**	(8)	**(52)**	(5)
Change in cash and cash equivalents		**(34,261)**	15,169	**(30,617)**	16,159
Cash and cash equivalents at beginning of year		**101,058**	85,889	**75,108**	58,949
Cash and cash equivalents at end of year	56(d)	**66,797**	101,058	**44,491**	75,108

[1]Restated – see note 1.

The accompanying notes are an integral part of the financial statements.

Notes to the accounts

1 Basis of preparation

The financial statements of Lloyds Bank plc have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) as applied in accordance with the provisions of the Companies Act 2006. IFRS comprises accounting standards prefixed IFRS issued by the International Accounting Standards Board (IASB) and those prefixed IAS issued by the IASB's predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor body. The EU endorsed version of IAS 39 Financial Instruments: Recognition and Measurement relaxes some of the hedge accounting requirements; the Group has not taken advantage of this relaxation, and therefore there is no difference in application to the Group between IFRS as adopted by the EU and IFRS as issued by the IASB. The financial information has been prepared under the historical cost convention, as modified by the revaluation of investment properties, available-for-sale financial assets, trading securities and certain other financial assets and liabilities at fair value through profit or loss and all derivative contracts.

The going concern of the Bank and the Group is dependent on successfully funding their respective balance sheets and maintaining adequate levels of capital. In order to satisfy themselves that the Bank and the Group have adequate resources to continue to operate for the foreseeable future, the directors have considered a number of key dependencies which are set out in the Principal risks and uncertainties section under Funding and liquidity on page 5 and additionally have considered projections for the Group's capital and funding position. Taking all of these factors into account, the directors consider that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

The Group has adopted the following new standards and amendments to standards which became effective for financial years beginning on or after 1 January 2013:

Changes in accounting policy

(i) IFRS 10 Consolidated Financial Statements

IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities* and establishes the principles for when the Group controls another entity and is therefore required to consolidate the other entity in the Group's financial statements. Under IFRS 10, the Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through the exercise of power. As a result, the Group consolidates certain entities that were not previously consolidated and no longer consolidates certain entities which were previously consolidated, principally in relation to Open Ended Investment Companies. The Group has applied IFRS 10 retrospectively and restated its comparatives in accordance with the transitional provisions included in the standard. These provisions require the Group to re-assess its control conclusions as at 1 January 2013 and restate its comparative information, applying the revised assessment in 2012 to the extent that the relevant investments were held in that year. Details of the impact of these restatements are provided in note 57 to the financial statements.

(ii) Revised IAS 19 Employee Benefits (IAS 19R)

IAS 19R prescribes the accounting and disclosure by employers for employee benefits. Actuarial gains and losses (remeasurements) arising from the valuation of defined benefit pension schemes are no longer permitted to be deferred using the corridor approach and must be recognised immediately in other comprehensive income. In addition, IAS 19R also replaces interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). IAS 19R has been applied retrospectively and comparative figures restated accordingly. Details of the impact of these restatements are provided in note 57 to the financial statements.

The impact of the implementation of IAS 19R on the Group's results for the year ended 31 December 2013 has been to decrease other operating expenses by £28 million and increase profit before tax by the same amount. The impact on the balance sheet at 31 December 2013 has been to increase the net retirement benefit liability by £2,817 million, to increase deferred tax assets by £648 million and to reduce shareholders' equity by £2,169 million.

(iii) IFRS 13 Fair Value Measurement

IFRS 13 has been applied with effect from 1 January 2013. IFRS 13 defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. IFRS 13 requires that the fair value of a non-financial asset is determined based on the highest and best use of the asset, and that the fair value of a liability reflects its non-performance risk. These changes had no significant impact on the measurement of the Group's assets and liabilities. The IFRS 13 disclosures are given in notes 53 (financial instruments), 25 (investment properties) and 15 (disposal groups, in respect of assets held for sale measured at fair value) to the financial statements.

Other presentation and disclosure changes

In addition to the accounting policy changes discussed above, on 1 January 2013 the Group adopted the following new standards and amendments to standards which impact the presentation and disclosures in these financial statements; none of these standards has had a material impact on the primary financial statements.

– Amendments to IAS 1 *Presentation of Financial Statements – 'Presentation of Items of Other Comprehensive Income'*
  The amendments to IAS 1 require entities to group items presented in other comprehensive income on the basis of whether they may potentially be reclassified to profit or loss subsequently. The statement of other comprehensive income in these financial statements has been revised to reflect the new requirements.

– Amendments to IFRS 7 *Financial Instruments: Disclosures – 'Disclosures - Offsetting Financial Assets and Financial Liabilities'*
  The amendments to IFRS 7 require entities to disclose information to enable users of the financial statements to evaluate the effect or potential effect of netting arrangements on the balance sheet. These disclosures are given in note 53 to the financial statements.

– IFRS 12 *Disclosure of Interests in Other Entities*
  IFRS 12 requires an entity to disclose information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. These disclosures are made in the notes to these financial statements.

Details of those IFRS pronouncements which will be relevant to the Group but which were not effective at 31 December 2013 and which have not been applied in preparing these financial statements are given in note 58.

2 Accounting policies

The accounting policies are set out below. These accounting policies have been applied consistently.

a Consolidation
The assets, liabilities and results of Group undertakings (including structured entities) are included in the financial statements on the basis of accounts made up to the reporting date. Group undertakings include subsidiaries, associates and joint ventures.

(1) Subsidiaries
Subsidiaries are entities controlled by the Group. The Group controls an entity when it has power over the entity, is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through the exercise of its power. This generally accompanies a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to any of the above elements. Subsidiaries are fully consolidated from the date on which control is transferred to the Group; they are de-consolidated from the date that control ceases. Details of the principal subsidiaries are given in note 30.

The Group consolidates collective investment vehicles if its beneficial ownership interests give it substantive rights to remove the external fund manager over the investment activities of the fund. Where a subsidiary of the Group is the fund manager of a collective investment vehicle, the Group considers a number of factors in determining whether it acts as principal and therefore controls the collective investment vehicle including: an assessment of the scope of the Group's decision making authority over the investment vehicle; the rights held by other parties including substantive removal rights without cause over the Group acting as fund manager; the remuneration to which the Group is entitled in its capacity as decision maker; and the Group's exposure to variable returns from the beneficial interest it holds in the investment vehicle. Consolidation may be appropriate in circumstances where the Group has less than a majority beneficial interest. Where a collective investment vehicle is consolidated the interests of parties other than the Group are reported in other liabilities.

Structured entities are entities that are designed so that their activities are not governed by way of voting rights. In assessing whether the Group has power over such entities in which it has an interest, the Group considers factors such as the purpose and design of the entity; its practical ability to direct the relevant activities of the entity; the nature of the relationship with the entity; and the size of its exposure to the variability of returns of the entity.

The treatment of transactions with non-controlling interests depends on whether, as a result of the transaction, the Group loses control of the subsidiary. Changes in the parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions; any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent entity. Where the group loses control of the subsidiary, at the date when control is lost the amount of any non-controlling interest in that former subsidiary is derecognised and any investment retained in the former subsidiary is remeasured to its fair value; the gain or loss that is recognised in profit or loss on the partial disposal of the subsidiary includes the gain or loss on the remeasurement of the retained interest.

Intercompany transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred except those relating to the issuance of debt instruments (see 2e(5)) or share capital (see 2r(1)). Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair value at the acquisition date.

(2) Joint ventures and associates
Joint ventures are entities over which the Group has joint control under a contractual arrangement with other parties. Associates are entities over which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is the power to participate in the financial and operating policy decisions of the entity and is normally achieved through holding between 20 per cent and 50 per cent of the voting share capital of the entity.

The Group utilises the venture capital exemption for investments where significant influence or joint control is present and the business unit operates as a venture capital business. These investments are designated at initial recognition at fair value through profit or loss. Otherwise, the Group's investments in joint ventures and associates are accounted for by the equity method of accounting and are initially recorded at cost and adjusted each year to reflect the Group's share of the post-acquisition results of the joint venture or associate based on audited accounts which are coterminous with the Group or made up to a date which is not more than three months before the Group's reporting date. The share of any losses is restricted to a level that reflects an obligation to fund such losses.

b Goodwill
Goodwill arises on business combinations, including the acquisition of subsidiaries, and on the acquisition of interests in joint ventures and associates; goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired. Where the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired entity is greater than the cost of acquisition, the excess is recognised immediately in the income statement.

Goodwill is recognised as an asset at cost and is tested at least annually for impairment. If an impairment is identified the carrying value of the goodwill is written down immediately through the income statement and is not subsequently reversed. Goodwill arising on acquisitions of associates and joint ventures is included in the Group's investment in joint ventures and associates. At the date of disposal of a subsidiary, the carrying value of attributable goodwill is included in the calculation of the profit or loss on disposal except where it has been written off directly to reserves in the past.

2 Accounting policies (continued)

c Other intangible assets
Other intangible assets include brands, core deposit intangible, purchased credit card relationships, customer-related intangibles and both internally and externally generated capitalised software enhancements. Intangible assets which have been determined to have a finite useful life are amortised on a straight line basis over their estimated useful life as follows:

Capitalised software enhancements	up to 7 years
Brands (which have been assessed as having finite lives)	10-15 years
Customer-related intangibles	up to 10 years
Core deposit intangible	up to 8 years
Purchased credit card relationships	5 years

Intangible assets with finite useful lives are reviewed at each reporting date to assess whether there is any indication that they are impaired. If any such indication exists the recoverable amount of the asset is determined and in the event that the asset's carrying amount is greater than its recoverable amount, it is written down immediately. Certain brands have been determined to have an indefinite useful life and are not amortised. Such intangible assets are reassessed annually to reconfirm that an indefinite useful life remains appropriate. In the event that an indefinite life is inappropriate a finite life is determined and an impairment review is performed on the asset.

d Revenue recognition
Interest income and expense are recognised in the income statement for all interest-bearing financial instruments, except for those classified at fair value through profit or loss, using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

The effective interest rate is calculated on initial recognition of the financial asset or liability by estimating the future cash flows after considering all the contractual terms of the instrument but not future credit losses. The calculation includes all amounts expected to be paid or received by the Group including expected early redemption fees and related penalties and premiums and discounts that are an integral part of the overall return. Direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument are also taken into account in the calculation. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss (see h below).

Fees and commissions which are not an integral part of the effective interest rate are generally recognised when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan once drawn. Where it is unlikely that loan commitments will be drawn, loan commitment fees are recognised over the life of the facility. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group retains no part of the loan package for itself or retains a part at the same effective interest rate for all interest-bearing financial instruments, including loans and advances, as for the other participants.

Dividend income is recognised when the right to receive payment is established.

Revenue recognition policies specific to life insurance and general insurance business are detailed below (see o below); those relating to leases are set out in k(2) below.

e Financial assets and liabilities
On initial recognition, financial assets are classified into fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments or loans and receivables. Financial liabilities are measured at amortised cost, except for trading liabilities and other financial liabilities designated at fair value through profit or loss on initial recognition which are held at fair value. The Group initially recognises loans and receivables, deposits, debt securities in issue and subordinated liabilities when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of securities and other financial assets and trading liabilities are recognised on trade date, being the date that the Group is committed to purchase or sell an asset.

Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when the Group has transferred its contractual right to receive the cash flows from the assets and either:

– substantially all of the risks and rewards of ownership have been transferred; or
– the Group has neither retained nor transferred substantially all of the risks and rewards, but has transferred control.

Financial liabilities are derecognised when they are extinguished (ie when the obligation is discharged), cancelled or expire.

(1) Financial instruments at fair value through profit or loss
Financial instruments are classified at fair value through profit or loss where they are trading securities or where they are designated at fair value through profit or loss by management. Derivatives are carried at fair value (see f below).

Trading securities are debt securities and equity shares acquired principally for the purpose of selling in the short term or which are part of a portfolio which is managed for short-term gains. Such securities are classified as trading securities and recognised in the balance sheet at their fair value. Gains and losses arising from changes in their fair value together with interest coupons and dividend income are recognised in the income statement within net trading income in the period in which they occur.

Other financial assets and liabilities at fair value through profit or loss are designated as such by management upon initial recognition. Such assets and liabilities are carried in the balance sheet at their fair value and gains and losses arising from changes in fair value together with interest coupons and dividend income are recognised in the income statement within net trading income in the period in which they occur. Financial assets and liabilities are designated at fair value through profit or loss on acquisition in the following circumstances:

2 Accounting policies (continued)

- it eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets and liabilities or recognising gains or losses on different bases. The main type of financial assets designated by the Group at fair value through profit or loss are assets backing insurance contracts and investment contracts issued by the Group's life insurance businesses. Fair value designation allows changes in the fair value of these assets to be recorded in the income statement along with the changes in the value of the associated liabilities, thereby significantly reducing the measurement inconsistency had the assets been classified as available-for-sale financial assets.
- the assets and liabilities are part of a group which is managed, and its performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, with management information also prepared on this basis. As noted in a(2) above, certain of the Group's investments are managed as venture capital investments and evaluated on the basis of their fair value and these assets are designated at fair value through profit or loss.
- where the assets and liabilities contain one or more embedded derivatives that significantly modify the cash flows arising under the contract and would otherwise need to be separately accounted for.

The fair values of assets and liabilities traded in active markets are based on current bid and offer prices respectively. If the market is not active the Group establishes a fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Refer to note 3 (Critical accounting estimates and judgements: Fair value of financial instruments) and note 53(3) (Financial instruments: Fair values of financial assets and liabilities) for details of valuation techniques and significant inputs to valuation models.

The Group is permitted to reclassify, at fair value at the date of transfer, non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the trading category if they are no longer held for the purpose of being sold or repurchased in the near term, as follows:

- if the financial assets would have met the definition of loans and receivables (but for the fact that they had to be classified as held for trading at initial recognition), they may be reclassified into loans and receivables where the Group has the intention and ability to hold the assets for the foreseeable future or until maturity; or
- if the financial assets would not have met the definition of loans and receivables, they may be reclassified out of the held for trading category into available-for-sale financial assets in 'rare circumstances'.

(2) Available-for-sale financial assets
Debt securities and equity shares that are not classified as trading securities, at fair value through profit or loss, held-to-maturity investments or as loans and receivables are classified as available-for-sale financial assets and are recognised in the balance sheet at their fair value, inclusive of transaction costs. Available-for-sale financial assets are those intended to be held for an indeterminate period of time and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Gains and losses arising from changes in the fair value of investments classified as available-for-sale are recognised directly in other comprehensive income, until the financial asset is either sold, becomes impaired or matures, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement. Interest calculated using the effective interest method and foreign exchange gains and losses on debt securities denominated in foreign currencies are recognised in the income statement.

The Group is permitted to transfer a financial asset from the available-for-sale category to the loans and receivables category where that asset would have met the definition of loans and receivables at the time of reclassification (if the financial asset had not been designated as available-for-sale) and where there is both the intention and ability to hold that financial asset for the foreseeable future. Reclassification of a financial asset from the available-for-sale category to the held-to-maturity category is permitted when the Group has the ability and intent to hold that financial asset to maturity.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable. Effective interest rates for financial assets reclassified to the loans and receivables and held-to-maturity categories are determined at the reclassification date. Any previous gain or loss on a transferred asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest method or until the asset becomes impaired. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest method.

When an impairment loss is recognised in respect of available-for-sale assets transferred, the unamortised balance of any available-for-sale reserve that remains in equity is transferred to the income statement and recorded as part of the impairment loss.

(3) Loans and receivables
Loans and receivables include loans and advances to banks and customers and eligible assets including those transferred into this category out of the fair value through profit or loss or available-for-sale financial assets categories. Loans and receivables are initially recognised when cash is advanced to the borrowers at fair value inclusive of transaction costs or, for eligible assets transferred into this category, their fair value at the date of transfer. Financial assets classified as loans and receivables are accounted for at amortised cost using the effective interest method (see d above) less provision for impairment (see h below).

The Group has entered into securitisation and similar transactions to finance certain loans and advances to customers. In cases where the securitisation vehicles are funded by the issue of debt, on terms whereby the majority of the risks and rewards of the portfolio of securitised lending are retained by the Group, these loans and advances continue to be recognised by the Group, together with a corresponding liability for the funding.

(4) Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity other than:

- those that the Group designates upon initial recognition as at fair value through profit or loss;
- those that the Group designates as available-for-sale; and
- those that meet the definition of loans and receivables.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method, less any provision for impairment.

A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments to available-for-sale financial assets.

2 Accounting policies (continued)

(5) Borrowings
Borrowings (which include deposits from banks, customer deposits, debt securities in issue and subordinated liabilities) are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. These instruments are subsequently stated at amortised cost using the effective interest method.

Preference shares and other instruments which carry a mandatory coupon or are redeemable on a specific date are classified as financial liabilities. The coupon on these instruments is recognised in the income statement as interest expense.

An exchange of financial liabilities on substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of a financial liability extinguished and the new financial liability is recognised in profit or loss together with any related costs or fees incurred.

When a financial liability is exchanged for an equity instrument, the new equity instrument is recognised at fair value and any difference between the original carrying value of the liability and the fair value of the new equity is recognised in the profit or loss together with any related costs or fees incurred.

(6) Sale and repurchase agreements
Securities sold subject to repurchase agreements (repos) continue to be recognised on the balance sheet where substantially all of the risks and rewards are retained. Funds received under these arrangements are included in deposits from banks, customer deposits, or trading liabilities. Conversely, securities purchased under agreements to resell (reverse repos), where the Group does not acquire substantially all of the risks and rewards of ownership, are recorded as loans and receivables or trading securities. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities borrowing and lending transactions are typically secured; collateral takes the form of securities or cash advanced or received. Securities lent to counterparties are retained on the balance sheet. Securities borrowed are not recognised on the balance sheet, unless these are sold to third parties, in which case the obligation to return them is recorded at fair value as a trading liability. Cash collateral given or received is treated as a loan and receivable or customer deposit.

f Derivative financial instruments and hedge accounting
All derivatives are recognised at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and using valuation techniques, including discounted cash flow and option pricing models, as appropriate. Derivatives are carried in the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative. Refer to note 3 (Critical accounting estimates and judgements: Fair value of financial instruments) and note 53(3) (Financial instruments: Fair values of financial assets and liabilities) for details of valuation techniques and significant inputs to valuation models.

Changes in the fair value of any derivative instrument that is not part of a hedging relationship are recognised immediately in the income statement.

Derivatives embedded in financial instruments and insurance contracts (unless the embedded derivative is itself an insurance contract) are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. In accordance with IFRS 4 Insurance Contracts, a policyholder's option to surrender an insurance contract for a fixed amount is not treated as an embedded derivative.

The method of recognising the movements in the fair value of derivatives depends on whether they are designated as hedging instruments and, if so, the nature of the item being hedged. Hedge accounting allows one financial instrument, generally a derivative such as a swap, to be designated as a hedge of another financial instrument such as a loan or deposit or a portfolio of such instruments. At the inception of the hedge relationship, formal documentation is drawn up specifying the hedging strategy, the hedged item and the hedging instrument and the methodology that will be used to measure the effectiveness of the hedge relationship in offsetting changes in the fair value or cash flow of the hedged risk. The effectiveness of the hedging relationship is tested both at inception and throughout its life and if at any point it is concluded that it is no longer highly effective in achieving its documented objective, hedge accounting is discontinued.

The Group designates certain derivatives as either: (1) hedges of the fair value of the particular risks inherent in recognised assets or liabilities (fair value hedges); (2) hedges of highly probable future cash flows attributable to recognised assets or liabilities (cash flow hedges); or (3) hedges of net investments in foreign operations (net investment hedges). These are accounted for as follows:

(1) Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk; this also applies if the hedged asset is classified as an available-for-sale financial asset. If the hedge no longer meets the criteria for hedge accounting, changes in the fair value of the hedged item attributable to the hedged risk are no longer recognised in the income statement. The cumulative adjustment that has been made to the carrying amount of the hedged item is amortised to the income statement using the effective interest method over the period to maturity.

(2) Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income in the cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are reclassified to the income statement in the periods in which the hedged item affects profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the income statement when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(3) Net investment hedges
Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income, the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of. The hedging instruments used in net investment hedges may include non-derivative liabilities as well as derivative financial instruments.

2 Accounting policies (continued)

g Offset

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right of set-off and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. In certain situations, even though master netting agreements exist, the lack of management intention to settle on a net basis results in the financial assets and liabilities being reported gross on the balance sheet.

h Impairment of financial assets

(1) Assets accounted for at amortised cost

At each balance sheet date the Group assesses whether, as a result of one or more events occurring after initial recognition of the financial asset and prior to the balance sheet date, there is objective evidence that a financial asset or group of financial assets has become impaired.

Where such an event has had an impact on the estimated future cash flows of the financial asset or group of financial assets, an impairment allowance is recognised. The amount of impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. If the asset has a variable rate of interest, the discount rate used for measuring the impairment allowance is the current effective interest rate.

Subsequent to the recognition of an impairment loss on a financial asset or a group of financial assets, interest income continues to be recognised on an effective interest rate basis, on the asset's carrying value net of impairment provisions. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, such as an improvement in the borrower's credit rating, the allowance is adjusted and the amount of the reversal is recognised in the income statement.

Impairment allowances are assessed individually for financial assets that are individually significant. Such individual assessment is used primarily for the Group's wholesale lending portfolios in the Commercial Banking and Wealth, Asset Finance and International divisions. Impairment allowances for portfolios of smaller balance homogenous loans such as most residential mortgages, personal loans and credit card balances in the Group's retail portfolios in both the Retail and Wealth, Asset Finance and International divisions that are below the individual assessment thresholds, and for loan losses that have been incurred but not separately identified at the balance sheet date, are determined on a collective basis.

Individual assessment

In respect of individually significant financial assets in the Group's wholesale lending portfolios, assets are reviewed on a regular basis and those showing potential or actual vulnerability are placed on a watch list where greater monitoring is undertaken and any adverse or potentially adverse impact on ability to repay is used in assessing whether an asset should be transferred to a dedicated Business Support Unit. Specific examples of trigger events that would lead to the initial recognition of impairment allowances against lending to corporate borrowers (or the recognition of additional impairment allowances) include (i) trading losses, loss of business or major customer of a borrower; (ii) material breaches of the terms and conditions of a loan facility, including non-payment of interest or principal, or a fall in the value of security such that it is no longer considered adequate; (iii) disappearance of an active market because of financial difficulties; or (iv) restructuring a facility with preferential terms to aid recovery of the lending (such as a debt for equity swap).

For such individually identified financial assets, a review is undertaken of the expected future cash flows which requires significant management judgement as to the amount and timing of such cash flows. Where the debt is secured, the assessment reflects the expected cash flows from the realisation of the security, net of costs to realise, whether or not foreclosure or realisation of the collateral is probable.

For impaired debt instruments which are held at amortised cost, impairment losses are recognised in subsequent periods when it is determined that there has been a further negative impact on expected future cash flows. A reduction in fair value caused by general widening of credit spreads would not, of itself, result in additional impairment.

Collective assessment

Impairment is assessed on a collective basis for (1) homogenous groups of loans that are not considered individually impaired; and (2) to cover losses which have been incurred but have not yet been identified on loans subject to individual impairment.

Homogenous groups of loans

In respect of portfolios of smaller balance, homogenous loans, or otherwise where there is no objective evidence of individual impairment, the asset is included in a group of financial assets with similar risk characteristics and collectively assessed for impairment. Segmentation takes into account factors, such as the type of asset, industry sector, geographical location, collateral type, past-due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets as they are indicative of the borrower's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Generally, the impairment trigger used within the impairment calculation for a loan, or group of loans, is when they reach a pre-defined level of delinquency or where the customer is bankrupt. Loans where the Group provides arrangements that forgive a portion of interest or principal are also deemed to be impaired and loans that are originated to refinance currently impaired assets are also defined as impaired.

In respect of the Group's secured mortgage portfolios, the impairment allowance is calculated based on a definition of impaired loans which are those six months or more in arrears (or in certain cases where the borrower is bankrupt or is in possession). The estimated cash flows are calculated based on historical experience and are dependent on estimates of the expected value of collateral which takes into account expected future movements in house prices, less costs to sell.

For unsecured personal lending portfolios, the impairment trigger is generally when the balance is two or more instalments in arrears or where the customer has exhibited one or more of the impairment characteristics set out above. While the trigger is based on the payment performance or circumstances of each individual asset, the assessment of future cash flows uses historical experience of cohorts of similar portfolios such that the assessment is considered to be collective. Future cash flows are estimated on the basis of the contractual cash flows of the assets in the cohort and historical loss experience for similar assets. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

Incurred but not yet identified impairment

The collective provision also includes provision for inherent losses, that is losses that have been incurred but have not been separately identified at the balance sheet date. The loans that are not currently recognised as impaired are grouped into homogenous portfolios by key risk drivers. Risk drivers for secured retail lending include the current indexed loan-to-value, previous mortgage arrears, internal cross-product delinquency data and external credit bureau data; for

2 Accounting policies (continued)

unsecured retail lending they include whether the account is up-to-date and, if not, the number of payments that have been missed; and for wholesale lending they include factors such as observed default rates and loss given default. An assessment is made of the likelihood of each account becoming recognised as impaired within the loss emergence period, with the economic loss that each portfolio is likely to generate were it to become impaired. The loss emergence period is determined by local management for each portfolio and the Group has a range of loss emergence periods which are dependent upon the characteristics of the portfolios. Loss emergence periods are reviewed regularly and updated when appropriate. In general the periods used across the Group vary between one month and twelve months based on historical experience. Unsecured portfolios tend to have shorter loss emergence periods than secured portfolios.

Loan renegotiations and forbearance
In certain circumstances, the Group will renegotiate the original terms of a customer's loan, either as part of an ongoing customer relationship or in response to adverse changes in the circumstances of the borrower. Where the renegotiated payments of interest and principal will not recover the original carrying value of the asset, the asset continues to be reported as past due and is considered impaired. Where the renegotiated payments of interest and principal will recover the original carrying value of the asset, the loan is no longer reported as past due or impaired provided that payments are made in accordance with the revised terms. Renegotiation may lead to the loan and associated provision being derecognised and a new loan being recognised initially at fair value.

Write offs
A loan or advance is normally written off, either partially or in full, against the related allowance when the proceeds from realising any available security have been received or there is no realistic prospect of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the income statement. For both secured and unsecured retail balances, the write-off takes place only once an extensive set of collections processes has been completed, or the status of the account reaches a point where policy dictates that forbearance is no longer appropriate. For wholesale lending, a write-off occurs if the loan facility with the customer is restructured, the asset is under administration and the only monies that can be received are the amounts estimated by the administrator, the underlying assets are disposed and a decision is made that no further settlement monies will be received, or external evidence (for example, third party valuations) is available that there has been an irreversible decline in expected cash flows.

Debt for equity exchanges
Equity securities acquired in exchange for loans in order to achieve an orderly realisation are accounted for as a disposal of the loan and an acquisition of equity securities held as available-for-sale. Where control is obtained over an entity as a result of the transaction, the entity is consolidated; where the Group has significant influence over an entity as a result of the transaction, the investment is accounted for by the equity method of accounting (see (a) above). Any subsequent impairment of the assets or business acquired is treated as an impairment of the relevant asset or business and not as an impairment of the original instrument.

(2) Available-for-sale financial assets
The Group assesses, at each balance sheet date, whether there is objective evidence that an available-for-sale financial asset is impaired. In addition to the criteria for financial assets accounted for at amortised cost set out above, this assessment involves reviewing the current financial circumstances (including creditworthiness) and future prospects of the issuer assessing the future cash flows expected to be realised and, in the case of equity shares, considering whether there has been a significant or prolonged decline in the fair value of the asset below its cost. If an impairment loss has been incurred, the cumulative loss measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that asset previously recognised, is reclassified from equity to the income statement. For impaired debt instruments, impairment losses are recognised in subsequent periods when it is determined that there has been a further negative impact on expected future cash flows; a reduction in fair value caused by general widening of credit spreads would not, of itself, result in additional impairment. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, an amount not greater than the original impairment loss is credited to the income statement; any excess is taken to other comprehensive income. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

i Investment property
Investment property comprises freehold and long leasehold land and buildings that are held either to earn rental income or for capital appreciation or both. The Group's investment property primarily relates to property held for long-term rental yields and capital appreciation within the life insurance funds. Investment property is carried in the balance sheet at fair value, being the open market value as determined in accordance with the guidance published by the Royal Institution of Chartered Surveyors. If this information is not available, the Group uses alternative valuation methods such as discounted cash flow projections or recent prices. These valuations are reviewed at least annually by an independent valuation expert. Investment property being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value. Changes in fair value are recognised in the income statement as net trading income.

j Tangible fixed assets
Tangible fixed assets are included at cost less accumulated depreciation. The value of land (included in premises) is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the difference between the cost and the residual value over their estimated useful lives, as follows:

Premises (excluding land):

– Freehold/long and short leasehold premises: shorter of 50 years and the remaining period of the lease.
– Leasehold improvements: shorter of 10 years and, if lease renewal is not likely, the remaining period of the lease.

Equipment:

– Fixtures and furnishings: 10-20 years.
– Other equipment and motor vehicles: 2-8 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In the event that an asset's carrying amount is determined to be greater than its recoverable amount it is written down immediately. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

2 Accounting policies (continued)

k Leases

(1) As lessee

The leases entered into by the Group are primarily operating leases. Operating lease rentals payable are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the end of the lease period, any payment made to the lessor by way of penalty is recognised as an expense in the period of termination.

(2) As lessor

Assets leased to customers are classified as finance leases if the lease agreements transfer substantially all the risks and rewards of ownership to the lessee but not necessarily legal title. All other leases are classified as operating leases. When assets are subject to finance leases, the present value of the lease payments, together with any unguaranteed residual value, is recognised as a receivable, net of provisions, within loans and advances to banks and customers. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance lease income. Finance lease income is recognised in interest income over the term of the lease using the net investment method (before tax) so as to give a constant rate of return on the net investment in the leases. Unguaranteed residual values are reviewed regularly to identify any impairment.

Operating lease assets are included within tangible fixed assets at cost and depreciated over their estimated useful lives, which equates to the lives of the leases, after taking into account anticipated residual values. Operating lease rental income is recognised on a straight-line basis over the life of the lease.

The Group evaluates non-lease arrangements such as outsourcing and similar contracts to determine if they contain a lease which is then accounted for separately.

l Employee benefits

Short-term employee benefits, such as salaries, paid absences, performance-based cash awards and social security costs are recognised over the period in which the employees provide the related services.

The Group operates a number of post-retirement benefit schemes for its employees including both defined benefit and defined contribution pension plans. A defined benefit scheme is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, dependent on one or more factors such as age, years of service and salary. A defined contribution plan is a pension plan into which the Group pays fixed contributions; there is no legal or constructive obligation to pay further contributions.

Full actuarial valuations of the Group's principal defined benefit schemes are carried out every three years with interim reviews in the intervening years; these valuations are updated to 31 December each year by qualified independent actuaries. For the purposes of these annual updates scheme assets are included at their fair value and scheme liabilities are measured on an actuarial basis using the projected unit credit method. The defined benefit scheme liabilities are discounted using rates equivalent to the market yields at the balance sheet date on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

The Group's income statement charge includes the current service cost of providing pension benefits, past service costs, net interest expense (income), and plan administration costs that are not deducted from the return on plan assets. Past service costs, which represents the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment, are recognised when the plan amendment or curtailment occurs. Net interest expense (income) is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Remeasurements, comprising actuarial gains and losses, the return on plan assets (excluding amounts included in net interest expense (income) and net of the cost of managing the plan assets), and the effect of changes to the asset ceiling (if applicable) are reflected immediately in the balance sheet with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurements recognised in other comprehensive income are reflected immediately in retained profits and will not subsequently be reclassified to profit or loss.

The Group's balance sheet includes the net surplus or deficit, being the difference between the fair value of scheme assets and the discounted value of scheme liabilities at the balance sheet date. Surpluses are only recognised to the extent that they are recoverable through reduced contributions in the future or through refunds from the schemes.

The costs of the Group's defined contribution plans are charged to the income statement in the period in which they fall due.

The accounting for share-based compensation is set out in (m) below.

m Share-based compensation

Lloyds Banking Group operates a number of equity-settled, share-based compensation plans in respect of services received from certain of its employees. The value of the employee services received in exchange for equity instruments granted under these plans is recognised as an expense over the vesting period of the instruments. This expense is determined by reference to the fair value of the number of equity instruments that are expected to vest. The fair value of equity instruments granted is based on market prices, if available, at the date of grant. In the absence of market prices, the fair value of the instruments at the date of grant is estimated using an appropriate valuation technique, such as a Black-Scholes option pricing model or a Monte Carlo simulation. The determination of fair values excludes the impact of any non-market vesting conditions, which are included in the assumptions used to estimate the number of options that are expected to vest. At each balance sheet date, this estimate is reassessed and if necessary revised. Any revision of the original estimate is recognised in the income statement together with a corresponding adjustment to equity. Cancellations by employees of contributions to the Group's Save As You Earn plans are treated as non-vesting conditions and the Group recognises, in the year of cancellation, the amount of the expense that would have otherwise been recognised over the remainder of the vesting period. Modifications are assessed at the date of modification and any incremental charges are charged to the income statement.

n Taxation

Current income tax which is payable on taxable profits is recognised as an expense in the period in which the profits arise.

For the Group's long-term insurance businesses, the tax charge is analysed between tax that is payable in respect of policyholders' returns and tax that is payable on shareholders' returns. This allocation is based on an assessment of the rates of tax which will be applied to the returns under current UK tax rules.

2 Accounting policies (continued)

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Income tax payable on profits is recognised as an expense in the period in which those profits arise. The tax effects of losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised. Deferred and current tax related to gains and losses on the fair value re-measurement of available-for-sale investments and cash flow hedges, where these gains and losses are recognised in other comprehensive income, is also recognised in other comprehensive income. Such tax is subsequently transferred to the income statement together with the gain or loss.

Deferred and current tax assets and liabilities are offset when they arise in the same tax reporting group and where there is both a legal right of offset and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

o Insurance
The Group undertakes both life insurance and general insurance business. Insurance and participating investment contracts are accounted for under IFRS 4 *Insurance Contracts*, which permits (with certain exceptions) the continuation of accounting practices for measuring insurance and participating investment contracts that applied prior to the adoption of IFRS. The Group, therefore, continues to account for these products using UK GAAP, including FRS 27 *Life Assurance*, and UK established practice.

Products sold by the life insurance business are classified into three categories:

– Insurance contracts – these contracts transfer significant insurance risk and may also transfer financial risk. The Group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event which are significantly more than the benefits payable if the insured event were not to occur. These contracts may or may not include discretionary participation features.
– Investment contracts containing a discretionary participation feature ('participating investment contracts') – these contracts do not transfer significant insurance risk, but contain a contractual right which gives the holder the right to receive, in addition to the guaranteed benefits, further additional discretionary benefits or bonuses that are likely to be a significant proportion of the total contractual benefits and the amount and timing of which is at the discretion of the Group, within the constraints of the terms and conditions of the instrument and based upon the performance of specified assets.
– Non-participating investment contracts – these contracts do not transfer significant insurance risk or contain a discretionary participation feature.

The general insurance business issues only insurance contracts.

(1) Life insurance business
(i) Accounting for insurance and participating investment contracts
Premiums and claims
Premiums received in respect of insurance and participating investment contracts are recognised as revenue when due except for unit-linked contracts on which premiums are recognised as revenue when received. Claims are recorded as an expense on the earlier of the maturity date or the date on which the claim is notified.

Liabilities
– *Insurance and participating investment contracts in the Group's with-profit funds*
Liabilities of the Group's with-profit funds, including guarantees and options embedded within products written by these funds, are stated at their realistic values in accordance with the Financial Services Authority's realistic capital regime, except that projected transfers out of the funds into other Group funds are recorded in the unallocated surplus (see below). Changes in the value of these liabilities are recognised in the income statement through insurance claims.

– *Insurance and participating investment contracts which are not unit-linked or in the Group's with-profit funds*
A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liability is calculated by estimating the future cash flows over the duration of in-force policies and discounting them back to the valuation date allowing for probabilities of occurrence. The liability will vary with movements in interest rates and with the cost of life insurance and annuity benefits where future mortality is uncertain.

Assumptions are made in respect of all material factors affecting future cash flows, including future interest rates, mortality and costs.

Changes in the value of these liabilities are recognised in the income statement through insurance claims.

– *Insurance and participating investment contracts which are unit-linked*
Liabilities for unit-linked insurance contracts and participating investment contracts are stated at the bid value of units plus an additional allowance where appropriate (such as for any excess of future expenses over charges). The liability is increased or reduced by the change in the unit prices and is reduced by policy administration fees, mortality and surrender charges and any withdrawals. Changes in the value of the liability are recognised in the income statement through insurance claims. Benefit claims in excess of the account balances incurred in the period are also charged through insurance claims. Revenue consists of fees deducted for mortality, policy administration and surrender charges.

Unallocated surplus
Any amounts in the with-profit funds not yet determined as being due to policyholders or shareholders are recognised as an unallocated surplus which is shown separately from liabilities arising from insurance contracts and participating investment contracts.

(ii) Accounting for non-participating investment contracts
The Group's non-participating investment contracts are primarily unit-linked. These contracts are accounted for as financial liabilities whose value is contractually linked to the fair values of financial assets within the Group's unitised investment funds. The value of the unit-linked financial liabilities is determined using current unit prices multiplied by the number of units attributed to the contract holders at the balance sheet date. Their value is never less than the amount payable on surrender, discounted for the required notice period where applicable. Investment returns (including movements in fair value and investment income) allocated to those contracts are recognised in insurance claims.

2 Accounting policies (continued)

Deposits and withdrawals are not accounted for through the income statement but are accounted for directly in the balance sheet as adjustments to the non-participating investment contract liability.

The Group receives investment management fees in the form of an initial adjustment or charge to the amount invested. These fees are in respect of services rendered in conjunction with the issue and management of investment contracts where the Group actively manages the consideration received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the contract. These services comprise an indeterminate number of acts over the lives of the individual contracts and, therefore, the Group defers these fees and recognises them over the estimated lives of the contracts, in line with the provision of investment management services.

Costs which are directly attributable and incremental to securing new non-participating investment contracts are deferred. This asset is subsequently amortised over the period of the provision of investment management services and is reviewed for impairment in circumstances where its carrying amount may not be recoverable. If the asset is greater than its recoverable amount it is written down immediately through fee and commission expense in the income statement. All other costs are recognised as expenses when incurred.

(iii) Value of in-force business
The Group recognises as an asset the value of in-force business in respect of insurance contracts and participating investment contracts. The asset represents the present value of the shareholders' interest in the profits expected to emerge from those contracts written at the balance sheet date. This is determined after making appropriate assumptions about future economic and operating conditions such as future mortality and persistency rates and includes allowances for both non-market risk and for the realistic value of financial options and guarantees. Each cash flow is valued using the discount rate consistent with that applied to such a cash flow in the capital markets. The asset in the consolidated balance sheet is presented gross of attributable tax and movements in the asset are reflected within other operating income in the income statement.

The Group's contractual rights to benefits from providing investment management services in relation to non-participating investment contracts acquired in business combinations and portfolio transfers are measured at fair value at the date of acquisition. The resulting asset is amortised over the estimated lives of the contracts. At each reporting date an assessment is made to determine if there is any indication of impairment. Where impairment exists, the carrying value of the asset is reduced to its recoverable amount and the impairment loss recognised in the income statement.

(2) General insurance business
The Group both underwrites and acts as intermediary in the sale of general insurance products. Underwriting premiums are included in insurance premium income, net of refunds, in the period in which insurance cover is provided to the customer; premiums received relating to future periods are deferred in the balance sheet within liabilities arising from insurance contracts and participating investment contracts and only credited to the income statement when earned. Broking commission is recognised when the underwriter accepts the risk of providing insurance cover to the customer. Where appropriate, provision is made for the effect of future policy terminations based upon past experience.

The underwriting business makes provision for the estimated cost of claims notified but not settled and claims incurred but not reported at the balance sheet date. The provision for the cost of claims notified but not settled is based upon a best estimate of the cost of settling the outstanding claims after taking into account all known facts. In those cases where there is insufficient information to determine the required provision, statistical techniques are used which take into account the cost of claims that have recently been settled and make assumptions about the future development of the outstanding cases. Similar statistical techniques are used to determine the provision for claims incurred but not reported at the balance sheet date. Claims liabilities are not discounted.

(3) Liability adequacy test
At each balance sheet date liability adequacy tests are performed to ensure the adequacy of insurance and participating investment contract liabilities net of related deferred cost assets and value of in-force business. In performing these tests current best estimates of discounted future contractual cash flows and claims handling and policy administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the income statement, initially by writing off the relevant assets and subsequently by establishing a provision for losses arising from liability adequacy tests.

(4) Reinsurance
Contracts entered into by the Group with reinsurers under which the Group is compensated for benefits payable on one or more contracts issued by the Group are recognised as assets arising from reinsurance contracts held. Where the underlying contracts issued by the Group are classified as insurance contracts and the reinsurance contract transfers significant insurance risk on those contracts to the reinsurer, the assets arising from reinsurance contracts held are classified as insurance contracts. Where the underlying contracts issued by the Group are classified as non-participating investment contracts and the reinsurance contract transfers financial risk on those contracts to the reinsurer, the assets arising from reinsurance contracts held are classified as non-participating investment contracts.

Assets arising from reinsurance contracts held – Classified as insurance contracts
Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured contracts and in accordance with the terms of each reinsurance contract and are regularly reviewed for impairment. Premiums payable for reinsurance contracts are recognised as an expense when due within insurance premium income. Changes in the reinsurance recoverable assets are recognised in the income statement through insurance claims.

Assets arising from reinsurance contracts held – Classified as non-participating investment contracts
These contracts are accounted for as financial assets whose value is contractually linked to the fair values of financial assets within the reinsurers' investment funds. Investment returns (including movements in fair value and investment income) allocated to these contracts are recognised in insurance claims. Deposits and withdrawals are not accounted for through the income statement but are accounted for directly in the balance sheet as adjustments to the assets arising from reinsurance contracts held.

p Foreign currency translation
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in sterling, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the appropriate functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when recognised in other comprehensive income as qualifying cash

2 Accounting policies (continued)

flow or net investment hedges. Non-monetary assets that are measured at fair value are translated using the exchange rate at the date that the fair value was determined. Translation differences on equities and similar non-monetary items held at fair value through profit and loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on available-for-sale non-monetary financial assets, such as equity shares, are included in the fair value reserve in equity unless the asset is a hedged item in a fair value hedge.

The results and financial position of all group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on the acquisition of a foreign entity, are translated into sterling at foreign exchange rates ruling at the balance sheet date.
– The income and expenses of foreign operations are translated into sterling at average exchange rates unless these do not approximate to the foreign exchange rates ruling at the dates of the transactions in which case income and expenses are translated at the dates of the transactions.

Foreign exchange differences arising on the translation of a foreign operation are recognised in other comprehensive income and accumulated in a separate component of equity together with exchange differences arising from the translation of borrowings and other currency instruments designated as hedges of such investments (see f(3) above). On disposal of a foreign operation, the cumulative amount of exchange differences relating to that foreign operation are reclassified from equity and included in determining the profit or loss arising on disposal.

q Provisions and contingent liabilities
Provisions are recognised in respect of present obligations arising from past events where it is probable that outflows of resources will be required to settle the obligations and they can be reliably estimated.

The Group recognises provisions in respect of vacant leasehold property where the unavoidable costs of the present obligations exceed anticipated rental income.

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are remote.

Provision is made for irrevocable undrawn loan commitments if it is probable that the facility will be drawn and result in the recognition of an asset at an amount less than the amount advanced.

r Share capital
(1) Share issue costs
Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(2) Dividends
Dividends paid on the Group's ordinary shares are recognised as a reduction in equity in the period in which they are paid.

s Cash and cash equivalents
For the purposes of the cash flow statement, cash and cash equivalents comprise cash and non-mandatory balances with central banks and amounts due from banks with a maturity of less than three months.

t Investment in subsidiaries
Investments in subsidiaries are carried at historical cost, less any provisions for impairment.

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3 Critical accounting estimates and judgements

The preparation of the financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions in applying the accounting policies that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The significant judgements made by management in applying accounting policies and the key sources of estimation uncertainty in these financial statements, which together are deemed critical to the results and financial position, are as follows.

Allowance for impairment losses on loans and receivables
At 31 December 2013 gross loans and receivables of the Group totalled £549,545 million (2012: £589,596 million) against which impairment allowances of £12,091 million (2012: £15,459 million) had been made and of the Bank totalled £436,424 million (2012: £432,492 million) against which impairment allowances of £2,299 million (2012: £3,238 million) had been made (see note 23). The Group's accounting policy for losses arising on financial assets classified as loans and receivables is described in note 2h; this note also provides an overview of the methodologies applied.

The allowance for impairment losses on loans and receivables is management's best estimate of losses incurred in the portfolio at the balance sheet date. Impairment allowances are made up of two components, those determined individually and those determined collectively.

Individual impairment allowances are generally established against wholesale lending portfolios. The determination of individual impairment allowances requires the exercise of considerable judgement by management involving matters such as local economic conditions and the resulting trading performance of the customer, and the value of the security held, for which there may not be a readily accessible market. In particular, significant judgement is required by management in the current economic environment in assessing the borrower's cash flows and debt servicing capability together with the realisable value of real estate collateral. The actual amount of the future cash flows and their timing may differ significantly from the assumptions made for the purposes of determining the impairment allowances and consequently these allowances can be subject to variation as time progresses and the circumstances of the customer become clearer.

3 Critical accounting estimates and judgements (continued)

Collective impairment allowances are generally established for smaller balance homogenous portfolios such as the retail portfolios. The collective impairment allowance is also subject to estimation uncertainty and in particular is sensitive to changes in economic and credit conditions, including the interdependency of house prices, unemployment rates, interest rates, borrowers' behaviour, and consumer bankruptcy trends. It is, however, inherently difficult to estimate how changes in one or more of these factors might impact the collective impairment allowance.

Given the relative size of the mortgage portfolio, a key variable is house prices which determine the collateral value supporting loans in such portfolios. The value of this collateral is estimated by applying changes in house price indices to the original assessed value of the property. If average house prices were ten per cent lower than those estimated at 31 December 2013, the impairment charge would increase by approximately £310 million for the Group and £35 million for the Bank in respect of UK mortgages and a further £36 million for the Group in respect of Irish mortgages.

In addition, a collective unimpaired provision is made for loan losses that have been incurred but have not been separately identified at the balance sheet date. This provision is sensitive to changes in the time between the loss event and the date the impairment is specifically identified. This period is known as the loss emergence period. In the wholesale business, an increase of one month in the loss emergence period in respect of the loan portfolio assessed for collective unimpaired provisions would result in an increase in the collective unimpaired provision of approximately £105 million for the Group and £48 million for the Bank (at 31 December 2012, a one month increase in the loss emergence period would have increased the collective unimpaired provision by an estimated £130 million for the Group and £42 million for the Bank).

Recoverability of deferred tax assets

At 31 December 2013, the Group carried deferred tax assets on its balance sheet of £5,132 million (2012: £4,929 million) and deferred tax liabilities of £3 million (2012: £327 million); the Bank carried deferred tax assets of £4,165 million (2012: £4,188 million) and deferred tax liabilities of £nil (2012: £nil). This presentation takes into account the ability of the Group and the Bank to net deferred tax assets and liabilities only where there is a legally enforceable right of offset. Note 42 presents deferred tax assets and liabilities by type. The largest category of deferred tax assets relates to tax losses carried forward.

The recoverability of the deferred tax assets in respect of carry forward losses is based on an assessment of future levels of taxable profit expected to arise that can be offset against these losses. The Group's and the Bank's expectations as to the level of future taxable profits take into account long-term financial and strategic plans, and anticipated future tax adjusting items.

In making this assessment account is taken of business plans, the five year board approved operating plan and the following future risk factors:

- The expected future economic outlook as set out in the Group Chief Executive's Review and Market Overview contained in the Annual Report of Lloyds Banking Group;
- The retail banking business disposal as required by the European Commission; and
- Future regulatory change.

Total deferred tax assets include £6,338 million (2012: £7,026 million) for the Group and £3,258 million (2012: £2,969 million) for the Bank in respect of trading losses carried forward. The tax losses have arisen in individual legal entities and will be used as future taxable profits arise in those legal entities, though substantially all of the unused tax losses for which a deferred tax asset has been recognised arise in Bank of Scotland plc and Lloyds Bank plc.

The deferred tax asset is expected to be utilised over different time periods in each of the entities in which the losses arise. Under current UK tax law there is no expiry date for unused tax losses. However, the losses are still expected to be fully utilised by 2019.

As disclosed in note 42, deferred tax assets totalling £803 million (2012: £1,311 million) for the Group and £2 million (2012: £26 million) for the Bank have not been recognised in respect of certain capital losses carried forward, trading losses carried forward and unrelieved foreign tax credits as there are no predicted future capital or taxable profits against which these losses can be recognised.

Retirement benefit obligations

The net liability recognised in the Group's balance sheet at 31 December 2013 in respect of retirement benefit obligations was £998 million (comprising an asset of £98 million and a liability of £1,096 million) (2012: £1,164 million comprising an asset of £741 million and a liability of £1,905 million), related to post-retirement defined benefit schemes. The net liability recognised in the Bank's balance sheet at 31 December 2013 in respect of the retirement benefit obligations was £413 million (2012: £1,118 million), comprising an asset of £nil million (2012: £3 million) and a liability of £413 million (2012: £1,121 million) related to post-retirement defined benefit schemes. The defined benefit pension schemes' net accounting deficit for the Group totalled £787 million (2012: £957 million), for the Bank there was a net accounting deficit of £281 million (2012: £989 million), representing the difference between the schemes' liabilities and the fair value of the related assets at the balance sheet date.

The value of the defined benefit pension schemes' liabilities requires management to make a number of assumptions. The key areas of estimation uncertainty are the discount rate applied to future cash flows and the expected lifetime of the schemes' members. The accounting surplus or deficit is sensitive to changes in the discount rate, which is affected by market conditions and therefore potentially subject to significant variation. The cost of the benefits payable by the schemes will also depend upon the longevity of the members. Assumptions are made regarding the expected lifetime of scheme members based upon recent experience and extrapolate the improving trend, however given the rate of advance in medical science and increasing levels of obesity, it is uncertain whether they will ultimately reflect actual experience.

The effect on the net accounting surplus or deficit and on the pension charge in the Group's income statement of changes to the principal actuarial assumptions are set out in note 41.

Valuation of assets and liabilities arising from life insurance business

At 31 December 2013, the Group recognised a value of in-force business asset of £4,874 million (2012: £5,488 million) and an acquired value of in-force business asset of £461 million (2012: £1,312 million). The value of in-force business asset represents the present value of future profits expected to arise from the portfolio of in-force life insurance and participating investment contracts. The acquired value of in-force business asset represents the contractual rights to benefits from providing investment management services in relation to non-participating investment contracts acquired in business combinations and portfolio transfers. The methodology used to value these assets is set out in note 27. The valuation or recoverability of these assets requires assumptions to be made about future economic and operating conditions which are inherently uncertain and changes could significantly affect the value attributed to these assets. The key assumptions that have been made in determining the carrying value of the value of in-force business assets at 31 December 2013 are set out in note 27.

3 Critical accounting estimates and judgements (continued)

At 31 December 2013, the Group carried liabilities arising from insurance contracts and participating investment contracts of £82,801 million (2012: £82,968 million). The methodology used to value these liabilities is described in note 36. Elements of the liability valuations require assumptions to be made about future investment returns, future mortality rates and future policyholder behaviour and are subject to significant management judgement and estimation uncertainty. The key assumptions that have been made in determining the carrying value of these liabilities are set out in note 36.

The effect on the Group's profit before tax and shareholders' equity of changes in key assumptions used in determining the life insurance assets and liabilities is set out in note 36.

Payment protection insurance and other regulatory provisions

At 31 December 2013, the Group carried provisions of £3,815 million (2012: £3,366 million) against the cost of making redress payments to customers and the related administration costs in connection with historic regulatory breaches, principally the misselling of payment protection insurance. Determining the amount of the provisions, which represent management's best estimate of the cost of settling these issues, requires the exercise of significant judgement. It will often be necessary to form a view on matters which are inherently uncertain, such as the number of future complaints, the extent to which they will be upheld and the average cost of redress. Consequently the continued appropriateness of the underlying assumptions is reviewed on a regular basis against actual experience and other relevant evidence and adjustments made to the provisions where appropriate.

Note 43 contains more detail on the nature of the assumptions that have been made and key sensitivities.

Fair value of financial instruments

In accordance with IFRS 7 *Financial Instruments: Disclosure*, the Group and the Bank categorise financial instruments carried on the balance sheet at fair value using a three level hierarchy. Financial instruments categorised as level 1 are valued using quoted market prices and therefore there is minimal judgement applied in determining fair value. However, the fair value of financial instruments categorised as level 2 and, in particular, level 3 is determined using valuation techniques including discounted cash flow analysis and valuation models. These valuation techniques involve management judgement and estimates, the extent of which depends on the complexity of the instrument and the availability of market observable information.

Valuation techniques for level 2 financial instruments use inputs that are largely based on observable market data. Level 3 financial instruments are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Determining the appropriate assumptions to be used for level 3 financial instruments requires significant management judgement.

At 31 December 2013, the Group classified £6,488 million of financial assets and £1,075 million of financial liabilities as level 3 (the Bank, £1,393 million and £973 million respectively). Further details of the level 3 financial instruments and the sensitivity of their valuation including the effect of applying reasonably possible alternative assumptions in determining their fair value are set out in note 53.

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4 Segmental analysis

The Lloyds Bank Group provides a wide range of banking and financial services in the UK and in certain locations overseas.

The Group Executive Committee of the Lloyds Banking Group has been determined to be the chief operating decision maker for the Group. The Group's operating segments reflect its organisational and management structures. The Group Executive Committee reviews the Group's internal reporting based around these segments in order to assess performance and allocate resources. This assessment includes a consideration of each segment's net interest revenue and consequently the total interest income and expense for all reportable segments is presented on a net basis. The segments are differentiated by the type of products provided, by whether the customers are individuals or corporate entities and by the geographical location of the customer.

Following the transfer of HBOS to the Group on 1 January 2010, all of the trading activities of the Lloyds Banking Group are carried out within the Group and, as a result, the chief operating decision maker reviews the Group's performance by considering that of the Lloyds Banking Group. The segmental results and comparatives are presented on an underlying basis, the basis reviewed by the chief operating decision maker.

The Group's activities are organised into four financial reporting segments: Retail; Commercial Banking; Wealth, Asset Finance and International; and Insurance.

Retail offers a broad range of retail financial service products in the UK, including current accounts, savings, personal loans, credit cards and mortgages. It is also a major general insurer and bancassurance distributor, selling a wide range of long-term savings, investment and general insurance products.

Commercial Banking provides banking and related services for all UK and multinational business clients, from small and medium-sized enterprises to major corporate and financial institutions.

Wealth, Asset Finance and International gives increased focus and momentum to the Group's private banking and asset management activities, closely co-ordinates the management of its international businesses and also encompasses the Asset Finance business. Wealth comprises the Group's private banking, wealth and asset management businesses in the UK and overseas. International comprises retail businesses, principally in Continental Europe.

Insurance provides long-term savings, protection and investment products distributed through the retail branch network, intermediary and direct channels in the UK. It is also a distributor of home insurance in the UK with products sold through the retail branch network, direct channels and strategic corporate partners. The business consists of Life, Pensions and Investments UK, Life, Pensions and Investments Europe, and General Insurance.

Other includes the costs of managing the Group's technology platforms, branch and head office property estate, operations (including payments, banking operations and collections) and sourcing, the costs of which are predominantly recharged to the other divisions. It also reflects other items not recharged to the divisions, including hedge ineffectiveness, UK bank levy, Financial Services Compensation Scheme costs, gains on liability management, volatile items such as hedge accounting volatility managed centrally and other gains from the structural hedging of interest rate risk.

Inter-segment services are generally recharged at cost, with the exception of the internal commission arrangements between the UK branch and other distribution networks and the insurance product manufacturing businesses within the Group, where a profit margin is also charged. Inter-segment lending and deposits are generally entered into at market rates, except that non-interest bearing balances are priced at a rate that reflects the external yield that could be earned on such funds.

4 Segmental analysis (continued)

For the majority of those derivative contracts entered into by business units for risk management purposes, the business unit recognises the net interest income or expense on an accrual accounting basis and transfers the remainder of the movement in the fair value of the derivative to the central group segment where the resulting accounting volatility is managed where possible through the establishment of hedge accounting relationships. Any change in fair value of the hedged instrument attributable to the hedged risk is also recorded within the central group segment. This allocation of the fair value of the swap and change in fair value of the hedged instrument attributable to the hedged risk avoids accounting asymmetry in segmental results and leads to accounting volatility in the central group segment where it is managed.

Year ended 31 December 2013	**Retail £m**	**Commercial Banking £m**	**Wealth, Asset Finance and International £m**	**Insurance £m**	**Group Operations and Central items £m**	**Reported basis total £m**
Net interest income	7,536	2,426	870	(103)	156	10,885
Other income (net of insurance claims)	1,410	2,708	1,809	1,880	113	7,920
Total underlying income, net of insurance claims	8,946	5,134	2,679	1,777	269	18,805
Total costs	(4,096)	(2,392)	(1,991)	(687)	(469)	(9,635)
Impairment	(1,101)	(1,167)	(730)	–	(6)	(3,004)
Underlying profit (loss)	3,749	1,575	(42)	1,090	(206)	6,166
External revenue	10,478	4,410	2,451	2,459	(993)	18,805
Inter-segment revenue	(1,532)	724	228	(682)	1,262	–
Segment revenue	8,946	5,134	2,679	1,777	269	18,805
Segment external assets	345,037	255,459	30,987	155,656	59,891	847,030
Segment customer deposits	268,974	126,534	45,772	–	31	441,311
Segment external liabilities	287,610	225,985	47,879	149,757	96,463	807,694
Other segment items reflected in income statement above:						
Depreciation and amortisation	302	191	818	136	98	1,545
(Decrease) increase in value of in-force business	–	–	(9)	425	–	416
Defined benefit scheme charges	108	47	33	12	199	399
Other segment items:						
Additions to tangible fixed assets	484	178	1,429	373	518	2,982
Investments in joint ventures and associates at end of year	24	62	11	–	4	101

4 Segmental analysis (continued)

Year ended 31 December 2012[1]	Retail £m	Commercial Banking £m	Wealth, Asset Finance and International £m	Insurance £m	Group Operations and Central items £m	Reported basis total £m
Net interest income	7,195	2,206	799	(78)	213	10,335
Other income (net of insurance claims)	1,462	2,932	2,043	1,929	(315)	8,051
Total underlying income, net of insurance claims	8,657	5,138	2,842	1,851	(102)	18,386
Total costs	(4,199)	(2,516)	(2,291)	(744)	(374)	(10,124)
Impairment	(1,270)	(2,946)	(1,480)	–	(1)	(5,697)
Underlying profit (loss)	3,188	(324)	(929)	1,107	(477)	2,565
External revenue	10,951	4,070	2,835	2,497	(1,967)	18,386
Inter-segment revenue	(2,294)	1,068	7	(646)	1,865	–
Segment revenue	8,657	5,138	2,842	1,851	(102)	18,386
Segment external assets	346,030	314,090	77,884	152,583	43,634	934,221
Segment customer deposits	260,838	114,115	51,885	–	74	426,912
Segment external liabilities	287,631	249,097	92,686	143,695	118,531	891,640
Other segment items reflected in income statement above:						
Depreciation and amortisation	345	219	815	95	90	1,564
(Decrease) increase in value of in-force business	–	–	(4)	273	–	269
Defined benefit scheme charges	103	54	36	23	(106)	110
Other segment items:						
Additions to tangible fixed assets	143	67	1,732	378	683	3,003
Investments in joint ventures and associates at end of year	185	113	6	–	9	313

[1]Restated – see note 1.

4 Segmental analysis (continued)

Year ended 31 December 2013	**Lloyds Bank Group statutory £m**	**Impact of other entities in the Lloyds Banking Group[1] £m**	**Removal of: Acquisition related and other items[2] £m**	**Volatility arising in insurance businesses £m**	**Insurance gross up £m**	**Legal and regulatory provisions[3] £m**	**Fair value unwind £m**	**Reported basis £m**
Net interest income	**6,990**	**348**	**(14)**	**–**	**2,930**	**–**	**631**	**10,885**
Other income, net of insurance claims	**11,720**	**(580)**	**460**	**(668)**	**(3,074)**	**–**	**62**	**7,920**
Total underlying income, net of insurance claims	**18,710**	**(232)**	**446**	**(668)**	**(144)**	**–**	**693**	**18,805**
Operating expenses	**(15,075)**	**(247)**	**2,041**	**–**	**144**	**3,455**	**47**	**(9,635)**
Impairment	**(2,741)**	**–**	**249**	**–**	**–**	**–**	**(512)**	**(3,004)**
Underlying profit (loss)	**894**	**(479)**	**2,736**	**(668)**	**–**	**3,455**	**228**	**6,166**

[1]This reflects the inclusion in the results reviewed by the chief operating decision maker of the Bank's fellow subsidiary undertakings and its parent undertaking, Lloyds Banking Group plc.

[2]Comprises the effects of asset sales (gain of £100 million), volatile items (loss of £678 million), liability management (loss of £142 million), Simplification costs related to severance, IT and business costs of implementation (£830 million), EC mandated retail business disposal costs (£687 million), the amortisation of purchased intangibles (£395 million) and the past service pensions charge (£104 million, see note 11).

[3]Comprises the payment protection insurance provision (£3,050 million) and other regulatory provisions (£405 million).

Year ended 31 December 2012[1]	Lloyds Bank Group statutory £m	Impact of other entities in the Lloyds Banking Group[2] £m	Removal of: Acquisition related and other items[3] £m	Volatility arising in insurance businesses £m	Insurance gross up £m	Legal and regulatory provisions[4] £m	Fair value unwind £m	Reported basis £m
Net interest income	7,398	320	(199)	(8)	2,587	–	237	10,335
Other income, net of insurance claims	13,008	(209)	(1,691)	(304)	(2,760)	50	(43)	8,051
Total underlying income, net of insurance claims	20,406	111	(1,890)	(312)	(173)	50	194	18,386
Operating expenses	(15,767)	(207)	1,478	–	173	4,175	24	(10,124)
Impairment	(5,149)	–	320	–	–	–	(868)	(5,697)
Underlying profit (loss)	(510)	(96)	(92)	(312)	–	4,225	(650)	2,565

[1]Restated – see note 1.

[2]This reflects the inclusion in the results reviewed by the chief operating decision maker of the Bank's fellow subsidiary undertakings and its parent undertaking, Lloyds Banking Group plc.

[3]Comprises the effects of asset sales (gain of £2,547 million), volatile items (loss of £748 million), liability management (loss of £229 million), Simplification costs related to severance, IT and business costs of implementation (£676 million), EC mandated retail business disposal costs (£570 million), the amortisation of purchased intangibles (£482 million) and the past service pensions credit (£250 million, see note 41).

[4]Comprises the payment protection insurance provision (£3,575 million) and other regulatory provisions (£650 million).

Following the continuing reduction in the Group's non-UK activities, an analysis between UK and non-UK activities is no longer provided.

5 Net interest income

	Weighted average effective interest rate			
	2013 %	2012[1] %	**2013 £m**	2012[1] £m
Interest and similar income:				
Loans and advances to customers	**4.02**	3.90	**20,132**	21,992
Loans and advances to banks	**0.45**	0.53	**457**	590
Debt securities held as loans and receivables	**1.52**	4.77	**32**	433
Interest receivable on loans and receivables	**3.42**	3.37	**20,621**	23,015
Available-for-sale financial assets	**1.92**	2.05	**746**	642
Held-to-maturity investments	**–**	2.80	**–**	288
Total interest and similar income	**3.33**	3.30	**21,367**	23,945
Interest and similar expense:				
Deposits from banks, excluding liabilities under sale and repurchase agreements	**0.65**	1.14	**(129)**	(324)
Customer deposits, excluding liabilities under sale and repurchase agreements	**1.87**	1.74	**(6,322)**	(6,968)
Debt securities in issue	**1.87**	2.03	**(2,293)**	(3,023)
Subordinated liabilities	**6.83**	8.99	**(2,463)**	(3,189)
Liabilities under sale and repurchase agreements	**1.21**	1.47	**(79)**	(245)
Interest payable on liabilities held at amortised cost	**2.15**	2.18	**(11,286)**	(13,749)
Other	**12.08**	8.90	**(3,091)**	(2,798)
Total interest and similar expense	**2.62**	2.50	**(14,377)**	(16,547)
Net interest income			**6,990**	7,398

[1]Restated – see note 1.

Included within interest and similar income is £901 million (2012: £1,133 million) in respect of impaired financial assets. Net interest income also includes a credit of £566 million (2012: a credit of £92 million) transferred from the cash flow hedging reserve (see note 47).

6 Net fee and commission income

	2013 £m	2012[1] £m
Fee and commission income:		
Current accounts	**973**	1,008
Credit and debit card fees	**984**	941
Other	**2,162**	2,702
Total fee and commission income	**4,119**	4,651
Fee and commission expense	**(1,383)**	(1,444)
Net fee and commission income	**2,736**	3,207

[1]Restated – see note 1.

Fees and commissions which are an integral part of the effective interest rate form part of net interest income shown in note 5. Fees and commissions relating to instruments that are held at fair value through profit or loss are included within net trading income shown in note 7.

7 Net trading income

	2013 £m	2012[1] £m
Foreign exchange translation gains (losses)	**139**	(225)
Gains on foreign exchange trading transactions	**238**	502
Total foreign exchange	**377**	277
Investment property gains (losses) (note 25)	**156**	(264)
Securities and other gains (see below)	**16,506**	15,255
Net trading income	**17,039**	15,268

Securities and other gains comprise net gains arising on assets and liabilities held at fair value through profit or loss and for trading as follows:

	2013 £m	2012[1] £m
Net income (expense) arising on assets held at fair value through profit or loss:		
Debt securities, loans and advances	**70**	4,042
Equity shares	**15,684**	10,848
Total net income arising on assets held at fair value through profit or loss	**15,754**	14,890
Net expense arising on liabilities held at fair value through profit or loss – debt securities in issue	**(92)**	(576)
Total net gains arising on assets and liabilities held at fair value through profit or loss	**15,662**	14,314
Net gains on financial instruments held for trading	**844**	941
Securities and other gains	**16,506**	15,255

[1]Restated – see note 1.

8 Insurance premium income

	2013 £m	2012 £m
Life insurance		
Gross premiums	**7,382**	7,391
Ceded reinsurance premiums	**(182)**	(222)
Net earned premiums	**7,200**	7,169
Non-life insurance		
Gross premiums written	**972**	1,081
Ceded reinsurance premiums	**(18)**	(31)
Net written premiums	**954**	1,050
Change in provision for unearned premiums (note 36(2))	**49**	72
Change in provision for ceded unearned premiums (note 36(2))	**(6)**	(7)
Net earned premiums	**997**	1,115
Total net earned premiums	**8,197**	8,284

Life insurance gross premiums can be further analysed as follows:

	2013 £m	2012 £m
Life and pensions	**6,823**	6,755
Annuities	**549**	630
Other	**10**	6
Gross premiums	**7,382**	7,391

Non-life insurance gross written premiums can be further analysed as follows:

	2013 £m	2012 £m
Credit protection	**141**	173
Home	**828**	904
Health	**3**	4
Gross written premiums	**972**	1,081

9 Other operating income

	2013 £m	2012 £m
Operating lease rental income	**1,120**	1,145
Rental income from investment properties (note 25)	**308**	389
Gains less losses on disposal of available-for-sale financial assets (note 47)	**629**	3,547
Movement in value of in-force business (note 27)	**416**	269
Liability management (losses) gains	**(142)**	(338)
Share of results of joint ventures and associates (note 13)	**43**	28
Other income	**881**	(395)
Total other operating income	**3,255**	4,645

Liability management gains

Losses of £142 million arose in 2013 on transactions undertaken as part of the Group's management of wholesale funding and capital.

During February 2012, the Group completed the exchange of certain subordinated debt securities issued by the HBOS group for new subordinated debt securities issued by Lloyds Bank plc by undertaking an exchange offer on certain securities which were eligible for call during 2012. This exchange resulted in a gain on the extinguishment of the existing securities of £59 million being the difference between the carrying amount of the securities extinguished and the fair value of the new securities issued together with related fees and costs. Additionally, during the second half of 2012 losses totalling £397 million arose on the buy-back of other debt securities.

Other

During 2013 the Group completed a number of disposals of assets and businesses, including:

- On 15 March 2013 the Group completed the sale of 102 million shares in St James's Place plc, reducing the Group's holding in that company to approximately 37 per cent. As a result of that reduction in holding the Group ceased to consolidate St James's Place plc in its accounts, instead accounting for the residual investment as an associate. The Group realised a gain of £394 million on the sale of those shares and the fair valuation of the Group's residual stake. Subsequently, on 29 May 2013 the Group completed the sale of a further 77 million shares, generating a profit of £39 million and on 13 December 2013 completed the sale of the remainder of its holding, generating a profit of £107 million.
- On 31 May 2013, the Group sold a portfolio of US RMBS (residential mortgage backed securities) for a cash consideration of £3.3 billion, realising a profit of £538 million.
- On 30 June 2013 the Group disposed of its Spanish retail banking operations, including Lloyds Bank International S.A.U and Lloyds Investment España SGIIC S.A.U, to Banco Sabadell, S.A. realising a loss of £256 million.
- On 31 December 2013, the Group completed the sale of its Australian operations (which principally comprise Capital Finance Australia Limited, a provider of motor and equipment asset finance, and BOS International (Australia) Limited, a corporate lending business) generating a profit on sale of £49 million.
- On 21 August 2013 the Group announced the sale of its German life insurance business, Heidelberger Lebensversicherung AG, with the sale expected to complete in the first quarter of 2014; an impairment of £382 million has been recognised in the year ended 31 December 2013.

10 Insurance claims

Insurance claims comprise:

	2013 £m	2012 £m
Life insurance and participating investment contracts		
Claims and surrenders:		
Gross	**(8,495)**	(8,719)
Reinsurers' share	**108**	185
	(8,387)	(8,534)
Change in insurance and participating investment contracts (note 36(1)):		
Change in gross liabilities	**(5,184)**	(4,284)
Change in assets arising from reinsurance contracts held	**(48)**	(186)
	(5,232)	(4,470)
Change in non-participating investment contracts:		
Change in gross liabilities	**(5,409)**	(5,058)
Change in assets arising from reinsurance contracts held	**–**	–
	(5,409)	(5,058)
Change in unallocated surplus (note 39)	**(123)**	31
Total life insurance and participating investment contracts	**(19,151)**	(18,031)

10 Insurance claims (continued)

	2013 £m	2012 £m
Non-life insurance		
Claims and claims paid:		
Gross	**(388)**	(439)
Reinsurers' share	**–**	1
	(388)	(438)
Change in liabilities (note 36(2)):		
Gross	**33**	74
Reinsurers' share	**(1)**	(1)
	32	73
Total non-life insurance	**(356)**	(365)
Total insurance claims expense	**(19,507)**	(18,396)

Life insurance and participating investment contracts gross claims can also be analysed as follows:

	2013 £m	2012 £m
Deaths	**(611)**	(618)
Maturities	**(2,240)**	(2,238)
Surrenders	**(4,486)**	(4,795)
Annuities	**(860)**	(789)
Other	**(295)**	(279)
Total life insurance gross claims	**(8,492)**	(8,719)

A non-life insurance claims development table is included in note 36.

11 Operating expenses

	2013 £m	2012[1] £m
Staff costs:		
Salaries	3,331	3,411
Performance-based compensation	473	395
Social security costs	385	383
Pensions and other post-retirement benefit schemes (note 41):		
Past service credit[2]	104	(250)
Other	654	589
	758	339
Restructuring costs	111	217
Other staff costs	783	746
	5,841	5,491
Premises and equipment:		
Rent and rates	467	488
Hire of equipment	15	17
Repairs and maintenance	178	174
Other	310	270
	970	949
Other expenses:		
Communications and data processing	1,169	1,082
Advertising and promotion	313	314
Professional fees	424	552
Other	963	1,078
	2,869	3,026
Depreciation and amortisation:		
Depreciation of tangible fixed assets (note 29)	1,374	1,431
Amortisation of acquired value of in-force non-participating investment contracts (note 27)	54	79
Amortisation of other intangible assets (note 28)	512	616
	1,940	2,126
Total operating expenses, excluding payment protection insurance provision	11,620	11,592
Regulatory provisions		
Payment protection insurance provision (note 43)	3,050	3,575
Other regulatory provisions (note 43)[3,4]	405	600
	3,455	4,175
Total operating expenses	15,075	15,767

[1]Restated – see note 1.

[2]The Group has agreed certain changes to early retirement and commutation factors in two of its principal defined benefit pension schemes, resulting in a cost of £104 million recognised in the Group's income statement in the year ended 31 December 2013.

During 2012, following a review of policy in respect of discretionary pension increases in relation to the Group's defined benefit pension schemes, increases in certain schemes are now linked to the Consumer Price Index rather than the Retail Price Index. The impact of this change is a reduction in the Group's defined benefit obligation of £258 million, recognised in the Group's income statement in 2012, net of a charge of £8 million resulting from a change to the commutation factors in one of the Group's smaller schemes.

[3]In addition, regulatory provisions of £nil (2012: £50 million) have been charged against income.

[4]Other regulatory provisions in 2013 include a fine of £28 million levied on the Group by the Financial Conduct Authority in relation to failings in control over sales incentive schemes in the Group's branch network.

The average number of persons on a headcount basis employed by the Group during the year was as follows:

	2013	2012
UK	96,001	110,295
Overseas	1,868	3,322
Total	97,869	113,617

11 Operating expenses (continued)

Fees payable to the Bank's auditors
During the year the auditors earned the following fees:

	2013 £m	2012 £m
Fees payable for the audit of the Bank's current year annual report	**2.5**	2.4
Fees payable for other services:		
Audit of the Bank's subsidiaries pursuant to legislation	**12.3**	13.3
Other services supplied pursuant to legislation	**2.7**	2.0
Other services – audit-related fees	**0.9**	0.9
Taxation compliance services	**0.2**	0.2
All other taxation advisory services	**0.1**	0.6
Services relating to corporate finance transactions	**–**	0.2
All other services	**0.4**	2.2
Total fees payable to the Bank's auditors	**19.1**	21.8

During the year the auditors also earned fees payable by entities outside the consolidated Lloyds Bank Group in respect of the following:

	2013 £m	2012 £m
Audits of the Group pension schemes	**0.3**	0.4
Audits of unconsolidated Open Ended Investment Companies managed by the Group	**0.5**	0.8
Reviews of the financial position of corporate and other borrowers	**1.1**	5.4
Acquisition due diligence and other work performed in respect of potential venture capital investments	**0.1**	0.7

12 Impairment

	2013 £m	2012 £m
Impairment losses on loans and receivables:		
Loans and advances to customers	**2,725**	5,125
Debt securities classified as loans and receivables	**1**	(4)
Total impairment losses on loans and receivables (note 23)	**2,726**	5,121
Impairment of available-for-sale financial assets	**15**	37
Other credit risk provisions	**–**	(9)
Total impairment charged to the income statement	**2,741**	5,149

13 Investments in joint ventures and associates

The Group's share of results of and investments in joint ventures and associates comprises:

	Joint ventures		Associates		Total	
	2013 £m	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Share of income statement amounts:						
Income	**65**	278	**151**	63	**216**	341
Expenses	**(32)**	(229)	**(116)**	(68)	**(148)**	(297)
Impairment	**(22)**	(6)	**–**	(1)	**(22)**	(7)
Profit (loss) before tax	**11**	43	**35**	(6)	**46**	37
Tax	**(4)**	(9)	**1**	–	**(3)**	(9)
Share of post-tax results	**7**	34	**36**	(6)	**43**	28
Share of other comprehensive income	**–**	6	**–**	–	**–**	6
Share of total comprehensive income	**7**	40	**36**	(6)	**43**	34
Share of balance sheet amounts:						
Current assets	**519**	3,103	**115**	127	**634**	3,230
Non-current assets	**1,163**	1,596	**508**	581	**1,671**	2,177
Current liabilities	**(448)**	(729)	**(249)**	(128)	**(697)**	(857)
Non-current liabilities	**(1,139)**	(3,672)	**(368)**	(565)	**(1,507)**	(4,237)
Share of net assets at 31 December	**95**	298	**6**	15	**101**	313
Movement in investments over the year:						
At 1 January	**298**	309	**15**	25	**313**	334
Additional investments	**4**	10	**957**	1	**961**	11
Disposals	**(197)**	(44)	**(983)**	(6)	**(1,180)**	(50)
Share of post-tax results	**7**	34	**36**	(6)	**43**	28
Dividends paid	**(7)**	(13)	**(19)**	–	**(26)**	(13)
Exchange and other adjustments	**(10)**	2	**–**	1	**(10)**	3
Share of net assets at 31 December	**95**	298	**6**	15	**101**	313

The Group's unrecognised share of losses of associates for the year was £4 million (2012: recognised net loss of £10 million) and of joint ventures is £94 million in 2013 (2012: £126 million). For entities making losses, subsequent profits earned are not recognised until previously unrecognised losses are extinguished. The Group's unrecognised share of losses net of unrecognised profits on a cumulative basis of associates is £36 million (2012: £31 million) and of joint ventures is £358 million (2012: £330 million).

In March 2013 the Group sold a tranche of shares in St James's Place plc, reducing the Group's holding in that company to approximately 37 per cent and from that point commenced accounting for the residual investment as an associate. The Group sold its remaining shareholding in May and December 2013 so that the entire investment had been disposed of by the end of the year.

The Group's principal joint venture investment at 31 December 2013 was in Sainsbury's Bank plc; the Group owns 50 per cent of the ordinary share capital of Sainsbury's Bank plc, whose business is banking and principal area of operation is the UK. Sainsbury's Bank plc is incorporated in the UK and the Group's interest is held by a subsidiary. In May 2013 the Group reached agreement to sell its interest in Sainsbury's Bank plc to J Sainsbury plc; this transaction completed on 31 January 2014 and the Group's investment at 31 December 2013 is included in disposal group assets (see note 15).

Where entities have statutory accounts drawn up to a date other than 31 December management accounts are used when accounting for them by the Group.

14 Taxation

a Analysis of tax charge for the year

	2013 £m	2012[1] £m
UK corporation tax:		
Current tax on profit (loss) for the year	**(280)**	(89)
Adjustments in respect of prior years	**(229)**	77
	(509)	(12)
Foreign tax:		
Current tax on profit for the year	**(59)**	(86)
Adjustments in respect of prior years	**25**	(8)
	(34)	(94)
Current tax charge	**(543)**	(106)
Deferred tax (note 42):		
Origination and reversal of temporary differences	**(428)**	(358)
Reduction in UK corporation tax rate	**(602)**	(325)
Adjustments in respect of prior years	**313**	68
	(717)	(615)
Tax charge	**(1,260)**	(721)

[1]Restated – see note 1.

The charge for tax on the profit for 2013 is based on a UK corporation tax rate of 23.25 per cent (2012: 24.5 per cent).

The above income tax charge is made up as follows:

	2013 £m	2012[1] £m
Tax charge attributable to policyholders	**(328)**	(950)
Shareholder tax (charge) credit	**(932)**	229
Tax charge	**(1,260)**	(721)

[1]Restated – see note 1.

14 Taxation (continued)

b Factors affecting the tax charge for the year

A reconciliation of the credit that would result from applying the standard UK corporation tax rate to the loss before tax to the actual tax (charge) credit for the year is given below:

	2013 £m	2012[1] £m
Profit (loss) before tax	**894**	(510)
Tax (charge) credit thereon at UK corporation tax rate of 23.25 per cent (2012: 24.5 per cent)	**(208)**	125
Factors affecting (charge) credit:		
UK corporation tax rate change	**(602)**	(325)
Disallowed items	**(207)**	(39)
Non-taxable items	**236**	180
Overseas tax rate differences	**(116)**	75
Gains exempted or covered by capital losses	**57**	36
Policyholder tax	**(251)**	(144)
Further factors affecting the life business[2]:		
Derecognition of deferred tax on policyholder tax credits	**–**	(583)
Taxation of certain insurance assets arising on transition to new tax regime	**–**	(221)
Changes to the taxation of pension business:		
Policyholder tax cost	**–**	(182)
Shareholder tax benefit	**–**	206
Deferred tax on losses no longer recognised following sale of Australian operations	**(348)**	–
Deferred tax on Australian tax losses not previously recognised	**60**	12
Tax losses where no deferred tax recognised	**–**	(25)
Adjustments in respect of previous years	**109**	137
Effect of profit in joint ventures and associates	**9**	23
Other items	**1**	4
Tax charge on profit (loss) on ordinary activities	**(1,260)**	(721)

[1]Restated – see note 1.

[2]The Finance Act 2012 introduced a new UK tax regime for the taxation of life insurance companies which takes effect from 1 January 2013. The new regime, combined with current economic forecasts, has had a number of impacts on the tax charge.

The Finance Act 2013 (the Act) was substantively enacted on 2 July 2013. The Act further reduced the main rate of corporation tax to 21 per cent with effect from 1 April 2014 and 20 per cent with effect from 1 April 2015. The change in the main rate of corporation tax from 23 per cent to 20 per cent has resulted in a reduction of the Group's net deferred tax asset at 31 December 2013 of £643 million, comprising the £602 million charge included in the income statement and a £41 million charge included in equity.

15 Disposal groups

Disposal groups are classified as held for sale if the Group will recover the carrying amount principally through a sale transaction rather than through continuing use and a sale is considered highly probable. The Group completed the sale of its joint venture interest in Sainsbury's Bank on 31 January 2014 and expects to complete the announced sales of its international private banking operations in Monaco and Gibraltar, its German insurance business and Scottish Widows Investment Partnership, its asset management business, in the next 12 months. The assets and liabilities associated with these operations are therefore classified as held-for-sale disposal groups at 31 December 2013 and included within other assets and other liabilities respectively.

	2013 £m	2012 £m
Other assets		
Assets of disposal groups classified as held for sale	**7,988**	194
Other liabilities		
Liabilities of disposal groups classified as held for sale	**7,302**	214

Disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. The Group has recognised a loss of £330 million within other income relating to disposal groups classified as held for sale during 2013.

At 31 December 2012, the Group's Uruguayan branch business, its branch remittance business in Japan and its portfolio management business in Luxembourg were classified as held-for-sale; these sales completed in 2013.

The major classes of assets and liabilities of the disposal groups, which are principally in the insurance segment, are as follows:

	2013 £m	2012 £m
Assets[1]		
Cash and balances at central banks	**–**	82
Trading and other financial assets at fair value through profit or loss	**5,040**	–
Loans and advances to banks	**101**	7
Loans and advances to customers	**244**	84
Available-for-sale financial assets	**–**	27
Value of in-force business	**1,017**	–
Other	**1,968**	20
Provision for impairment of the disposal groups	**(382)**	(26)
	7,988	194
Liabilities		
Customer deposits	**307**	185
Liabilities arising from insurance contracts and participating investment contracts	**4,901**	–
Deferred tax liabilities	**282**	–
Other	**1,812**	29
	7,302	214

[1] Disposal Groups measured at fair value less costs to sell of £247 million (2012: liability of £20 million), which are non-recurring fair value measurements, are based on prices offered by third parties under binding sale and purchase agreements and therefore classified within level 3 of the fair value hierarchy.

16 Trading and other financial assets at fair value through profit or loss

	The Group		The Bank	
	2013 £m	2012[1] £m	**2013 £m**	2012 £m
Trading assets	**37,480**	23,358	**35,580**	6,049
Other financial assets at fair value through profit or loss	**105,727**	137,616	**4,587**	413
Total	**143,207**	160,974	**40,167**	6,462

[1]Restated – see note 1.

These assets are comprised as follows:

	The Group				The Bank			
	2013		2012[1]		**2013**		2012	
	Trading assets £m	**Other financial assets at fair value through profit or loss £m**	Trading assets £m	Other financial assets at fair value through profit or loss £m	**Trading assets £m**	**Other financial assets at fair value through profit or loss £m**	Trading assets £m	Other financial assets at fair value through profit or loss £m
Loans and advances to customers	**21,083**	**27**	13,598	34	**23,898**	**6**	9	12
Loans and advances to banks	**8,333**	**–**	919	–	**5,778**	**–**	191	–
Debt securities:								
Government securities	**4,259**	**16,430**	3,965	17,380	**4,144**	**4,520**	3,781	–
Other public sector securities	**14**	**2,183**	–	1,056	**–**	**–**	–	–
Bank and building society certificates of deposit	**1,491**	**–**	3,166	228	**32**	**–**	926	–
Asset-backed securities:								
Mortgage-backed securities	**5**	**793**	130	795	**7**	**–**	130	–
Other asset-backed securities	**171**	**756**	21	1,892	**171**	**–**	17	–
Corporate and other debt securities	**1,949**	**18,717**	1,185	26,574	**1,496**	**61**	906	388
	7,889	**38,879**	8,467	47,925	**5,850**	**4,581**	5,760	388
Equity shares	**114**	**66,767**	–	89,601	**–**	**–**	–	13
Treasury bills and other bills	**61**	**54**	374	56	**54**	**–**	89	–
Total	**37,480**	**105,727**	23,358	137,616	**35,580**	**4,587**	6,049	413

[1]Restated – see note 1.

At 31 December 2013 £107,976 million (2012: £112,395 million) of trading and other financial assets at fair value through profit or loss of the Group and £10,000 million (2012: £4,504 million) of the Bank had a contractual residual maturity of greater than one year.

Other financial assets at fair value through profit or loss represent the following assets designated into that category:

(i) financial assets backing insurance contracts and investment contracts of £101,211 million (2012: £134,537 million) which are so designated because the related liabilities either have cash flows that are contractually based on the performance of the assets or are contracts whose measurement takes account of current market conditions and where significant measurement inconsistencies would otherwise arise. Included within these assets are investments in unconsolidated structured entities of £24,452 million see note 21;

(ii) certain loans and advances to customers which are economically hedged by interest rate derivatives which are not in hedge accounting relationships and where significant measurement inconsistencies would otherwise arise if the related derivatives were treated as trading liabilities and the loans and advances were carried at amortised cost; and

(iii) private equity investments of £2,258 million (2012: £2,110 million) that are managed, and evaluated, on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

The maximum exposure to credit risk at 31 December 2013 of the loans and advances to customers designated at fair value through profit or loss by the Bank and the Group was £27 million (2012: £34 million); the Bank and the Group do not hold any credit derivatives or other instruments in mitigation of this risk. There was no significant movement in the fair value of these loans attributable to changes in credit risk; this is determined by reference to the publicly available credit ratings of the instruments involved.

Included in the amounts reported above are reverse repurchase agreements treated as collateralised loans with a carrying value of £29,288 million for the Group and £29,588 million for the Bank (2012: £14,433 million for the Group and £2,630 million for the Bank). Collateral is held with a fair value of £34,234 million for the Group and £28,509 million for the Bank (2012: £19,629 million for the Group and £2,629 million for the Bank), all of which the Group and the Bank are able to repledge. At 31 December 2013, £8,195 million had been repledged by the Group and £17,030 million by the Bank (2012: £15,640 million by the Group and £1,325 million by the Bank).

For amounts included above which are subject to repurchase agreements see note 54.

17 Derivative financial instruments

The Group holds derivatives as part of the following strategies:

- Customer driven, where derivatives are held as part of the provision of risk management products to Group customers;
- To manage and hedge the Group's interest rate and foreign exchange risk arising from normal banking business. The hedge accounting strategy adopted by the Group is to utilise a combination of fair value and cash flow hedge approaches as described in note 54;
- Derivatives held in policyholders funds as permitted by the investment strategies of those funds.

Derivatives are classified as trading except those designated as effective hedging instruments which meet the criteria under IAS 39. Derivatives are held at fair value on the Group's balance sheet. A description of the methodology used to determine the fair value of derivative financial instruments and the effect of using reasonably possible alternative assumptions for those derivatives valued using unobservable inputs is set out in note 53.

The principal derivatives used by the Group are as follows:

- Interest rate related contracts include interest rate swaps, forward rate agreements and options. An interest rate swap is an agreement between two parties to exchange fixed and floating interest payments, based upon interest rates defined in the contract, without the exchange of the underlying principal amounts. Forward rate agreements are contracts for the payment of the difference between a specified rate of interest and a reference rate, applied to a notional principal amount at a specific date in the future. An interest rate option gives the buyer, on payment of a premium, the right, but not the obligation, to fix the rate of interest on a future loan or deposit, for a specified period and commencing on a specified future date.
- Exchange rate related contracts include forward foreign exchange contracts, currency swaps and options. A forward foreign exchange contract is an agreement to buy or sell a specified amount of foreign currency on a specified future date at an agreed rate. Currency swaps generally involve the exchange of interest payment obligations denominated in different currencies; the exchange of principal can be notional or actual. A currency option gives the buyer, on payment of a premium, the right, but not the obligation, to sell specified amounts of currency at agreed rates of exchange on or before a specified future date.
- Credit derivatives, principally credit default swaps, are used by the Group as part of its trading activity and to manage its own exposure to credit risk. A credit default swap is a swap in which one counterparty receives a premium at pre-set intervals in consideration for guaranteeing to make a specific payment should a negative credit event take place. The Group also uses credit default swaps to securitise, in combination with external funding, £828 million (2012: £2,829 million) of corporate and commercial banking loans.
- Equity derivatives are also used by the Group as part of its equity-based retail product activity to eliminate the Group's exposure to fluctuations in various international stock exchange indices. Index-linked equity options are purchased which give the Group the right, but not the obligation, to buy or sell a specified amount of equities, or basket of equities, in the form of published indices on or before a specified future date.

17 Derivative financial instruments (continued)

The fair values and notional amounts of derivative instruments are set out in the following table:

	2013			2012[1]		
The Group	**Contract/ notional amount £m**	**Fair value assets £m**	**Fair value liabilities £m**	Contract/ notional amount £m	Fair value assets £m	Fair value liabilities £m
Trading						
Exchange rate contracts:						
Spot, forwards and futures	**38,213**	**699**	**639**	203,482	1,431	1,598
Currency swaps	**291,667**	**3,207**	**4,196**	107,137	1,689	1,682
Options purchased	**33,061**	**780**	**–**	42,141	591	–
Options written	**33,445**	**–**	**836**	21,757	–	605
	396,386	**4,686**	**5,671**	374,517	3,711	3,885
Interest rate contracts:						
Interest rate swaps	**1,892,322**	**15,065**	**15,388**	2,071,046	32,827	31,891
Forward rate agreements	**1,991,371**	**17**	**13**	1,836,186	494	599
Options purchased	**107,374**	**3,395**	**308**	105,919	4,463	–
Options written	**101,136**	**–**	**2,886**	115,780	–	4,045
Futures	**141,669**	**2**	**12**	53,529	2	2
	4,233,872	**18,479**	**18,607**	4,182,460	37,786	36,537
Credit derivatives	**6,507**	**208**	**190**	6,169	94	343
Equity and other contracts	**18,780**	**1,753**	**1,478**	23,690	1,974	1,311
Total derivative assets/liabilities held for trading	**4,655,545**	**25,126**	**25,946**	4,586,836	43,565	42,076
Hedging						
Derivatives designated as fair value hedges:						
Cross currency swaps	**35,651**	**383**	**612**	56,651	817	615
Interest rate swaps (including swap options)	**154,657**	**4,707**	**1,111**	136,375	6,086	1,772
Options purchased	**522**	**10**	**–**	–	–	–
Options written	**–**	**–**	**–**	68	–	–
Derivatives designated as cash flow hedges:						
Cross currency swaps	**1,135**	**12**	**4**	2,395	14	32
Interest rate swaps	**559,690**	**1,670**	**3,031**	86,190	4,653	4,453
Futures	**92,692**	**5**	**–**	49,527	1	–
Derivatives designated as net investment hedges:						
Cross currency swaps	**–**	**–**	**–**	–	–	–
Total derivative assets/liabilities held for hedging	**844,347**	**6,787**	**4,758**	331,206	11,571	6,872
Total recognised derivative assets/liabilities	**5,499,892**	**31,913**	**30,704**	4,918,042	55,136	48,948

[1]Restated – see note 1.

17 Derivative financial instruments (continued)

Hedged cash flows

For designated cash flow hedges the following table shows when the Group's hedged cash flows are expected to occur and when they will affect income.

2013	**0-1 years £m**	**1-2 years £m**	**2-3 years £m**	**3-4 years £m**	**4-5 years £m**	**5-10 years £m**	**10-20 years £m**	**Over 20 years £m**	**Total £m**
Hedged forecast cash flows expected to occur:									
Forecast receivable cash flows	**316**	**724**	**1,247**	**1,356**	**1,418**	**5,443**	**3,097**	**424**	**14,025**
Forecast payable cash flows	**(34)**	**(31)**	**(57)**	**(75)**	**(75)**	**(429)**	**(503)**	**(143)**	**(1,347)**
Hedged forecast cash flows affect profit or loss:									
Forecast receivable cash flows	**537**	**961**	**1,275**	**1,382**	**1,429**	**5,143**	**2,894**	**404**	**14,025**
Forecast payable cash flows	**(39)**	**(38)**	**(63)**	**(70)**	**(75)**	**(432)**	**(492)**	**(138)**	**(1,347)**

2012	0-1 years £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	5-10 years £m	10-20 years £m	Over 20 years £m	Total £m
Hedged forecast cash flows expected to occur:									
Forecast receivable cash flows	214	241	271	139	67	163	37	33	1,165
Forecast payable cash flows	(168)	(126)	(36)	(40)	(148)	(960)	(1,682)	(442)	(3,602)
Hedged forecast cash flows affect profit or loss:									
Forecast receivable cash flows	254	287	256	95	51	157	32	33	1,165
Forecast payable cash flows	(190)	(120)	(41)	(42)	(154)	(963)	(1,694)	(398)	(3,602)

There were no transactions for which cash flow hedge accounting had to be ceased in 2013 or 2012 as a result of the highly probable cash flows no longer being expected to occur.

At 31 December 2013 £28,104 million of total recognised derivative assets of the Group and £25,811 million of total recognised derivative liabilities of the Group (2012: £50,419 million of assets and £44,239 million of liabilities) had a contractual residual maturity of greater than one year.

17 Derivative financial instruments (continued)

The Bank	2013 Contract/ notional amount £m	2013 Fair value assets £m	2013 Fair value liabilities £m	2012 Contract/ notional amount £m	2012 Fair value assets £m	2012 Fair value liabilities £m
Trading						
Exchange rate contracts:						
Spot, forwards and futures	**22,913**	**535**	**470**	198,375	1,405	1,548
Currency swaps	**279,345**	**3,129**	**4,102**	159,242	1,686	1,619
Options purchased	**35,581**	**776**	**–**	42,083	591	–
Options written	**35,916**	**–**	**838**	21,827	–	654
	373,755	**4,440**	**5,410**	421,527	3,682	3,821
Interest rate contracts:						
Interest rate swaps	**2,489,568**	**19,012**	**19,442**	2,129,032	21,614	19,795
Forward rate agreements	**2,366,034**	**18**	**20**	1,846,083	494	592
Options purchased	**97,281**	**2,929**	**–**	97,182	3,764	–
Options written	**94,728**	**–**	**2,893**	109,231	–	3,620
Futures	**35,440**	**1**	**5**	8,918	2	1
	5,083,051	**21,960**	**22,360**	4,190,446	25,874	24,008
Credit derivatives	**6,236**	**208**	**125**	6,032	94	287
Equity and other contracts	**10,515**	**825**	**811**	11,207	691	616
Total derivative assets/liabilities held for trading	**5,473,557**	**27,433**	**28,706**	4,629,212	30,341	28,732
Hedging						
Derivatives designated as fair value hedges:						
Cross currency swaps	**23,509**	**266**	**475**	33,365	450	366
Interest rate swaps (including swap options)	**152,177**	**2,683**	**1,933**	93,989	1,454	1,463
Options purchased	**543**	**10**	**–**	–	–	–
Options written	**43**	**–**	**–**	75	–	–
Derivatives designated as cash flow hedges:						
Interest rate swaps	**–**	**–**	**–**	78,763	2	55
Total derivative assets/liabilities held for hedging	**176,272**	**2,959**	**2,408**	206,192	1,906	1,884
Total recognised derivative assets/liabilities	**5,649,829**	**30,392**	**31,114**	4,835,404	32,247	30,616

17 Derivative financial instruments (continued)

Hedged cash flows

For designated cash flow hedges the following table shows when the Bank's hedged cash flows are expected to occur and when they will affect income.

2013	0-1 years £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	5-10 years £m	10-20 years £m	Over 20 years £m	Total £m
Hedged forecast cash flows expected to occur:									
Forecast receivable cash flows	–	–	–	–	–	–	–	–	–
Forecast payable cash flows	–	–	–	–	–	–	–	–	–
Hedged forecast cash flows affect profit or loss:									
Forecast receivable cash flows	–	–	–	–	–	–	–	–	–
Forecast payable cash flows	–	–	–	–	–	–	–	–	–

2012	0-1 years £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	5-10 years £m	10-20 years £m	Over 20 years £m	Total £m
Hedged forecast cash flows expected to occur:									
Forecast receivable cash flows	49	36	14	3	2	3	–	–	107
Forecast payable cash flows	(66)	(47)	(17)	(5)	(3)	(7)	–	–	(145)
Hedged forecast cash flows affect profit or loss:									
Forecast receivable cash flows	49	36	14	3	2	3	–	–	107
Forecast payable cash flows	(66)	(47)	(17)	(5)	(3)	(7)	–	–	(145)

There were no transactions for which cash flow hedge accounting had to be ceased in 2013 or 2012 as a result of the highly probable cash flows no longer being expected to occur.

At 31 December 2013 £26,500 million of total recognised derivative assets of the Bank and £26,389 million of total recognised derivative liabilities of the Bank (2012: £28,167 million of assets and £25,406 million of liabilities) had a contractual residual maturity of greater than one year.

18 Loans and advances to banks

	The Group		The Bank	
	2013 £m	2012[1] £m	**2013 £m**	2012 £m
Lending to banks	**2,168**	591	**1,271**	568
Money market placements with banks	**23,197**	32,169	**1,824**	4,323
Total loans and advances to banks before allowance for impairment losses	**25,365**	32,760	**3,095**	4,891
Allowance for impairment losses (note 12)	**–**	(3)	**–**	(3)
Total loans and advances to banks	**25,365**	32,757	**3,095**	4,888

[1]Restated – see note 1.

At 31 December 2013 £2,631 million (2012: £4,404 million) of loans and advances to banks of the Group and £191 million (2012: £3,177 million) of the Bank had a contractual residual maturity of greater than one year.

Included in the amounts reported above are reverse repurchase agreements treated as collateralised loans with a carrying value of £183 million (2012: £662 million) for the Group and £183 million (2012: £662 million) for the Bank. Collateral is held with a fair value of £183 million (2012: £662 million) for the Group and £183 million (2012: £662 million) for the Bank, all of which the Group and Bank are able to repledge.

19 Loans and advances to customers

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Agriculture, forestry and fishing	**6,051**	5,531	**2,460**	2,193
Energy and water supply	**4,414**	3,321	**4,057**	2,119
Manufacturing	**7,650**	8,530	**6,261**	5,495
Construction	**7,024**	7,526	**4,440**	3,601
Transport, distribution and hotels	**22,294**	26,568	**12,563**	11,233
Postal and telecommunications	**2,364**	1,397	**2,200**	983
Property companies	**44,277**	52,388	**23,451**	23,255
Financial, business and other services	**44,807**	49,190	**28,064**	29,723
Personal:				
Mortgages	**335,611**	337,879	**72,972**	89,682
Other	**23,230**	28,334	**10,719**	13,270
Lease financing	**4,435**	6,477	**311**	318
Hire purchase	**5,090**	5,334	**2,704**	590
Total loans and advances to customers before allowance for impairment losses	**507,247**	532,475	**170,202**	182,462
Allowance for impairment losses (note 23)	**(11,966)**	(15,250)	**(2,299)**	(3,179)
Total loans and advances to customers	**495,281**	517,225	**167,903**	179,283

At 31 December 2013 £421,442 million (2012: £432,759 million) of loans and advances to customers of the Group and £124,943 million (2012: £139,034 million) of the Bank had a contractual residual maturity of greater than one year.

Included in the amounts reported above are reverse repurchase agreements treated as collateralised loans with a carrying value of £120 million (2012: £5,087 million) for the Group and £120 million (2012: £5,087 million) for the Bank. Collateral is held with a fair value of £112 million (2012: £4,916 million) for the Group and £112 million (2012: £4,916 million) for the Bank, all of which the Group and Bank are able to repledge.

Included in the amounts reported above are collateral balances in the form of cash provided in respect of reverse repurchase agreements amounting to £49 million (2012: £nil) for the Group and £nil (2012: £nil) for the Bank.

Loans and advances to customers include finance lease receivables, which may be analysed as follows:

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Gross investment in finance leases, receivable:				
Not later than 1 year	**557**	1,271	**9**	–
Later than 1 year and not later than 5 years	**1,736**	2,049	**235**	–
Later than 5 years	**4,542**	6,232	**68**	356
	6,835	9,552	**312**	356
Unearned future finance income on finance leases	**(2,330)**	(3,027)	**(1)**	(38)
Rentals received in advance	**(70)**	(30)	**–**	–
Commitments for expenditure in respect of equipment to be leased	**–**	(18)	**–**	–
Net investment in finance leases	**4,435**	6,477	**311**	318

19 Loans and advances to customers (continued)

The net investment in finance leases represents amounts recoverable as follows:

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Not later than 1 year	**277**	835	**9**	–
Later than 1 year and not later than 5 years	**1,140**	1,491	**234**	–
Later than 5 years	**3,018**	4,151	**68**	318
Net investment in finance leases	**4,435**	6,477	**311**	318

Equipment leased to customers under finance leases primarily relates to structured financing transactions to fund the purchase of aircraft, ships and other large individual value items. During 2013 and 2012 no contingent rentals in respect of finance leases were recognised in the income statement. The allowance for uncollectable finance lease receivables included in the allowance for impairment losses is £6 million for the Group (2012: £33 million).

The unguaranteed residual values included in finance lease receivables were as follows:

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Not later than 1 year	**31**	49	**–**	–
Later than 1 year and not later than 5 years	**20**	126	**–**	1
Later than 5 years	**–**	14	**–**	–
Total unguaranteed residual values	**51**	189	**–**	1

20 Securitisations and covered bonds

Securitisation programmes
Loans and advances to customers and debt securities classified as loans and receivables include loans securitised under the Group's securitisation programmes, the majority of which have been sold by Group companies to bankruptcy remote structured entities (SEs). As the SEs are funded by the issue of debt on terms whereby the majority of risks and rewards of the portfolio are retained by the Group company, the SEs are consolidated fully and all of these loans are retained on the Group's balance sheet, with the related notes in issue included within debt securities in issue. In addition to the SEs described below, the Group sponsors three conduit programmes, Argento, Cancara and Grampian (note 21).

Covered bond programmes
Certain loans and advances to customers have been assigned to bankruptcy remote limited liability partnerships to provide security for issues of covered bonds by the Group. The Group retains all of the risks and rewards associated with these loans and the partnerships are consolidated fully with the loans retained on the Group's balance sheet, and the related covered bonds in issue included within debt securities in issue.

20 Securitisations and covered bonds (continued)

The Group's principal securitisation and covered bonds programmes, together with the balances of the loans subject to these arrangements and the carrying value of the notes in issue at 31 December, are listed below. The notes in issue are reported in note 35.

	2013		2012	
	Loans and advances securitised £m	**Notes in issue £m**	Loans and advances securitised £m	Notes in issue £m
Securitisation programmes[1]				
UK residential mortgages	**55,998**	**36,286**	80,125	57,285
US residential mortgage-backed securities	**–**	**–**	185	221
Commercial loans	**10,931**	**11,259**	15,024	14,110
Irish residential mortgages	**–**	**–**	5,189	3,509
Credit card receivables	**6,314**	**3,992**	6,974	3,794
Dutch residential mortgages	**4,381**	**4,508**	4,547	4,682
Personal loans	**2,729**	**750**	4,412	2,000
PPP/PFI and project finance loans	**525**	**106**	688	104
Motor vehicle loans	**–**	**–**	1,039	1,086
	80,878	**56,901**	118,183	86,791
Less held by the Group		**(38,288)**		(58,732)
Total securitisation programmes (note 35)		**18,613**		28,059
Covered bond programmes				
Residential mortgage-backed	**59,576**	**36,473**	91,420	64,593
Social housing loan-backed	**2,536**	**1,800**	2,927	2,400
	62,112	**38,273**	94,347	66,993
Less held by the Group		**(7,606)**		(26,320)
Total covered bond programmes (note 35)		**30,667**		40,673
Total securitisation and covered bond programmes		**49,280**		68,732

[1]Includes securitisations utilising a combination of external funding and credit default swaps.

Cash deposits of £13,500 million (2012: £19,691 million) held by the Group are restricted in use to repayment of the debt securities issued by the structured entities, the term advances relating to covered bonds and other legal obligations. Additionally, the Group had certain contractual arrangements to provide liquidity facilities to some of these structured entities. At 31 December 2013 these obligations had not been triggered and the maximum exposure under these facilities was £790 million (2012: £928 million).

The Group has a number of covered bond programmes, for which Limited Liability Partnerships have been established to ring-fence asset pools and guarantee the covered bonds issued by the Group. At the reporting date the Group had over-collateralised these programmes as set out in the table above to meet the terms of the programmes, to secure the rating of the covered bonds and to provide operational flexibility. From time-to-time, the obligations of the Group to provide collateral may increase due to the formal requirements of the programmes. The Group may also voluntarily contribute collateral to support the ratings of the covered bonds.

The Group recognises the full liabilities associated with its securitisation and covered bond programmes within debt securities in issue, although the obligations of the Group are limited to the cashflows generated from the underlying assets. The Group could be required to provide additional support to a number of the securitisation programmes to support the credit ratings of the debt securities issued, in the form of increased cash reserves and the holding of subordinated notes. Further, certain programmes contain contractual obligations that require the Group to repurchase assets should they become credit impaired.

The Group has not voluntarily offered to repurchase assets from any of its public securitisation programmes during 2013 (2012: £471 million was voluntarily repurchased). Such repurchases are made in order to ensure that the expected maturity dates of the notes issued from these programmes are met.

21 Structured entities

The Group's interests in structured entities are both consolidated and unconsolidated. Detail of the Group's interests in consolidated structured entities are set out in: note 20 for securitisations and covered bond vehicles, note 41 for those related to the Group's pension schemes, and below in part (A) and (B). Details of the Group's interests in unconsolidated structured entities are set out below in part (C).

(A) Asset-backed conduits

In addition to the structured entities discussed in note 20, which are used for securitisation and covered bond programmes, the Group sponsors three asset-backed conduits, Argento, Cancara and Grampian, which invest in debt securities and client receivables. All the external assets in these conduits are consolidated in the Group's financial statements. The total consolidated exposures in these conduits are set out in the table below:

	Cancara £m	Argento £m	Grampian £m	Total £m
At 31 December 2013				
Loans and advances	**4,781**	**161**	**9**	**4,951**
Debt securities classified as loans and receivables:				
Asset-backed securities	**300**	**299**	**–**	**599**
Debt securities classified as available-for-sale financial assets:				
Asset-backed securities	**–**	**356**	**–**	**356**
Total assets	**5,081**	**816**	**9**	**5,906**
At 31 December 2012				
Loans and advances	4,342	140	58	4,540
Debt securities classified as loans and receivables:				
Asset-backed securities	367	603	358	1,328
Debt securities classified as available-for-sale financial assets:				
Asset-backed securities	–	396	143	539
Total assets	4,709	1,139	559	6,407

All debt securities and lending assets held by the Group in Cancara are restricted in use, as they are held by the collateral agent for the benefit of the commercial paper investors and the liquidity providers only. The Group provides liquidity facilities to Cancara under terms that are usual and customary for standard lending activities in the normal course of the Group's banking activities. The Group could be asked to provide support under the contractual terms of these arrangements if Cancara experienced a shortfall in external funding, which may occur in the event of market disruption. As at 31 December 2013 and 2012 these obligations had not been triggered.

Argento and Grampian have no Commercial Paper in issue and no external liquidity providers. Any restriction on the use of the assets included in the table above by the Group is due to their use in repurchase transactions see note 19 and note 53.

(B) Consolidated collective investment vehicles

The assets and liabilities of the Insurance business held in consolidated collective investment vehicles, such as Open Ended Investment Companies (OEICs) and limited partnerships, are not directly available for use by the Group. However, the Group's investment in the majority of these collective investment vehicles is readily realisable. As at 31 December 2013, the total carrying value of the collective investment vehicle assets and liabilities held by the Group was £56,117 million (2012: £68,644 million).

The Group has no contractual arrangements (such as liquidity facilities) that would require it to provide financial or other support to the consolidated collective investment vehicles and the Group has no intention to do so.

(C) Unconsolidated collective investment vehicles and limited partnerships

The Group's direct interests in unconsolidated structured entities comprise investments in collective investment vehicles, such as OEICs and limited partnerships with a total carrying value of £24,452 million at 31 December 2013, included within financial assets designated at fair value through profit and loss (see note 16). At 31 December 2013, the total net asset value of these unconsolidated structured entities, including the portion in which the Group has no interest, was £563 billion.

The Group's maximum exposure to loss is equal to the carrying value of the investment. However, the Group's investments in collective investment vehicles are primarily held to match policyholder liabilities in the Insurance division and the majority of the risk from a change in the value of the Group's investment is matched by a change in policyholder liabilities. The collective investment vehicles are primarily financed by investments from investors in the vehicles.

During the year the Group has not provided any non-contractual financial or other support to these unconsolidated collective investment vehicles and limited partnerships.

The Group considers itself the sponsor of a structured entity where it is primarily involved in the design and establishment of the structured entity; and further where the Group transfers assets to the structured entity; market products associated with the structured entity in its own name and/or provide guarantees regarding the structured entity's performance.

The Group's asset management businesses sponsor a range of diverse investment funds and limited partnerships where it acts as the fund manager or equivalent decision maker and markets the funds under one of the Group's brands.

The Group earns fees from managing the investments of these funds. The investment management fees that the Group earned from unconsolidated collective investment vehicles, including those in which the Group held no interest at 31 December 2013, are reported in note 51.

22 Debt securities classified as loans and receivables

Debt securities accounted for as loans and receivables comprise:

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Asset-backed securities:				
Mortgage-backed securities	**333**	3,927	**–**	393
Other asset-backed securities	**740**	1,150	**–**	5
Corporate and other debt securities	**407**	402	**150**	150
Total debt securities classified as loans and receivables before allowance for impairment losses	**1,480**	5,479	**150**	548
Allowance for impairment losses (see note 23)	**(125)**	(206)	**–**	(56)
Total debt securities classified as loans and receivables	**1,355**	5,273	**150**	492

For amounts included above which are subject to repurchase agreements see note 53.

23 Allowance for impairment losses on loans and receivables

The Group	Loans and advances to customers £m	Loans and advances to banks £m	Debt securities £m	Total £m
At 1 January 2012	18,732	14	276	19,022
Exchange and other adjustments	(379)	(1)	(8)	(388)
Advances written off	(8,697)	(10)	(73)	(8,780)
Recoveries of advances written off in previous years	843	–	15	858
Unwinding of discount	(374)	–	–	(374)
Charge to the income statement	5,125	–	(4)	5,121
At 31 December 2012	15,250	3	206	15,459
Exchange and other adjustments	**291**	**–**	**–**	**291**
Disposal of businesses	**(176)**	**–**	**–**	**(176)**
Advances written off	**(6,229)**	**(3)**	**(82)**	**(6,314)**
Recoveries of advances written off in previous years	**456**	**–**	**–**	**456**
Unwinding of discount	**(351)**	**–**	**–**	**(351)**
Charge to the income statement	**2,725**	**–**	**1**	**2,726**
At 31 December 2013	**11,966**	**–**	**125**	**12,091**

Of the Group's total allowance in respect of loans and advances to customers, £10,217 million (2012: £13,936 million) related to lending that had been determined to be impaired (either individually or on a collective basis) at the reporting date.

Of the Group's total allowance in respect of loans and advances to customers, £2,217 million (2012: £3,309 million) was assessed on a collective basis.

No impairment allowances have been raised in respect of amounts due from fellow Lloyds Banking Group undertakings.

23 Allowance for impairment losses on loans and receivables (continued)

The Bank	Loans and advances to customers £m	Loans and advances to banks £m	Debt securities £m	Total £m
At 1 January 2012	3,469	14	116	3,599
Exchange and other adjustments	(65)	(1)	(4)	(70)
Advances written off	(2,073)	(10)	(58)	(2,141)
Recoveries of advances written off in previous years	325	–	–	325
Unwinding of discount	(67)	–	–	(67)
Charge (release) to the income statement	1,590	–	2	1,592
At 31 December 2012	3,179	3	56	3,238
Exchange and other adjustments	**(31)**	**–**	**–**	**(31)**
Advances written off	**(1,689)**	**(3)**	**(56)**	**(1,748)**
Recoveries of advances written off in previous years	**321**	**–**	**–**	**321**
Unwinding of discount	**(130)**	**–**	**–**	**(130)**
Charge to the income statement	**649**	**–**	**–**	**649**
At 31 December 2013	**2,299**	**–**	**–**	**2,299**

Of the Bank's total allowance in respect of loans and advances to customers, £1,954 million (2012: £2,702 million) related to lending that had been determined to be impaired (either individually or on a collective basis) at the reporting date.

Of the Bank's total allowance in respect of loans and advances to customers, £690 million (2012: £1,020 million) was assessed on a collective basis.

24 Available-for-sale financial assets

	2013			2012		
The Group	**Conduits £m**	**Other £m**	**Total £m**	Conduits £m	Other £m	Total £m
Debt securities:						
Government securities	**–**	**38,290**	**38,290**	–	25,555	25,555
Other public sector securities	**–**	**–**	**–**	–	–	–
Bank and building society certificates of deposit	**–**	**208**	**208**	–	188	188
Asset-backed securities:						
Mortgage-backed securities	**139**	**1,124**	**1,263**	277	1,247	1,524
Other asset-backed securities	**217**	**698**	**915**	262	498	760
Corporate and other debt securities	**–**	**1,855**	**1,855**	–	1,848	1,848
	356	**42,175**	**42,531**	539	29,336	29,875
Equity shares	**–**	**570**	**570**	–	528	528
Treasury bills and similar securities	**–**	**875**	**875**	–	971	971
Total available-for-sale financial assets	**356**	**43,620**	**43,976**	539	30,835	31,374

24 Available-for-sale financial assets (continued)

The Bank	2013 £m	2012 £m
Debt securities:		
Government securities	38,159	25,418
Other public sector securities	–	–
Bank and building society certificates of deposit	196	159
Asset-backed securities:		
Mortgage-backed securities	366	456
Other asset-backed securities	179	88
Corporate and other debt securities	2,276	4,808
	41,176	30,929
Equity shares	149	47
Treasury bills and similar securities	23	116
Total available-for-sale financial assets	41,348	31,092

Details of the Group's asset-backed conduits shown in the table above are included in note 21(A).

At 31 December 2013 £42,637 million (2012: £29,754 million) of available-for-sale financial assets of the Group and £39,483 million (2012: £30,002 million) of the Bank had a contractual residual maturity of greater than one year.

For amounts included above which are subject to repurchase agreements see note 53.

All assets have been individually assessed for impairment. The criteria used to determine whether an impairment loss has been incurred are disclosed in note 2h(2).

At 31 December 2013, the Bank had sold £83 million (2012: £105 million) of debt securities to one of its subsidiary undertakings; however the related agreement is such that the Bank has retained substantially all of the risks and rewards of ownership and, as a consequence, the debt securities continue to be recognised on the Bank's balance sheet.

25 Investment properties of the Group

	2013 £m	2012 £m
At 1 January	5,405	6,122
Exchange and other adjustments	24	22
Additions:		
Acquisitions of new properties	261	428
Consolidation of new subsidiary undertakings	805	411
Additional expenditure on existing properties	48	89
Total additions	1,114	928
Disposals	(1,253)	(1,403)
Disposal of businesses	(582)	–
Changes in fair value (note 7)	156	(264)
At 31 December	4,864	5,405

In addition the following amounts have been recognised in the income statement:

	2013 £m	2012 £m
Rental income	308	389
Direct operating expenses arising from investment properties that generate rental income	59	42

25 Investment properties of the Group (continued)

Capital expenditure in respect of investment properties:

	2013 £m	2012 £m
Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements	**2**	24

The investment properties are valued at least annually at open-market value, by independent professionally qualified valuers, who have recent experience in the location and categories of the investment properties being valued.

The fair value of investment properties is measured using the market approach and incorporates the income approach where appropriate. The fair value of investment property is generally measured using observable inputs. Whether investment properties are categorised as level 2 or 3 (see note 53(4) for details of levels in the fair value hierarchy) depends on the extent of the adjustments made to observable inputs and this depends on the investment property concerned. Investment property is compared to property for which there is observable market data about its realisable value on disposal. Adjustments to this observable data are applied, if necessary, for specific characteristics of the property, such as the nature, location or condition of the specific asset. If such information is not available, alternative valuation methods using unobservable inputs, such as discounted cash flow analysis or recent prices in less active markets are used. For investment property under construction, the value on disposal is considered to be at the point at which the property is fully constructed. Adjustments are made for the costs and risks associated with construction. Investment property under construction for which fair value is not yet reliably measurable is valued at cost, until the fair value can be reliably measured.

The table above analyses movements in investment properties, all of which are categorised as level 3.

26 Goodwill of the Group

	2013 £m	2012 £m
At 1 January and 31 December	**2,016**	2,016
Cost[1]	**2,362**	2,362
Accumulated impairment losses	**(346)**	(346)
At 31 December	**2,016**	2,016

[1]For acquisitions made prior to 1 January 2004, the date of transition to IFRS, cost is included net of amounts amortised up to 31 December 2003.

The goodwill held in the Group's balance sheet is tested at least annually for impairment. For the purposes of impairment testing the goodwill is allocated to the appropriate cash generating unit; of the total balance of £2,016 million (2012: £2,016 million), £1,836 million (or 91 per cent of the total) has been allocated to Scottish Widows and £170 million (or 8 per cent of the total) to Asset Finance.

The recoverable amount of Scottish Widows has been based on a value-in-use calculation. The calculation uses pre-tax projections of future cash flows based upon budgets and plans approved by management covering a five-year period, and a discount rate of 12 per cent. The budgets and plans are based upon past experience adjusted to take into account anticipated changes in sales volumes, product mix and margins having regard to expected market conditions and competitor activity. The discount rate is determined with reference to internal measures and available industry information. Cash flows beyond the five-year period have been extrapolated using a steady 3 per cent growth rate which does not exceed the long-term average growth rate for the life assurance market. Management believes that any reasonably possible change in the key assumptions would not cause the recoverable amount of Scottish Widows to fall below its balance sheet carrying value.

The recoverable amount of Asset Finance has also been based on a value in use calculation using pre-tax cash flow projections based on financial budgets and plans approved by management covering a five-year period and a discount rate of 14 per cent. The cash flows beyond the five-year period are extrapolated using a growth rate of 0.5 per cent which does not exceed the long-term average growth rates for the markets in which Asset Finance participates. Management believes that any reasonably possible change in the key assumptions above would not cause the recoverable amount of Asset Finance to fall below its balance sheet carrying value.

27 Value of in-force business

The gross value of in-force business asset in the consolidated balance sheet is as follows:

	2013 £m	2012 £m
Acquired value of in-force non-participating investment contracts	**461**	1,312
Value of in-force insurance and participating investment contracts	**4,874**	5,488
Total value of in-force business	**5,335**	6,800

The movement in the acquired value of in-force non-participating investment contracts over the year is as follows:

	2013 £m	2012 £m
At 1 January	**1,312**	1,391
Amortisation taken to income statement (note 11)	**(54)**	(79)
Disposal of businesses	**(797)**	–
At 31 December	**461**	1,312

The acquired value of in-force non-participating investment contracts includes £277 million (2012: £303 million) in relation to OEIC business.

The movement in the value of in-force insurance and participating investment contracts over the year is as follows:

	2013 £m	2012 £m
At 1 January	**5,488**	5,247
Exchange and other adjustments	**21**	(28)
Movements in the year:		
New business	**595**	570
Existing business:		
Expected return	**(432)**	(471)
Experience variances	**(246)**	52
Assumption changes	**37**	(90)
Economic variance	**462**	208
Movement in the value of in-force business taken to income statement (note 9)	**416**	269
Disposal of businesses	**(1,051)**	–
At 31 December	**4,874**	5,488

This breakdown shows the movement in the value of in-force business only, and does not represent the full contribution that each item in the breakdown contributes to profit before tax. This will also contain changes in the other assets and liabilities, including the effects of changes in assumptions used to value the liabilities, of the relevant businesses. The presentation of economic variance includes the impact of financial market conditions being different at the end of the reporting period from those included in assumptions used to calculate new and existing business returns.

The principal features of the methodology and process used for determining key assumptions used in the calculation of the value of in-force business are set out below:

Economic assumptions
Each cash flow is valued using the discount rate consistent with that applied to such a cash flow in the capital markets. In practice, to achieve the same result, where the cash flows are either independent of or move linearly with market movements, a method has been applied known as the 'certainty equivalent' approach whereby it is assumed that all assets earn a risk-free rate and all cash flows are discounted at a risk-free rate. The certainty equivalent approach covers all investment assets relating to insurance and participating investment contracts, other than the annuity business (where an illiquidity premium is included, see below).

A market-consistent approach has been adopted for the valuation of financial options and guarantees, using a stochastic option pricing technique calibrated to be consistent with the market price of relevant options at each valuation date.

The liabilities in respect of the Group's UK annuity business are matched by a portfolio of fixed interest securities, including a large proportion of corporate bonds and, since late 2012, illiquid loan assets. The value of the in-force business asset for UK annuity business has been calculated after taking into account an estimate of the market premium for illiquidity in respect of corporate bond holdings and relevant illiquid loan assets. The determination of the market premium for illiquidity reflects actual asset allocation and relevant observable market data, and has been checked for consistency with the capital markets. The illiquidity premium is estimated to be 91 basis points at 31 December 2013 (2012: 73 basis points). The effects of including illiquid loan assets in the calculation of the market premium for illiquidity combined with a change to the assumed level of illiquidity within the illiquid loan assets, has been to increase the value of in-force business by £118 million at 31 December 2013. This is included as an assumption change in the table above. The effect of this change on profit before tax, after also including the impacts of movements in liabilities, is given in note 36.

27 Value of in-force business of the Group (continued)

The risk-free rate is derived from the relevant swap curve less a deduction for credit risk. Prior to 2013, the risk-free rate for the valuation of financial options and guarantees and non-annuity business was defined as the spot yield derived from the relevant government bond yield curve. For annuity business, the risk-free rate was based on the UK Government bond yield curve (plus an allowance for an illiquidity premium).

The effect of deriving risk-free rates from swap curves instead of government bond yields has been to increase the value of in-force business by £132 million at 31 December 2013. This is included as an assumption change in the table above. The effect of this change on profit before tax, also after including the impacts of movements in liabilities, is given in note 36.

The table below shows the resulting range of yields and other key assumptions at 31 December for UK business:

	2013 %	2012 %
Risk-free rate (value of in-force non-annuity business)	**0.00 to 4.04**	2.32
Risk-free rate (value of in-force annuity business)	**1.02 to 5.06**	3.25
Risk-free rate (financial options and guarantees)	**0.21 to 3.45**	0.22 to 3.56
Retail price inflation	**3.59**	3.13
Expense inflation	**3.96**	3.61

Non-market risk
An allowance for non-market risk is made through the choice of best estimate assumptions based upon experience, which generally will give the mean expected financial outcome for shareholders and hence no further allowance for non-market risk is required. However, in the case of operational risk, reinsurer default and the with-profit fund these can be asymmetric in the range of potential outcomes for which an explicit allowance is made.

Non-economic assumptions
Future mortality, morbidity, expenses, lapse and paid-up rate assumptions are reviewed each year and are based on an analysis of past experience and on management's view of future experience.

Mortality and morbidity
The mortality and morbidity assumptions, including allowances for improvements in longevity, are set with regard to the Group's actual experience where this provides a reliable basis and relevant industry data otherwise. For German business, appropriate industry tables have been considered.

Lapse (persistency) and paid-up rates
Lapse and paid up rates assumptions are reviewed each year. The most recent experience is considered along with the results of previous analyses and management's views on future experience. In determining this best estimate view, a number of factors are considered, including the credibility of the results (which will be affected by the volume of data available), any exceptional events that have occurred during the period under consideration and any known or expected trends in underlying data. The pensions lapse assumptions have been strengthened due to persistency experience and to make allowance for the impact of the Office of Fair Trading review on fairness of legacy pension charges. The impact of these changes has been to decrease the value of in-force business by £158 million.

Maintenance expenses
Allowance is made for future policy costs explicitly. Expenses are determined by reference to an internal analysis of current and expected future costs. Explicit allowance is made for future expense inflation. For German business appropriate cost assumptions have been set in accordance with the rules of the local regulatory body.

These assumptions are intended to represent a best estimate of future experience, and further information about the effect of changes in key assumptions is given in note 37.

28 Other intangible assets

	The Group						The Bank
	Brands £m	Core deposit intangibles £m	Purchased credit card relation-ships £m	Customer related intangibles £m	Capitalised software enhance-ments £m	Total £m	Capitalised software enhance-ments £m
Cost:							
At 1 January 2012	596	2,770	300	881	959	5,506	492
Exchange and other adjustments	–	–	–	–	27	27	–
Additions	–	–	–	–	236	236	184
Disposals	–	–	–	–	(89)	(89)	(49)
At 31 December 2012	596	2,770	300	881	1,133	5,680	627
Exchange and other adjustments	**–**	**–**	**–**	**–**	**22**	**22**	**(1)**
Additions	**–**	**–**	**15**	**–**	**274**	**289**	**221**
Disposals	**–**	**–**	**–**	**–**	**(92)**	**(92)**	**–**
Disposal of business	**–**	**–**	**–**	**(343)**	**(17)**	**(360)**	**–**
At 31 December 2013	**596**	**2,770**	**315**	**538**	**1,320**	**5,539**	**847**
Accumulated amortisation:							
At 1 January 2012	65	1,192	178	486	389	2,310	163
Exchange and other adjustments	–	–	–	–	25	25	–
Charge for the year (note 11)	21	368	60	40	127	616	77
Disposals	–	–	–	–	(63)	(63)	(24)
At 31 December 2012	86	1,560	238	526	478	2,888	216
Exchange and other adjustments	**–**	**–**	**–**	**–**	**9**	**9**	**–**
Charge for the year (note 11)	**21**	**300**	**62**	**20**	**109**	**512**	**67**
Disposals	**–**	**–**	**–**	**–**	**(45)**	**(45)**	**–**
Disposal of businesses	**–**	**–**	**–**	**(104)**	**–**	**(104)**	**–**
At 31 December 2013	**107**	**1,860**	**300**	**442**	**551**	**3,260**	**283**
Balance sheet amount at 31 December 2013	**489**	**910**	**15**	**96**	**769**	**2,279**	**564**
Balance sheet amount at 31 December 2012	510	1,210	62	355	655	2,792	411

Included within brands above are assets of £380 million (2012: £380 million) that have been determined to have indefinite useful lives and are not amortised. These brands use the Bank of Scotland name which has been in existence for over 300 years. These brands are well established financial services brands and there are no indications that they should not continue indefinitely.

The core deposit intangible is the benefit derived from a large stable deposit base that has low interest rates, and the balance sheet amount at 31 December 2013 shown above will be amortised, in accordance with the Group's accounting policy, on a straight line basis over its remaining useful life of four years.

The purchased credit card relationships represent the benefit of recurring income generated from the portfolio of credit cards purchased.

The customer-related intangibles include customer lists and the benefits of customer relationships that generate recurring income.

Capitalised software enhancements of the Bank and the Group principally comprise identifiable and directly associated internal staff and other costs.

29 Tangible fixed assets

	The Group				The Bank			
	Premises £m	**Equipment £m**	**Operating lease assets £m**	**Total tangible fixed assets £m**	**Premises £m**	**Equipment £m**	**Operating lease assets £m**	**Total tangible fixed assets £m**
Cost:								
At 1 January 2012	2,454	4,992	5,520	12,966	1,343	3,711	–	5,054
Exchange and other adjustments	2	(82)	(11)	(91)	(27)	(19)	(8)	(54)
Additions	225	711	1,314	2,250	152	538	168	858
Disposals	(65)	(306)	(1,924)	(2,295)	(33)	(86)	–	(119)
Write offs	–	(1,562)	–	(1,562)	–	(954)	–	(954)
At 31 December 2012	2,616	3,753	4,899	11,268	1,435	3,190	160	4,785
Exchange and other adjustments	**–**	**83**	**(17)**	**66**	**(1)**	**13**	**2**	**14**
Additions	**300**	**758**	**1,326**	**2,384**	**232**	**640**	**–**	**872**
Disposals	**(48)**	**(406)**	**(1,460)**	**(1,914)**	**(29)**	**(291)**	**–**	**(320)**
Disposal of businesses	**(2)**	**(94)**	**(80)**	**(176)**	**–**	**–**	**–**	**–**
At 31 December 2013	**2,866**	**4,094**	**4,668**	**11,628**	**1,637**	**3,552**	**162**	**5,351**
Accumulated depreciation and impairment:								
At 1 January 2012	1,097	3,183	1,013	5,293	863	2,460	–	3,323
Exchange and other adjustments	(8)	(77)	52	(33)	(16)	(17)	(1)	(34)
Depreciation charge for the year (note 11)	130	432	869	1,431	70	305	3	378
Disposals	(28)	(266)	(909)	(1,203)	(15)	(99)	–	(114)
Write-offs	–	(1,562)	–	(1,562)	–	(954)	–	(954)
At 31 December 2012	1,191	1,710	1,025	3,926	902	1,695	2	2,599
Exchange and other adjustments	**4**	**18**	**(10)**	**12**	**–**	**26**	**1**	**27**
Depreciation charge for the year (note 11)	**145**	**418**	**811**	**1,374**	**75**	**292**	**5**	**372**
Disposals	**(41)**	**(305)**	**(808)**	**(1,154)**	**(21)**	**(253)**	**–**	**(274)**
Disposal of businesses	**–**	**(68)**	**(32)**	**(100)**	**–**	**–**	**–**	**–**
At 31 December 2013	**1,299**	**1,773**	**986**	**4,058**	**956**	**1,760**	**8**	**2,724**
Balance sheet amount at 31 December 2013	**1,567**	**2,321**	**3,682**	**7,570**	**681**	**1,792**	**154**	**2,627**
Balance sheet amount at 31 December 2012	1,425	2,043	3,874	7,342	533	1,495	158	2,186

At 31 December the future minimum rentals receivable by the Group under non-cancellable operating leases were as follows:

	2013 £m	2012 £m
Receivable within 1 year	**1,053**	1,033
1 to 5 years	**1,165**	1,291
Over 5 years	**356**	438
Total future minimum rentals receivable	**2,574**	2,762

Equipment leased to customers under operating leases primarily relates to vehicle contract hire arrangements. During 2013 and 2012 no contingent rentals in respect of operating leases were recognised in the income statement.

In addition, total future minimum sub-lease income of £19 million for the Group and £17 million for the Bank at 31 December 2013 (£30 million for the Group and £24 million for the Bank at 31 December 2012) is expected to be received under non-cancellable sub-leases of premises.

30 Investment in subsidiary undertakings of the Bank

	2013 £m	2012 £m
At 1 January	**39,958**	40,289
Exchange and other adjustments	**–**	(6)
Additional capital injections and transfers	**1,394**	37
Disposals	**(423)**	(362)
At 31 December	**40,929**	39,958

The principal group undertakings, all of which have prepared accounts to 31 December and whose results are included in the consolidated accounts of Lloyds Bank plc, are:

	Share class	Country of registration/ incorporation	Percentage of equity share capital and voting rights held	Nature of business
TSB Bank plc	Ordinary	Scotland	100%	Banking and financial services
Scottish Widows plc	Ordinary	Scotland	100%[1]	Life assurance
HBOS plc	Ordinary	Scotland	100%	Holding company
Bank of Scotland plc	Ordinary	Scotland	100%[1]	Banking and financial services
HBOS Insurance & Investment Group Limited	Ordinary	England	100%[1]	Holding company
St. Andrew's Insurance plc	Ordinary	England	100%[1]	General insurance
Clerical Medical Investment Group Limited	Ordinary	England	100%[1]	Life assurance
Clerical Medical Managed Funds Limited	Ordinary	England	100%[1]	Life assurance

[1]Indirect interest.

The principal area of operation for each of the above group undertakings is the United Kingdom.

In November 2009, as part of the restructuring plan that was a requirement for European Commission approval of state aid received, Lloyds Banking Group agreed to suspend the payment of coupons and dividends on certain preference shares and preferred securities for the two year period from 31 January 2010 to 31 January 2012. The Group also agreed to temporarily suspend and/or waive dividend payments on certain preference shares which have been issued intra-group. Consequently, in accordance with the terms of some of these instruments, subsidiaries could have been prevented from making dividend payments on ordinary shares during this period. In addition, certain subsidiary companies currently have insufficient distributable reserves to make dividend payments.

Subject to the foregoing, there were no further significant restrictions on any of the Bank's subsidiaries in paying dividends or repaying loans and advances. All regulated banking and insurance subsidiaries are required to maintain capital at levels agreed with the regulators; this may impact those subsidiaries' ability to make distributions.

31 Other assets

	The Group		The Bank	
	2013 £m	2012[1] £m	**2013 £m**	2012 £m
Assets arising from reinsurance contracts held (notes 36 and 38)	**732**	2,320	**–**	–
Deferred acquisition and origination costs (see below)	**130**	774	**–**	–
Settlement balances	**2,904**	1,332	**801**	592
Corporate pension asset	**9,984**	6,353	**–**	–
Investments in joint ventures and associates (note 13)	**101**	313	**5**	5
Assets of disposal groups (note 15)	**7,988**	194	**244**	–
Other assets and prepayments	**5,230**	7,226	**807**	950
Total other assets	**27,069**	18,512	**1,857**	1,547

[1]Restated – see note 1.

	2013 £m	2012 £m
Deferred acquisition and origination costs of the Group:		
At 1 January	**774**	693
Exchange and other adjustments	**–**	1
Acquisition and origination costs deferred, net of amounts amortised to the income statement	**(19)**	80
Disposal of businesses	**(625)**	–
At 31 December	**130**	774

32 Deposits from banks

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Liabilities in respect of securities sold under repurchase agreements	**1,874**	23,368	**1,252**	20,163
Other deposits from banks	**12,108**	15,037	**9,196**	9,512
Total deposits from banks	**13,982**	38,405	**10,448**	29,675

At 31 December 2013 £2,190 million (2012: £9,766 million) of deposits from banks of the Group and £1,009 million (2012: £7,561 million) of the Bank had a contractual residual maturity of greater than one year.

Included in the amounts reported above are deposits held as collateral for facilities granted, with a carrying value of £1,874 million (2012: £23,078 million) for the Group and £1,252 million (2012: £20,163 million) for the Bank and a fair value of £2,112 million (2012: £25,682 million) for the Group and £1,392 million (2012: £20,661 million) for the Bank.

Included in the amounts reported above are collateral balances in the form of cash provided in respect of repurchase agreements amounting to £nil (2012: £4 million) for the Group and £nil (2012: £nil) for the Bank.

33 Customer deposits

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Non-interest bearing current accounts	**40,802**	36,909	**21,111**	23,328
Interest bearing current accounts	**77,789**	65,202	**46,881**	39,269
Savings and investment accounts	**265,422**	261,573	**77,011**	86,037
Liabilities in respect of securities sold under repurchase agreements	**2,978**	4,433	**2,978**	4,429
Other customer deposits	**54,320**	58,795	**39,418**	34,557
Total customer deposits	**441,311**	426,912	**187,399**	187,620

At 31 December 2013 £44,702 million (2012: £52,106 million) of customer deposits of the Group and £7,941 million (2012: £7,301 million) of the Bank had a contractual residual maturity of greater than one year.

Included in the amounts reported above are deposits held as collateral for facilities granted, with a carrying value of £2,978 million (2012: £4,429 million) for the Group and £2,978 million for the Bank (2012: £4,429 million) and a fair value of £3,114 million (2012: £4,552 million) for the Group and £3,114 million (2012: £4,552 million) for the Bank.

Included in the amounts reported above are collateral balances in the form of cash provided in respect of repurchase agreements amounting to £416 million (2012: £192 million) for the Group and £nil (2012: £nil) for the Bank.

Included in the amounts above are deposits of £258,384 million (2012: £246,965 million) which are protected under the UK Financial Services Compensation Scheme.

34 Trading and other financial liabilities at fair value through profit or loss

	The Group		The Bank	
	2013 £m	2012[1] £m	**2013 £m**	2012 £m
Liabilities held at fair value through profit or loss (debt securities)	**5,306**	5,700	**5,316**	5,700
Trading liabilities:				
Liabilities in respect of securities sold under repurchase agreements	**28,902**	24,553	**32,255**	584
Short positions in securities	**6,890**	2,200	**1,867**	1,053
Other	**2,527**	939	**3,668**	3,504
	38,319	27,692	**37,790**	5,141
Trading and other financial liabilities at fair value through profit or loss	**43,625**	33,392	**43,106**	10,841

[1]Restated – see note 1.

At 31 December 2013, the Group had £8,990 million (2012: £9,435 million) and the Bank had £9,860 million (2012: £9,087 million) of trading and other liabilities at fair value through profit or loss with a contractual residual maturity of greater than one year.

Liabilities designated at fair value through profit or loss primarily represent debt securities in issue which either contain substantive embedded derivatives which would otherwise need to be recognised and measured at fair value separately from the related debt securities, or which are accounted for at fair value to significantly reduce an accounting mismatch.

The amount contractually payable on maturity of the debt securities held at fair value through profit or loss at 31 December 2013 was £6,625 million (2012: £6,553 million), which was £1,358 million higher than the balance sheet carrying value (2012: £6,553 million, £853 million higher). At 31 December 2013 there was a cumulative £214 million increase (2012: £254 million decrease) in the fair value of these liabilities attributable to changes in credit spread risk; this is determined by reference to the quoted credit spreads of the Bank. Of the cumulative amount, a decrease of £40 million arose in 2013 and £437 million arose in 2012.

35 Debt securities in issue

	The Group 2013 £m	The Group 2012[1] £m	The Bank 2013 £m	The Bank 2012 £m
Medium-term notes issued	**23,385**	28,985	**20,746**	23,734
Covered bonds (note 20)	**30,667**	40,673	**17,681**	16,156
Certificates of deposit issued	**8,866**	11,087	**8,866**	11,058
Securitisation notes (note 20)	**18,613**	28,059	**4,332**	7,321
Commercial paper	**5,035**	7,897	**1,570**	3,225
Total debt securities in issue	**86,566**	116,701	**53,195**	61,494

[1]Restated – see note 1.

At 31 December 2013 £61,244 million (2012: £80,257 million) of debt securities in issue of the Group and £35,714 million (2012: £40,716 million) of the Bank had a contractual residual maturity of greater than one year.

36 Liabilities of the Group arising from insurance contracts and participating investment contracts

Insurance contract and participating investment contract liabilities are comprised as follows:

	2013 Gross £m	2013 Reinsurance[1] £m	2013 Net £m	2012 Gross £m	2012 Reinsurance[1] £m	2012 Net £m
Life insurance (see (1) below):						
Insurance contracts	**67,650**	**(675)**	**66,975**	65,665	(2,257)	63,408
Participating investment contracts	**14,416**	**–**	**14,416**	16,489	–	16,489
	82,066	**(675)**	**81,391**	82,154	(2,257)	79,897
Non-life insurance contracts (see (2) below):						
Unearned premiums	**442**	**(10)**	**432**	494	(16)	478
Claims outstanding	**293**	**–**	**293**	320	(1)	319
	735	**(10)**	**725**	814	(17)	797
Total	**82,801**	**(685)**	**82,116**	82,968	(2,274)	80,694

[1]Reinsurance balances are reported within other assets (note 31).

(1) Life insurance
The movement in life insurance contract and participating investment contract liabilities over the year can be analysed as follows:

	Insurance contracts	Participating investment contracts	Gross £m	Reinsurance[1] £m	Net £m
At 1 January 2012	62,409	15,631	78,040	(2,452)	75,588
New business	2,757	65	2,822	(67)	2,755
Changes in existing business	668	794	1,462	253	1,715
Change in liabilities charged to the income statement (note 10)	3,425	859	4,284	186	4,470
Exchange and other adjustments	(169)	(1)	(170)	9	(161)
At 31 December 2012	65,665	16,489	82,154	(2,257)	79,897
New business	**4,008**	**295**	**4,303**	**(28)**	**4,275**
Changes in existing business	**3,230**	**(2,349)**	**881**	**76**	**957**
Change in liabilities charged to the income statement (note 10)	**7,238**	**(2,054)**	**5,184**	**48**	**5,232**
Exchange and other adjustments	**7**	**(11)**	**(4)**	**(7)**	**(11)**
Disposal of business	**(5,260)**	**(8)**	**(5,268)**	**1,541**	**(3,727)**
At 31 December 2013	**67,650**	**14,416**	**82,066**	**(675)**	**81,391**

[1]Reinsurance balances are reported within other assets (note 31).

36 Liabilities of the Group arising from insurance contracts and participating investment contracts (continued)

Liabilities for life insurance contracts and participating investment contracts can be split into with-profit fund liabilities, accounted for using the PRA's realistic capital regime (realistic liabilities) and non-profit fund liabilities, accounted for using a prospective actuarial discounted cash flow methodology, as follows:

	2013			2012		
	With-profit fund £m	**Non-profit fund £m**	**Total £m**	With-profit fund £m	Non-profit fund £m	Total £m
Insurance contracts	**11,739**	**55,911**	**67,650**	12,398	53,267	65,665
Participating investment contracts	**9,227**	**5,189**	**14,416**	9,646	6,843	16,489
Total	**20,966**	**61,100**	**82,066**	22,044	60,110	82,154

With-profit fund realistic liabilities
(i) Business description
The Group has with-profit funds within Scottish Widows plc and Clerical Medical Investment Group Limited containing both insurance contracts and participating investment contracts.

The primary purpose of the conventional and unitised business written in the with-profit funds is to provide a smoothed investment vehicle to the policyholders, protecting them against short-term market fluctuations. Payouts may be subject to a guaranteed minimum payout if certain policy conditions are met. With-profit policyholders are entitled to at least 90 per cent of the distributed profits, with the shareholders receiving the balance. The policyholders are also usually insured against death and the policy may carry a guaranteed annuity option at retirement.

In August 2013 the Group announced the sale of Heidelberger Leben, which is expected to complete in the first quarter of 2014.

(ii) Method of calculation of liabilities
With-profit liabilities are stated at their realistic value, the main components of which are:

- With-profit benefit reserve, the total asset shares for with-profit policies;
- Cost of options and guarantees (including guaranteed annuity options);
- Deductions levied against asset shares;
- Planned enhancements to with-profits benefits reserve; and
- Impact of the smoothing policy.

The realistic assessment is carried out using a stochastic simulation model which values liabilities on a market-consistent basis. The calculation of realistic liabilities uses best estimate assumptions for mortality, persistency rates and expenses. These are calculated in a similar manner to those used for the value of in-force business as discussed in note 27.

(iii) Assumptions
Key assumptions used in the calculation of with-profit liabilities, and the processes for determining these, are:

Investment returns and discount rates
The realistic capital regime dictates that with-profit fund liabilities are valued on a market-consistent basis. This is achieved by the use of a valuation model which values liabilities on a basis calibrated to tradable market option contracts and other observable market data. The with-profit fund financial options and guarantees are valued using a stochastic simulation model where all assets are assumed to earn, on average, the risk-free yield and all cash flows are discounted using the risk-free yield. The risk-free yield is defined as the spot yield derived from the relevant government bond yield curve.

Guaranteed annuity option take-up rates
Certain pension contracts contain guaranteed annuity options that allow the policyholder to take an annuity benefit on retirement at annuity rates that were guaranteed at the outset of the contract. For contracts that contain such options, key assumptions in determining the costs of the options are economic conditions in which the option has value, mortality rates and take-up rates of other options. The financial impact is dependent on the value of corresponding investments, interest rates and longevity at the time of the claim.

Investment volatility
The calibration of the stochastic simulation model uses implied volatilities of derivatives where possible, or historical volatility where it is not possible to observe meaningful prices.

Mortality
The mortality assumptions, including allowances for improvements in longevity for annuitants, are set with regard to the Group's actual experience where this is significant, and relevant industry data otherwise.

36 Liabilities of the Group arising from insurance contracts and participating investment contracts (continued)

Lapse rates (persistency)
Lapse rates refer to the rate of policy termination or the rate at which policyholders stop paying regular premiums due under the contract.

Historical persistency experience is analysed using statistical techniques. As experience can vary considerably between different product types and for contracts that have been in force for different periods, the data is broken down into broadly homogenous groups for the purposes of this analysis.

The most recent experience is considered along with the results of previous analyses and management's views on future experience, taking into consideration potential changes in future experience that may result from guarantees and options becoming more valuable under adverse market conditions, in order to determine a 'best estimate' view of what persistency will be. In determining this best estimate view a number of factors are considered, including the credibility of the results (which will be affected by the volume of data available), any exceptional events that have occurred during the period under consideration, any known or expected trends in underlying data and relevant published market data.

Non-profit fund liabilities
(i) Business description
The Group principally writes the following types of life insurance contracts within its non-profit funds. Shareholder profits on these types of business arise from management fees and other policy charges.

Unit-linked business – This includes unit-linked pensions and unit-linked bonds, the primary purpose of which is to provide an investment vehicle where the policyholder is also insured against death.

Life insurance – The policyholder is insured against death or permanent disability, usually for predetermined amounts. Such business includes whole-of-life and term assurance and long-term creditor policies.

Annuities – The policyholder is entitled to payments for the duration of their life and is therefore insured against surviving longer than expected.

German insurance business is written through the Group's subsidiary Heidelberger Leben and comprises policies similar to the UK definitions above, except that there is participation by the policyholder in the investment, insurance and expense profits of Heidelberger Leben. A minimum level of policyholder participation is prescribed by German Law. The following types of life insurance contracts are written:

– Traditional or unit linked endowment or pensions business; and
– Life insurance business

In August 2013 the Group announced the sale of Heidelberger Leben, which is expected to complete in the first quarter of 2014.

(ii) Method of calculation of liabilities
The non-profit fund liabilities are determined on the basis of recognised actuarial methods and consistent with the approach required by regulatory rules. The methods used involve estimating future policy cash flows over the duration of the in-force book of policies, and discounting the cash flows back to the valuation date allowing for probabilities of occurrence.

(iii) Assumptions
Generally, assumptions used to value non-profit fund liabilities are prudent in nature and therefore contain a margin for adverse deviation. This margin for adverse deviation is based on management's judgement and reflects management's views on the inherent level of uncertainty. The key assumptions used in the measurement of non-profit fund liabilities are:

Interest rates
The rates used are derived in accordance with the guidelines set by local regulatory bodies. These limit the rates of interest that can be used by reference to a number of factors including the redemption yields on fixed interest assets at the valuation date.

Margins for risk are allowed for in the assumed interest rates. These are derived from the limits in the guidelines set by local regulatory bodies, including reductions made to the available yields to allow for default risk based upon the credit rating of the securities allocated to the insurance liability.

Mortality and morbidity
The mortality and morbidity assumptions, including allowances for improvements in longevity for annuitants, are set with regard to the Group's actual experience where this provides a reliable basis, and relevant industry data otherwise, and include a margin for adverse deviation. For German business appropriate industry tables have been considered.

36 Liabilities of the Group arising from insurance contracts and participating investment contracts (continued)

Lapse rates (persistency)
Lapse rates are allowed for on some non-profit fund contracts. The process for setting these rates is as described for with-profit liabilities, however a prudent scenario is assumed by the inclusion of a margin for adverse deviation within the non-profit fund liabilities.

Maintenance expenses
Allowance is made for future policy costs explicitly. Expenses are determined by reference to an internal analysis of current and expected future costs plus a margin for adverse deviation. Explicit allowance is made for future expense inflation. For German business appropriate cost assumptions have been set in accordance with the rules of the local regulatory body.

Key changes in assumptions
A detailed review of the Group's assumptions in 2013 resulted in the following key impacts on profit before tax:

- Change in persistency assumptions (£221 million decrease).
- Change in the assumption in respect of current and future mortality rates (£114 million increase).
- Change in expenses assumptions (£34 million increase).
- Move to swap curves to derive risk-free rates (£174 million increase).
- Determination of illiquidity premium for annuity business based on actual asset allocation and change to assumed level of illiquidity within illiquid assets (£118 million increase).

These amounts include the impacts of movements in liabilities and the value of in-force business in respect of insurance contracts and participating investment contracts.

(2) Non-life insurance
Gross non-life insurance contract liabilities are analysed by line of business as follows:

	2013 £m	2012 £m
Credit protection	**60**	94
Home	**673**	718
Health	**2**	2
Total gross non-life insurance contract liabilities	**735**	814

For non-life insurance contracts, the methodology and assumptions used in relation to determining the bases of the earned premium and claims provisioning levels are derived for each individual underwritten product. Assumptions are intended to be neutral estimates of the most likely or expected outcome. There has been no significant change in the assumptions and methodologies used for setting reserves.

The reserving methodology and associated assumptions are set out below:

The unearned premium reserve is determined on a basis that reflects the length of time for which contracts have been in force and the projected incidence of risk over the term of each contract.

Claims outstanding comprise those claims that have been notified and those that have been incurred but not reported. Claims incurred but not reported are determined based on the historical emergence of claims and their average cost. The notified claims element represents the best estimate of the cost of claims reported using projections and estimates based on historical experience.

The movements in non-life insurance contract liabilities and reinsurance assets over the year have been as follows:

	Gross £m	**Reinsurance[1] £m**	**Net £m**
Provisions for unearned premiums			
At 1 January 2012	566	(23)	543
Increase in the year	1,081	(31)	1,050
Release in the year	(1,153)	38	(1,115)
Change in provision for unearned premiums charged to income statement (note 8)	(72)	7	(65)
At 31 December 2012	494	(16)	478
Increase in the year	**972**	**(18)**	**954**
Release in the year	**(1,021)**	**24**	**(997)**
Change in provision for unearned premiums charged to income statement (note 8)	**(49)**	**6**	**(43)**
Exchange translation	**(3)**	**–**	**(3)**
At 31 December 2013	**442**	**(10)**	**432**

[1]Reinsurance balances are reported within other assets (note 31).

36 Liabilities of the Group arising from insurance contracts and participating investment contracts (continued)

These provisions represent the liability for short-term insurance contracts for which the Group's obligations are not expired at the year end.

	Gross £m	Reinsurance £m	Net £m
Claims outstanding			
Notified claims	313	(1)	312
Incurred but not reported	82	(1)	81
At 1 January 2012	395	(2)	393
Cash paid for claims settled in the year	(455)	1	(454)
Increase (decrease) in liabilities:			
Arising from current year claims	492	–	492
Arising from prior year claims	(111)	–	(111)
Change in liabilities charged to income statement (note 10)	(74)	1	(73)
Exchange and over adjustments	(1)	–	(1)
At 31 December 2012	320	(1)	319
Cash paid for claims settled in the year	**(385)**	**–**	**(385)**
Increase (decrease) in liabilities:			
Arising from current year claims	**379**	**–**	**379**
Arising from prior year claims	**(27)**	**1**	**(26)**
Change in liabilities charged to income statement (note 10)	**(33)**	**1**	**(32)**
Exchange and other adjustments	**6**	**–**	**6**
At 31 December 2013	**293**	**–**	**293**
Notified claims	**263**	**–**	**263**
Incurred but not reported	**30**	**–**	**30**
At 31 December 2013	**293**	**–**	**293**
Notified claims	280	–	280
Incurred but not reported	40	(1)	39
At 31 December 2012	320	(1)	319

36 Liabilities of the Group arising from insurance contracts and participating investment contracts (continued)

Non-life insurance claims development table

The development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. The top half of the table below illustrates how the Group's estimate of total claims outstanding for each accident year shown has changed at successive year ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the balance sheet. The accident year basis is considered the most appropriate for the business written by the Group.

Non-life insurance all risks – gross

	Accident year							
	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	**2013 £m**	**Total £m**
Estimate of ultimate claims costs								
At end of accident year	317	205	262	609	446	421	**349**	**2,986**
One year later	311	199	237	517	366	382		
Two years later	299	195	216	497	353			
Three years later	292	187	208	493				
Four years later	285	186	276					
Five years later	286	186						
Six years later	286							
Current estimate in respect of above claims	286	186	276	493	353	382	**349**	**2,325**
Current estimate of claims relating to HBOS general insurance business transferred in 2010	388	256	207	–	–	–	**–**	**851**
Current estimate of cumulative claims	674	442	483	493	353	382	**349**	**3,176**
Cumulative payments to date	(671)	(436)	(475)	(475)	(332)	(344)	**(165)**	**(2,898)**
Liability recognised in the balance sheet	3	6	8	18	21	38	**184**	**278**
Liability in respect of earlier years								**–**
Total liability included in the balance sheet								**278**

The liability of £278 million shown in the above table excludes £10 million of unallocated claims handling expenses and £5 million of unexpired risk reserve.

37 Life insurance sensitivity analysis of the Group

The following table demonstrates the effect of reasonably possible changes in key assumptions on profit before tax and equity disclosed in these financial statements assuming that the other assumptions remain unchanged. In practice this is unlikely to occur, and changes in some assumptions may be correlated. These amounts include movements in assets, liabilities and the value of the in-force business in respect of insurance contracts and participating investment contracts. The impact is shown in one direction but can be assumed to be reasonably symmetrical.

31 December 2013	**Change in variable**	**Increase (reduction) in profit before tax £m**	**Increase (reduction) in equity £m**
Non-annuitant mortality[1]	5% reduction	**39**	**31**
Annuitant mortality[2]	5% reduction	**(151)**	**(121)**
Lapse rates[3]	10% reduction	**132**	**106**
Future maintenance and investment expenses[4]	10% reduction	**194**	**155**
Risk-free rate[5]	0.25% reduction	**50**	**40**
Guaranteed annuity option take-up[6]	5% reduction	**–**	**–**
Equity investment volatility[7]	1% reduction	**(8)**	**(6)**
Widening of credit default spreads on corporate bonds[8]	0.25% reduction	**(238)**	**(191)**
Increase in illiquidity premia[9]	0.10% reduction	**82**	**66**

31 December 2012	Change in variable	Increase (reduction) in profit before tax £m	Increase (reduction) in equity £m
Non-annuitant mortality[1]	5% reduction	43	33
Annuitant mortality[2]	5% reduction	(170)	(131)
Lapse rates[3]	10% reduction	117	90
Future maintenance and investment expenses[4]	10% reduction	199	153
Risk-free rate[5]	0.25% reduction	26	20
Guaranteed annuity option take-up[6]	5% addition	(9)	(7)
Equity investment volatility[7]	1% addition	(7)	(5)
Widening of credit default spreads on corporate bonds[8]	0.25% addition	(239)	(184)
Increase in illiquidity premia[9]	0.10% addition	93	72

Assumptions have been flexed on the basis used to calculate the value of in-force business and the realistic and statutory reserving bases.

[1]This sensitivity shows the impact of reducing mortality and morbidity rates on non-annuity business to 95 per cent of the expected rate.

[2]This sensitivity shows the impact on the annuity and deferred annuity business of reducing mortality rates to 95 per cent of the expected rate.

[3]This sensitivity shows the impact of reducing lapse and surrender rates to 90 per cent of the expected rate.

[4]This sensitivity shows the impact of reducing maintenance expenses and investment expenses to 90 per cent of the expected rate.

[5]This sensitivity shows the impact on the value of in-force business, financial options and guarantee costs, statutory reserves and asset values of reducing the risk-free rate by 25 basis points.

[6]This sensitivity shows the impact of a flat 5 per cent addition to the expected rate.

[7]This sensitivity shows the impact of a flat 1 per cent addition to the expected rate.

[8]This sensitivity shows the impact of a 25 basis point increase in credit default spreads on corporate bonds and the corresponding reduction in market values. Government bond yields, the non-annuity risk-free rate and illiquidity premia are all assumed to be unchanged.

[9]This sensitivity shows the impact of a 10 basis point increase in the allowance for illiquidity premia. It assumes the overall spreads on assets are unchanged and hence market values are unchanged. Swap curves and the non-annuity risk-free rate are both assumed to be unchanged. The increased illiquidity premium increases the annuity risk-free rate.

38 Liabilities of the Group arising from non-participating investment contracts

The movement in liabilities arising from non-participating investment contracts may be analysed as follows:

	Gross £m	Reinsurance[1] £m	Net £m
At 1 January 2012	49,636	(57)	49,579
New business	4,236	(1)	4,235
Changes in existing business	526	12	538
Exchange and other adjustments	(26)	–	(26)
At 31 December 2012	54,372	(46)	54,326
New business	**1,294**	**(1)**	**1,293**
Changes in existing business	**1,899**	**–**	**1,899**
Disposal of businesses	**(29,953)**	**–**	**(29,953)**
Exchange and other adjustments	**(22)**	**–**	**(22)**
At 31 December 2013	**27,590**	**(47)**	**27,543**

[1]Reinsurance balances are reported within other assets (note 31).

39 Unallocated surplus within insurance businesses for the Group

The movement in the unallocated surplus within long-term insurance business over the year can be analysed as follows:

	2013 £m	2012 £m
At 1 January	**267**	300
Change in unallocated surplus recognised in the income statement (note 10)	**123**	(31)
Exchange and other adjustments	**1**	(2)
At 31 December	**391**	267

40 Other liabilities

	The Group		The Bank	
	2013 £m	2012 £m	2013 £m	2012 £m
Settlement balances	**3,358**	2,032	**642**	489
Unitholders' interest in Open Ended Investment Companies	**22,219**	33,651	**–**	–
Liabilities of disposal groups (note 15)	**7,302**	214	**–**	–
Other creditors and accruals	**8,241**	11,553	**3,764**	4,035
	41,120	47,450	**4,406**	4,524

[1]Restated – see note 1.

41 Retirement benefit obligations

	2013 £m	2012[1] £m
Charge to the Group income statement		
Past service charges (credits)[2]	**104**	(250)
Other	**392**	349
Defined benefit pension schemes	**496**	99
Other post-retirement benefit schemes	**7**	11
Total defined benefit schemes	**503**	110
Defined contribution pension schemes	**255**	229
Total charge to the income statement	**758**	339

[1]Restated – see note 1.

[2] The Group has agreed certain changes to early retirement and commutation factors in two of its principal defined benefit pension schemes, resulting in a cost of £104 million recognised in the Group's income statement in the year ended 31 December 2013. In 2012, there was a net credit of £250 million following a decision to link discretionary pension increases in certain schemes to the Consumer Price Index (note 11).

	The Group		The Bank	
	2013 £m	2012[1] £m	2013 £m	2012[1] £m
Amounts recognised in the balance sheet				
Retirement benefit assets	**98**	741	**–**	3
Retirement benefit obligations	**(1,096)**	(1,905)	**(413)**	(1,121)
Total amounts recognised in the balance sheet	**(998)**	(1,164)	**(413)**	(1,118)

The total amount recognised in the balance sheet relates to:

	The Group		The Bank	
	2013 £m	2012[1] £m	2013 £m	2012[1] £m
Defined benefit pension schemes	**(787)**	(957)	**(281)**	(989)
Other post-retirement benefit schemes	**(211)**	(207)	**(132)**	(129)
Total amounts recognised in the balance sheet	**(998)**	(1,164)	**(413)**	(1,118)

[1]Restated – see note 1.

Pension schemes

Defined benefit schemes

(i) Characteristics of and risks associated with the Group's schemes

The Group has established a number of defined benefit pension schemes in the UK and overseas. All significant schemes are based in the UK, with the three most significant being the defined benefit sections of the Lloyds Bank Pension Schemes No's 1 and 2 and the HBOS Final Salary Pension Scheme. These schemes provide retirement benefits calculated as a percentage of final pensionable salary depending upon the length of service; the minimum retirement age under the rules of the schemes at 31 December 2013 was generally 55 although certain categories of member are deemed to have a contractual right to retire at 50.

The Group operates a number of funded and unfunded pension arrangements, the majority, including the three most significant schemes, are funded schemes in the UK. All schemes are operated as separate legal entities under trust law by the trustees. All UK schemes are funded in compliance with the Pensions Act 2004. A valuation exercise is carried out for each scheme at least every three years, whereby scheme assets are measured at market value and liabilities ('Technical Provisions') are measured using prudent assumptions, if a deficit is identified a recovery plan is agreed and sent to the Pensions Regulator for review. The outcome of this valuation process, including agreement of any recovery plans, is agreed between the Group and the scheme Trustee. The Group's overseas defined benefit pension schemes are subject to local regulatory arrangements.

The latest full valuations of the three main schemes were carried out as at 30 June 2011; the results have been updated to 31 December 2013 by qualified independent actuaries. The last full valuations of other Group schemes were carried out on a number of different dates; these have been updated to 31 December 2013 by qualified independent actuaries.

During 2009, the Group made one-off contributions to the Lloyds Bank Pension Scheme No 1 and Lloyds Bank Pension Scheme No 2 of approximately £1 billion in aggregate. These contributions took the form of interests in limited liability partnerships for each of the two schemes which contained assets of approximately £5.4 billion in aggregate entitling the schemes to annual payments of approximately £215 million in aggregate until 31 December 2014. Thereafter, assuming that all distributions have been made, the value of the partnership interests will equate to a nominal amount. At 31 December 2013, the limited liability partnerships held assets of approximately £5.4 billion and cash payments of £215 million were made to the pension schemes during the year (2012: £215 million). The Group has also established two private limited companies which hold assets to provide security for the Group's obligations to the HBOS Final Salary Pension Scheme and a section of the Lloyds Bank Pension Scheme No 1. At 31 December 2013 these held assets of approximately £2.6 billion in aggregate; they do not make any distributions to the pension schemes. The limited liability partnerships and private limited companies are consolidated fully in the Group's balance sheet (see note 21).

The terms of the above arrangements require the Group to maintain assets in these vehicles to agreed minimum values in order to secure obligations owed to the relevant Group pension schemes. The Group has satisfied this requirement during 2013.

41 Retirement benefit obligations (continued)

The Group currently expects to pay contributions of approximately £525 million to its defined benefit schemes in 2014.

The responsibility for the governance of the Group's funded defined benefit pension schemes lies with the Pension Trustees. Each of the Group's funded UK defined benefit pension schemes are managed by a Trustee Board (the Trustee) whose role is to ensure that their Scheme is administered in accordance with the Scheme rules and relevant legislation, and to safeguard the assets in the best interests of all members and beneficiaries. The Trustee is solely responsible for setting investment policy and for agreeing funding requirements with the employer through the triennial valuation process. The Board of Trustees must be composed of representatives of the Company and plan participants in accordance with the Scheme's regulations.

(ii) Amounts in the financial statements

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Amount included in the balance sheet				
Present value of funded obligations	**(33,355)**	(31,324)	**(16,714)**	(16,060)
Fair value of scheme assets	**32,568**	30,367	**16,433**	15,071
Net amount recognised in the balance sheet	**(787)**	(957)	**(281)**	(989)

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Net amount recognised in the balance sheet				
At 1 January	**(957)**	592	**(989)**	(86)
Net defined benefit pension expense	**(496)**	(99)	**(188)**	(128)
Actuarial losses on defined benefit obligation	**(1,265)**	(2,607)	**(332)**	(1,172)
Return on plan assets	**1,133**	484	**736**	230
Employer contributions	**801**	667	**500**	164
Benefits paid	**3**	2	**1**	1
Exchange and other adjustments	**(6)**	4	**(9)**	2
At 31 December	**(787)**	(957)	**(281)**	(989)

41 Retirement benefit obligations (continued)

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Movements in the defined benefit obligation				
At 1 January	**(31,324)**	(28,236)	**(16,060)**	(14,635)
Current service cost	**(351)**	(360)	**(139)**	(122)
Interest expense	**(1,414)**	(1,373)	**(685)**	(595)
Remeasurements:				
Actuarial (losses) gains – experience	**184**	(495)	**143**	(255)
Actuarial (losses) gains – demographic assumptions	**15**	(233)	**3**	(142)
Actuarial (losses) gains – financial assumptions	**(1,464)**	(1,879)	**(478)**	(775)
Benefits paid	**1,061**	995	**543**	461
Past service cost	**(5)**	(16)	**6**	(11)
Employee contributions	**(3)**	(3)	**(2)**	–
Curtailments	**(104)**	250	**(86)**	3
Settlements	**62**	12	**55**	4
Exchange and other adjustments	**(12)**	14	**(14)**	7
At 31 December	**(33,355)**	(31,324)	**(16,714)**	(16,060)
The total defined benefit obligation comprises:				
Amounts owing to active members	**(8,647)**	(8,004)	**(3,874)**	(3,694)
Amounts owing to deferred members	**(9,927)**	(8,927)	**(5,047)**	(4,563)
Amounts owing to pensioners	**(13,547)**	(13,207)	**(7,069)**	(7,097)
Amounts owing to dependents	**(1,234)**	(1,186)	**(724)**	(706)
Total defined benefit obligation at 31 December	**(33,355)**	(31,324)	**(16,714)**	(16,060)

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Changes in the fair value of scheme assets				
At 1 January	**30,367**	28,828	**15,071**	14,549
Return on plan assets excluding amounts included in interest income	**1,133**	484	**736**	230
Interest income	**1,392**	1,433	**710**	609
Employer contributions	**801**	667	**500**	164
Employee contributions	**3**	3	**2**	–
Benefits paid	**(1,058)**	(993)	**(542)**	(460)
Settlements	**(55)**	(16)	**(41)**	(4)
Administrative costs paid	**(21)**	(29)	**(8)**	(12)
Exchange and other adjustments	**6**	(10)	**5**	(5)
At 31 December	**32,568**	30,367	**16,433**	15,071

41 Retirement benefit obligations (continued)

Composition of scheme assets:

The Group	2013 Quoted £m	2013 Unquoted £m	2013 Total £m	2012 Quoted £m	2012 Unquoted £m	2012 Total £m
Equity instruments	**1,276**	**–**	**1,276**	2,016	–	2,016
Debt instruments	**12,845**	**–**	**12,845**	10,704	–	10,704
Property	**–**	**1,062**	**1,062**	–	1,100	1,100
Pooled investment vehicles	**4,684**	**10,671**	**15,355**	4,337	10,975	15,312
Money market instruments, derivatives, cash and other assets and liabilities	**506**	**1,524**	**2,030**	522	713	1,235
At 31 December	**19,311**	**13,257**	**32,568**	17,579	12,788	30,367

The Bank	2013 Quoted £m	2013 Unquoted £m	2013 Total £m	2012 Quoted £m	2012 Unquoted £m	2012 Total £m
Equity instruments	**530**	**–**	**530**	896	–	896
Debt instruments	**5,740**	**–**	**5,740**	4,967	–	4,967
Property	**–**	**612**	**612**	–	541	541
Pooled investment vehicles	**1,797**	**6,203**	**8,000**	1,251	4,148	5,399
Money market instruments, derivatives, cash and other assets and liabilities	**429**	**1,122**	**1,551**	275	312	587
At 31 December	**8,496**	**7,937**	**16,433**	7,389	5,001	12,390

The assets of all the funded plans are held independently of the Group's assets in separate trustee administered funds.

An analysis by credit rating of the pension schemes' debt securities is provided below:

The Group	AAA £m	AA £m	A £m	BBB £m	Rated BB or lower £m	Not rated £m	Total £m
At 31 December 2013							
Fixed interest government bonds	**877**	**884**	**143**	**218**	**80**	**–**	**2,202**
Index linked government bonds	**6,955**	**–**	**–**	**–**	**–**	**–**	**6,955**
Corporate and other debt securities	**127**	**442**	**1,305**	**1,206**	**482**	**75**	**3,637**
Asset-backed securities	**–**	**–**	**–**	**–**	**–**	**51**	**51**
Total debt securities	**7,959**	**1,326**	**1,448**	**1,424**	**562**	**126**	**12,845**
At 31 December 2012							
Fixed interest government bonds	772	97	29	94	–	–	992
Index linked government bonds	6,288	–	–	–	–	–	6,288
Corporate and other debt securities	153	478	1,289	835	243	85	3,083
Asset-backed securities	–	–	27	208	57	49	341
Total debt securities	7,213	575	1,345	1,137	300	134	10,704

41 Retirement benefit obligations (continued)

The Bank	AAA £m	AA £m	A £m	BBB £m	Rated BB or lower £m	Not rated £m	Total £m
At 31 December 2013							
Fixed interest government bonds	**169**	**148**	**38**	**11**	**1**	**–**	**367**
Index linked government bonds	**4,162**	**–**	**–**	**–**	**–**	**–**	**4,162**
Corporate and other debt securities	**32**	**137**	**496**	**369**	**149**	**28**	**1,211**
Total debt securities	**4,363**	**285**	**534**	**380**	**150**	**28**	**5,740**
At 31 December 2012							
Fixed interest government bonds	237	49	19	41	–	–	346
Index linked government bonds	3,352	–	–	–	–	–	3,352
Corporate and other debt securities	23	162	492	297	115	24	1,113
Asset-backed securities	–	–	14	111	30	1	156
Total debt securities	3,612	211	525	449	145	25	4,967

The pension schemes' pooled investment vehicles comprise:

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
UK equity investment funds	**457**	2,996	**161**	910
Non-UK equity investment funds	**2,177**	2,265	**1,553**	1,280
Fixed interest and index linked government bond funds	**277**	331	**–**	–
Corporate bond funds	**469**	466	**352**	303
Private equity	**963**	902	**707**	563
Infrastructure funds	**690**	635	**470**	370
Property partnerships and unit trusts	**383**	427	**236**	239
Hedge and mutual funds	**2,382**	1,846	**785**	367
Reinsurance (OEICs) vehicles	**654**	315	**262**	–
Mezzanine debt funds	**108**	111	**86**	74
Long Term Equity funds	**84**	114	**67**	76
Emerging market equity funds	**1,018**	1,051	**674**	582
Emerging market debt funds	**1,142**	705	**645**	240
Multi-strategy alternative credit funds	**749**	–	**598**	–
Asset Backed Pension Contribution Schemes	**214**	429	**171**	278
Liquidity funds	**3,588**	2,719	**1,233**	117
At 31 December	**15,355**	15,312	**8,000**	5,399

41 Retirement benefit obligations (continued)

The expense recognised in the income statement for the year ended 31 December comprises:

	The Group	
	2013 £m	2012 £m
Current service cost	**351**	360
Net interest amount	**22**	(60)
Past service credits and curtailments (see below)	**104**	(250)
Settlements	**(7)**	4
Past service cost – plan amendments	**5**	16
Plan administration costs incurred during the year	**21**	29
Total defined benefit pension expense	**496**	99

Following a review of policy in respect of discretionary pension increases in relation to the Group's defined benefit pension schemes, increases in certain schemes are now linked to the Consumer Price Index rather than the Retail Price Index. The impact of this change was a reduction in the Group's defined benefit obligation of £258 million, recognised in the Group's income statement in 2012, net of a charge of £8 million resulting from a change to the commutation factors in one of the Group's smaller schemes.

Assumptions

The principal actuarial and financial assumptions used in valuations of the defined benefit pension schemes were as follows:

	2013 %	2012 %
Discount rate	**4.60**	4.60
Rate of inflation:		
Retail Prices Index	**3.30**	2.90
Consumer Price Index	**2.30**	2.00
Rate of salary increases	**2.00**	2.00
Rate of increase for pensions in payment	**2.80**	2.70
	2013 Years	2012 Years
Life expectancy for member aged 60, on the valuation date:		
Men	**27.4**	27.4
Women	**29.7**	29.7
Life expectancy for member aged 60, 15 years after the valuation date:		
Men	**28.6**	28.5
Women	**31.0**	30.9

The mortality assumptions used in the scheme valuations are based on standard tables published by the Institute and Faculty of Actuaries which were adjusted in line with the actual experience of the relevant schemes. The table shows that a member retiring at age 60 at 31 December 2013 is assumed to live for, on average, 27.4 years for a male and 29.7 years for a female. In practice there will be much variation between individual members but these assumptions are expected to be appropriate across all members. It is assumed that younger members will live longer in retirement than those retiring now. This reflects the expectation that mortality rates will continue to fall over time as medical science and standards of living improve. To illustrate the degree of improvement assumed the table also shows the life expectancy for members aged 45 now, when they retire in 15 years time at age 60.

(iii) Amount timing and uncertainty of future cash flows

Risk exposure of the defined benefit schemes

Whilst the Group is not exposed to any unusual, entity specific or scheme specific risks in its defined benefit pension schemes, it is exposed to a number of significant risks, detailed below:

Inflation rate risk: the majority of the plans' benefit obligations are linked to inflation both in deferment and once in payment. Higher inflation will lead to higher liabilities although this will be partially offset by holdings of inflation-linked gilts and, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation.

Interest rate risk: The defined benefit obligation is determined using a discount rate derived from yields on AA-rated corporate bonds. A decrease in corporate bond yields will increase plan liabilities although this will be partially offset by an increase in the value of bond holdings.

Longevity risk: The majority of the schemes obligations are to provide benefits for the life of the members so increases in life expectancy will result in an increase in the plans' liabilities.

Investment risk: Scheme assets are invested in a diversified portfolio of debt securities, equities and other return-seeking assets. If the assets underperform the discount rate used to calculate the defined benefit obligation, it will reduce the surplus or increase the deficit. Volatility in asset values and the discount rate will lead to volatility in the net pension liability on the Group's balance sheet and in other comprehensive income. To a lesser extent this will also lead to volatility in the IAS19R pension expense in the Group's income statement.

The ultimate cost of the defined benefit obligations to the Group will depend upon actual future events rather than the assumptions made. The assumptions made are unlikely to be borne out in practice and as such the cost may be higher or lower than expected.

41 Retirement benefit obligations (continued)

Sensitivity analysis

The effect of reasonably possible changes in key assumptions on the value of scheme liabilities and the resulting pension charge in the Group's income statement and on the net defined benefit pension scheme liability, for the Group's three most significant schemes is set out below. The sensitivities provided assume that all other assumptions and the value of the schemes' assets remain unchanged, and are not intended to represent changes that are at the extremes of possibility. The calculations are approximate in nature and full detailed calculations could lead to a different result. It is unlikely that isolated changes to individual assumptions will be experienced in practice. Due to the correlation of assumptions, aggregating the effects of these isolated changes may not be a reasonable estimate of the actual effect of simultaneous changes in multiple assumptions.

	Effect of reasonably possible alternative assumptions			
	Increase (decrease) in the income statement charge		Increase (decrease) in the net defined benefit pension scheme liability	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Inflation (including pension increases):[1]				
Increase of 0.5 per cent	**108**	137	**1,833**	2,362
Decrease of 0.5 per cent	**(93)**	(110)	**(1,706)**	(1,888)
Discount rate:[2]				
Increase of 0.5 per cent	**(166)**	(152)	**(2,638)**	(2,396)
Decrease of 0.5 per cent	**155**	151	**2,890**	2,740
Expected life expectancy of members:				
Increase of one year	**38**	40	**686**	675
Decrease of one year	**(36)**	(39)	**(676)**	(664)

[1]At 31 December 2013, the assumed rate of RPI inflation is 3.3 per cent and CPI inflation 2.3 per cent (2012: RPI 2.90 per cent and CPI 2.00 per cent).

[2]At 31 December 2013, the assumed discount rate is 4.6 per cent (2012: 4.60 per cent).

Sensitivity analysis method and assumptions

The sensitivity analysis above reflects the impact on the Group's three most significant schemes which account for over 90 per cent of the Group's defined benefit obligations. Whilst differences in the underlying liability profiles for the remainder of the Group's pension arrangements mean they may exhibit slightly different sensitivities to variations in these assumptions, the sensitivities provided above are indicative of the impact across the Group as a whole.

The inflation assumption sensitivity applies to both the assumed rate of increase in the Consumer Prices Index (CPI) and the Retail Prices Index (RPI), and include the impact on the rate of increases to pensions, both before and after retirement. These pension increases are linked to inflation (either CPI or RPI) subject to certain minimum and maximum limits.

The sensitivity analysis (including the inflation sensitivity) does not include the impact of a change in the rate of salary increases. These increases are capped at a maximum of 2 per cent per annum, and have been assumed to increase at this maximum rate in both 2012 and 2013, therefore there is no sensitivity to an increase in this assumption. The Group is currently in formal consultation with the members of its defined benefit pension schemes regarding proposed changes to the way pensionable pay is calculated, which if introduced would reduce the rate of salary increases to zero. If implemented these changes would have the effect of decreasing both the Group's income statement charge and net defined benefit scheme liability.

The life expectancy assumption has been applied by allowing for an increase/decrease in life expectation from age 60 of one year, based upon the approximate weighted average age for each scheme. Whilst this is an approximate approach and will not give the same result as a one year increase in life expectancy at every age, it provides an appropriate indication of the potential impact on the schemes from changes in life expectancy.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from the re-stated prior year.

Asset-liability matching strategies

The main schemes' assets are invested in a diversified portfolio, consisting primarily of debt securities and equities. The investment strategy is not static and will evolve to reflect the structure of liabilities within the schemes. Specific asset-liability matching strategies for each pension plan are independently determined by the responsible governance body for each scheme and in consultation with the employer.

A significant goal of the asset-liability matching strategies adopted by Group schemes is to reduce volatility caused by changes in market expectations of interest rates and inflation. In the main, this is achieved by investing scheme assets in bonds, primarily fixed interest gilts and index linked gilts, and by entering into interest rate and inflation swap arrangements. These investments are structured to take into account the profile of scheme liabilities, and actively managed to reflect both changing market conditions and changes to the liability profile.

The current asset-liability matching strategy has the objective of mitigating approximately 54 per cent (2012: 45 per cent) of the interest rate volatility and 71 per cent (2012: 54 per cent) of the inflation rate volatility of the liabilities.

41 Retirement benefit obligations (continued)

Maturity profile of defined benefit obligation

The following table provides information on the weighted average duration of the defined benefit pension obligations and the distribution and timing of benefit payments:

	The Group		The Bank	
	2013 Years	2012 Years	**2013 Years**	2012 Years
Duration of the defined benefit obligation	**19**	19	**19**	19
	2013 £m	2012 £m	**2013 £m**	2012 £m
Maturity analysis of benefits expected to be paid				
Benefits expected to be paid within 12 months	**1,067**	999	**532**	460
Benefits expected to be paid between 1 and 2 years	**1,009**	970	**540**	457
Benefits expected to be paid between 2 and 5 years	**3,420**	3,210	**1,822**	1,500
Benefits expected to be paid between 5 and 10 years	**7,207**	6,739	**3,761**	3,088
Benefits expected to be paid between 10 and 15 years	**8,945**	8,446	**4,459**	3,708
Benefits expected to be paid between 15 and 25 years	**21,102**	20,072	**9,791**	8,264
Benefits expected to be paid between 25 and 35 years	**20,851**	19,767	**9,011**	7,620
Benefits expected to be paid between 35 and 45 years	**16,374**	15,508	**6,684**	5,960
Benefits expected to be paid in more than 45 years	**11,403**	11,096	**3,955**	3,515

Maturity analysis method and assumptions

The projected benefit payments are based on the assumptions underlying the assessment of the obligations, including allowance for expected future inflation. They are shown in their undiscounted form and therefore appear large relative to the discounted assessment of defined benefit obligations recognised in the Group's balance sheet. They are in respect of benefits that have been accrued prior to the respective year-end date only and make no allowance for any benefits that may have been accrued subsequently.

Defined contribution schemes

The Group operates a number of defined contribution pension schemes in the UK and overseas, principally Your Tomorrow and the defined contribution sections of the Lloyds Bank Pension Scheme No. 1.

During the year ended 31 December 2013 the charge to the income statement in respect of defined contribution schemes was £255 million (2012: £229 million; 2011: £202 million), representing the contributions payable by the employer in accordance with each scheme's rules.

Other post-retirement benefit schemes

The Group operates a number of schemes which provide post-retirement healthcare benefits and concessionary mortgages to certain employees, retired employees and their dependants. The principal scheme relates to former Lloyds Bank staff and under this scheme the Group has undertaken to meet the cost of post-retirement healthcare for all eligible former employees (and their dependants) who retired prior to 1 January 1996. The Group has entered into an insurance contract to provide these benefits and a provision has been made for the estimated cost of future insurance premiums payable.

For the principal post-retirement healthcare scheme, the latest actuarial valuation of the liability was carried out at 30 June 2008; this valuation has been updated to 31 December 2013 by qualified independent actuaries. The principal assumptions used were as set out above, except that the rate of increase in healthcare premiums has been assumed at 6.90 per cent (2012: 6.50 per cent).

Movements in the other post-retirement benefits obligation:

	2013 £m	2012 £m
At 1 January	**(207)**	(188)
Exchange and other adjustments	**(4)**	(16)
Insurance premiums paid	**7**	8
Charge for the year	**(7)**	(11)
At 31 December	**(211)**	(207)

42 Deferred tax

The movement in the net deferred tax balance is as follows:

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Asset at 1 January				
As previously reported		4,251		3,126
Restatement (notes 1 and 57)		139		186
Restated	**4,602**	4,390	**4,188**	3,312
Exchange and other adjustments	**6**	(14)	**(11)**	(1)
Disposals	**558**	–	**(12)**	–
Income statement (charge) credit (note 14):				
Due to change in UK corporation tax rate	**(602)**	(325)	**(550)**	(324)
Other	**(115)**	(290)	**269**	619
	(717)	(615)	**(281)**	295
Amount (charged) credited to equity:				
Post retirement defined benefit scheme remeasurements	**28**	491	**(80)**	215
Available-for-sale financial assets (note 47)	**274**	344	**366**	366
Share based compensation	**–**	–	**–**	–
Cash flow hedges (note 47)	**378**	6	**(5)**	1
	680	841	**281**	582
Asset at 31 December	**5,129**	4,602	**4,165**	4,188

The statutory position reflects the deferred tax assets and liabilities as disclosed in the consolidated balance sheet and takes account of the inability to offset assets and liabilities where there is no legally enforceable right of offset. The tax disclosure of deferred tax assets and liabilities ties to the amounts outlined in the table below which splits the deferred tax assets and liabilities by type.

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Statutory position				
Deferred tax assets	**5,132**	4,929	**4,165**	4,188
Deferred tax liabilities	**(3)**	(327)	**–**	–
Net deferred tax asset	**5,129**	4,602	**4,165**	4,188
Tax disclosure				
Deferred tax assets	**8,082**	8,940	**4,280**	4,231
Deferred tax liabilities	**(2,953)**	(4,338)	**(115)**	(43)
Net deferred tax asset	**5,129**	4,602	**4,165**	4,188

The deferred tax (charge) credit in the consolidated income statement comprises the following temporary differences:

	2013 £m	2012 £m
Accelerated capital allowances	**482**	410
Pensions and other post-retirement benefits	**(14)**	(237)
Long-term assurance business	**86**	(870)
Allowances for impairment losses	**(86)**	(333)
Trading losses	**(1,041)**	927
Tax on fair value of acquired assets	**322**	28
Other temporary differences	**(466)**	(540)
Deferred tax (charge) credit in the income statement	**(717)**	(615)

42 Deferred tax (continued)

Deferred tax assets and liabilities are comprised as follows:

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Deferred tax assets:				
Pensions and other post retirement benefits	**288**	271	**160**	272
Allowances for impairment losses	**22**	226	**20**	35
Other provisions	**33**	88	**28**	20
Derivatives	**–**	–	**9**	25
Available-for-sale asset revaluation	**–**	286	**–**	–
Tax losses carried forward	**6,338**	7,026	**3,258**	2,969
Accelerated capital allowances	**649**	167	**369**	295
Other temporary differences	**752**	876	**436**	615
Total deferred tax assets	**8,082**	8,940	**4,280**	4,231
Deferred tax liabilities:				
Pensions and other post retirement benefits	**–**	–	**–**	–
Accelerated capital allowances	**–**	–	**–**	–
Long-term assurance business	**(1,195)**	(1,849)	**–**	–
Tax on fair value of acquired assets	**(1,236)**	(1,741)	**–**	–
Available for sale asset revaluation	**(30)**	–	**–**	–
Derivatives	**(208)**	(354)	**–**	–
Effective interest rate	**(19)**	(34)	**(1)**	(2)
Other temporary differences	**(265)**	(360)	**(114)**	(41)
Total deferred tax liabilities	**(2,953)**	(4,338)	**(115)**	(43)

The Finance Act 2013 (the Act) was substantively enacted on 2 July 2013. The Act further reduced the main rate of corporation tax to 21 per cent with effect from 1 April 2014 and 20 per cent with effect from 1 April 2015. The change in the main rate of corporation tax from 23 per cent to 20 per cent has resulted in a reduction of the Group's net deferred tax asset at 31 December 2013 of £643 million, comprising the £602 million charge included in the income statement and a £41 million charge included in equity.

Deferred tax assets

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. Group companies have recognised a deferred tax asset of £6,338 million and £3,258 million for the Bank (2012: £7,026 million for the Group and £2,969 million for the Bank) in relation to trading losses carried forward. After reviews of medium-term profit forecasts, the Group considers that there will be sufficient profits in the future against which these trading losses will be offset.

Deferred tax assets of £593 million for the Group (2012: £939 million) and £nil for the Bank (2012: £nil) have not been recognised in respect of trading losses carried forward, mainly in certain overseas companies and in respect of other temporary differences in the insurance business. Trading losses can be carried forward indefinitely, except for losses in the USA which expire after 20 years.

Deferred tax assets of £169 million for the Group (2012: £330 million) and £nil for the Bank (2012: £24 million) have not been recognised in respect of capital losses carried forward as there are no predicted future capital profits. Capital losses can be carried forward indefinitely.

In addition, deferred tax assets have not been recognised in respect of unrelieved foreign tax carried forward as at 31 December 2013 of £41 million for the Group (2012: £42 million) and £2 million (2012: £2 million) for the Bank, as there are no predicted future taxable profits against which the unrelieved foreign tax credits can be utilised. These tax credits can be carried forward indefinitely.

43 Other provisions

The Group	Provisions for commitments £m	Payment protection insurance £m	Other regulatory provisions £m	Vacant leasehold property £m	Other £m	Total £m
At 1 January 2013	**66**	**2,431**	**935**	**73**	**456**	**3,961**
Exchange and other adjustments	**(40)**	**–**	**12**	**19**	**(32)**	**(41)**
Provisions applied	**–**	**(2,674)**	**(360)**	**(28)**	**(10)**	**(3,072)**
Charge (release) for the year	**–**	**3,050**	**421**	**5**	**13**	**3,489**
At 31 December 2013	**26**	**2,807**	**1,008**	**69**	**427**	**4,337**

The Bank	Provisions for commitments £m	Payment protection insurance £m	Other regulatory provisions £m	Vacant leasehold property £m	Other £m	Total £m
At 1 January 2013	**55**	**1,607**	**323**	**33**	**353**	**2,371**
Exchange and other adjustments	**(55)**	**–**	**(4)**	**–**	**(7)**	**(66)**
Provisions applied	**–**	**(2,037)**	**(174)**	**–**	**(2)**	**(2,213)**
Charge (release) for the year	**–**	**2,169**	**270**	**(2)**	**(44)**	**2,393**
At 31 December 2013	**–**	**1,739**	**415**	**31**	**300**	**2,485**

Provisions for commitments
Provisions are held in cases where the Group is irrevocably committed to advance additional funds, but where there is doubt as to the customer's ability to meet its repayment obligations.

Payment protection insurance
Following the unsuccessful legal challenge by the BBA against the Financial Services Authority (FSA) and the Financial Ombudsman Service (FOS), the Group made provisions totalling £6,775 million in 2011 and 2012 against the costs of paying redress to customers in respect of past sales of PPI policies, including the related administrative expenses.

During 2013 average monthly customer initiated complaints have continued to fall. Good progress has also been made in the planned proactive mailings. There have been some adverse trends (as detailed below), and a further £3,050 million has been added to the provision, of which £500 million was at the half year; £750 million in the third quarter and £1,800 million at the year end. This brings the total amount provided to £9,825 million, of which approximately £2,090 million relates to anticipated administrative expenses. As at 31 December 2013, £2,807 million of the provision remained unutilised (29 per cent of total provision) relative to an average monthly spend including administration costs in the last six months of £230 million. The increase of £3,050 million in 2013, and the overall provision, is underpinned by the following drivers:

– **Volumes of customer initiated complaints (after excluding complaints from customers where no PPI policy was held)** – at 31 December 2012, the provision assumed a total of 2.3 million complaints would be received. Average monthly volumes in 2013 decreased by 54 per cent compared to 2012, and fourth quarter volumes fell in line with the Group's revised end third quarter expectations. However, following further statistical modelling and the results of a customer survey, the Group is now forecasting a slower decline in future volumes than previously expected. A further provision of £870 million was therefore made during the year to reflect this. Approximately 2.5 million complaints have been received to date, with the provision assuming approximately 550,000 in the future compared to an average run-rate of approximately 37,000 per month in the last three months. The table below details the historical complaint trends.

Average monthly complaint volumes – reactive							
Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013
109,893	130,752	110,807	84,751	**61,259**	**54,086**	**49,555**	**37,457**

– **Proactive Mailing resulting from Past Business Reviews (PBR)** – the Group is proactively mailing customers where it has been identified that there was a risk of potential mis-sale. During the year, further groups of customers have been added to the proactive mailing exercise increasing the scope to 2.8 million policies, including approximately 300,000 additional policies in the second half. This, combined with higher than expected response rates from customers covered by the proactive mailing, resulted in a further provision of £470 million for the full year to reflect the additional cost incurred to date and in relation to future mailings.

– **Uphold rates** – average uphold rates per policy have increased from 61 per cent during the first half to 80 per cent for the last six months, with an average of 81 per cent in the fourth quarter. This reflects the impact of changes to the complaint handling policy, in part following consultation with the Financial Conduct Authority (FCA) and feedback from the FOS. In addition to this, there was a greater proportion of proactive mailing complaints received during the period for which uphold rates are higher. The provision assumes a slightly higher uphold rate going forward to allow for further embedding of complaint handling policy changes. The impact of higher uphold rates has resulted in a £335 million increase to the provision.

– **Average redress** – the average redress paid per policy has been relatively stable, but remains higher than expected by approximately £160 per policy due to the product and age mix of the complaints. This has resulted in an additional provision of £135 million.

– **Re-review of previously handled cases** – previously reviewed complaints are being assessed to ensure consistency with the current complaint handling policy. At 31 December 2012 the expected level of re-review was minimal. During 2013, and most notably in the fourth quarter, this has increased to approximately 590,000 cases at an estimated cost of £460 million.

43 Other provisions (continued)

– **Expenses** – given the update to volume related assumptions, the Group has also increased its estimate for administrative expenses which comprise complaint handling costs and costs arising from cases subsequently referred to the FOS, by £780 million.

An Enforcement Team of the FCA is investigating the Group's governance of third party suppliers and potential failings in the PPI complaint handling process. A provision of £50 million has been made in respect of the likely administration costs of responding to the FCA's inquiries. It is not possible at this stage to make any assessment of what, if any, additional liability may result from the investigation.

Since the commencement of the PPI redress programme in 2011 the Group estimates that it has contacted, settled or provided for approximately 40 per cent of the policies sold since 2000, covering both customer-initiated complaints and actual and expected proactive mailings undertaken by the Group. The total amount provided for PPI represents the Group's best estimate of the likely future costs, albeit a number of risks and uncertainties remain, in particular complaint volumes, uphold rates, average redress paid, the scope and cost of proactive mailings and remediation, and the outcome of the FCA Enforcement Team investigation. The cost of these factors could differ materially from the Group's estimates and the assumptions underpinning them and could result in a further provision being required.

Key metrics and sensitivities are highlighted in the table below:

Sensitivities[1]	To date unless noted	Future	Sensitivity
Customer initiated complaints since origination (m)	2.5	0.5	0.1 = £200m
Proactive Mailing: – number of policies (m)[2]	1.66	1.19	0.1 = £45m
– response rate[3]	37%	31%	1% = £20m
Average uphold rate per policy[4]	80%	83%	1% = £15m
Average redress paid per upheld policy[5]	£1,600	£1,600	£100 = £110m
Remediation cases (k)	21	569	1 Case = £770
Administrative expenses (£m)	1,410	680	1 Case = £500
FOS Referral Rate[6]	35%	36%	1%= £4m
FOS Overturn Rate[7]	49%	33%	1%= £2m

1 All sensitivities exclude claims where no PPI policy was held.

2 To date volume includes customer initiated complaints.

3 Metric has been adjusted to include mature mailings only, and exclude expected customer initiated complaints. Future response rates are expected to be lower than experienced to date as mailings to higher risk customers have been prioritised.

4 The percentage of complaints where the Group finds in favour of the customer. This is a blend of proactive and customer initiated complaints. The 80 per cent uphold rate is based on the latest six months to December 2013.

5 The amount that is paid in redress in relation to a policy found to have been mis-sold, comprising, where applicable, the refund of premium, compound interest charged and interest at 8 per cent per annum. Actuals are based on six months to December 2013. The accumulation of interest on future redress is expected to be offset by the mix shifting away from more expensive cases.

6 The percentage of cases reviewed by the Group that are subsequently referred to the FOS by the customer. A complaint is considered mature when six months have elapsed since initial decision. Actuals are based on decision made by the Group during January to June 2013 and subsequently referred to the FOS.

7 The percentage of complaints referred where the FOS arrive at a different decision to the Group. Actuals are based on six months to December 2013. The future overturn rate is expected to be lower due to changes in the case review process implemented during 2013 which has resulted in a higher uphold rate as noted above. In turn this reduces the number/percentage of cases likely to be overturned by the FOS.

Other regulatory provisions

Litigation in relation to insurance branch business in Germany
Clerical Medical Investment Group Limited (CMIG) has received a number of claims in the German courts, relating to policies issued by CMIG but sold by independent intermediaries in Germany, principally during the late 1990s and early 2000s. Following decisions in July 2012 from the Federal Court of Justice (FCJ) in Germany the Group recognised a further provision of £150 million in its accounts for the year ended 31 December 2012 bringing the total amount provided to £325 million. During the half-year to 30 June 2013 the Group has charged a further £75 million with respect to this litigation increasing the total provision to £400 million. The remaining unutilised provision as at 31 December 2013 is £246 million.

However, there are still a number of uncertainties as to the full impact of the FCJ's decisions, and the validity of any of the claims facing CMIG will turn upon the facts and circumstances in respect of each claim. As a result the ultimate financial effect, which could be significantly different from the current provision, will only be known once there is further clarity with respect to a range of legal issues and factual determinations involved in these claims and/or all relevant claims have been resolved.

Interest rate hedging products
In June 2012, a number of banks, including the Group, reached agreement with the FSA (now FCA) to carry out a review of sales made since 1 December 2001 of interest rate hedging products (IRHP) to certain small and medium-sized businesses. As at 31 December 2013 the Group had identified 1,771 sales of IRHPs to customers within scope of the agreement with the FCA which are being reviewed and, where appropriate, redressed. The Group agreed that on conclusion of this review it would provide redress to any in-scope customers where appropriate.

The Group provided £400 million in its accounts for the year ended 31 December 2012 for the estimated cost of redress and related administration costs, based on a pilot review that had been conducted at the time. In the final quarter of 2013, a significant number of additional cases were reviewed, providing a larger and more representative sample from which to estimate the total cost of the review. As a result, an additional provision of £130 million has been recognised. During the same period, the Group confirmed it would pay any redress due to in-scope customers before any consequential loss claims had been outlined and agreed with them. At 31 December 2013, the total amount provided for the cost of redress and related administration costs is £530 million of which £162 million had been utilised. No provision has been recognised in relation to claims from customers which are not covered by the agreement with the FCA, or

43 Other provisions (continued)

incremental claims from customers within the scope of the review. These will be monitored and future provisions will be recognised to the extent an obligation resulting in a probable outflow is identified.

Other regulatory matters
In the course of its business, the Group is engaged in discussions with the PRA, FCA and other UK and overseas regulators and governmental authorities in relation to a range of matters; a provision is held against the costs expected to be incurred as a result of the conclusions reached. In 2013 the provision was increased by a further £200 million, in respect of matters affecting the Retail, Commercial, and Wealth and Asset Finance businesses, bringing the total amount charged to £300 million of which £75 million had been utilised at 31 December 2013. This increase reflects the Group's assessment of a limited number of matters under discussion, none of which currently is individually considered financially material in the context of the Group.

Vacant leasehold property
Vacant leasehold property provisions are made by reference to a prudent estimate of expected sub-let income, compared to the head rent, and the possibility of disposing of the Group's interest in the lease, taking into account conditions in the property market. These provisions are reassessed on a biannual basis and will normally run off over the period of under-recovery of the leases concerned, currently averaging three years; where a property is disposed of earlier than anticipated, any remaining balance in the provision relating to that property is released.

Other
Provisions are made for staff and other costs related to Group restructuring initiatives at the point at which the Group becomes irrevocably committed to the expenditure.

Other provisions include those arising out of the insolvency of a third party insurer, which remains exposed to asbestos and pollution claims in the US. The ultimate cost and timing of payments are uncertain. The provision held of £37 million at 31 December 2013 represents management's current best estimate of the cost after having regard to actuarial estimates of future losses.

44 Subordinated liabilities

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Preferred securities	**6,687**	7,314	**4,835**	5,185
Undated subordinated liabilities	**2,552**	4,716	**774**	2,724
Dated subordinated liabilities	**24,295**	25,560	**16,991**	18,340
Total subordinated liabilities	**33,534**	37,590	**22,600**	26,249

The movement in subordinated liabilities during the year was as follows:

	The Group £m	The Bank £m
At 1 January 2012	37,330	25,045
Issued during the year	128	128
Repurchases and redemptions during the year	(864)	(215)
Foreign exchange and other movements	996	1,291
At 31 December 2012	37,590	26,249
Issued during the year	**1,500**	**–**
Repurchases and redemptions during the year	**(5,048)**	**(3,539)**
Foreign exchange and other movements	**(508)**	**(110)**
At 31 December 2013	**33,534**	**22,600**

These securities will, in the event of the winding-up of the issuer, be subordinated to the claims of the depositors and all other creditors of the issuer, other than creditors whose claims rank equally with, or are junior to, the claims of the holders of the subordinated liabilities. The subordination of the specific subordinated liabilities is determined in respect of the issuer and any guarantors of that liability. The claims of holders of preference shares and preferred securities are generally junior to those of the holders of undated subordinated liabilities, which in turn are junior to the claims of the holders of the dated subordinated liabilities. Neither the Group nor the Bank has had any defaults of principal, interest or other breaches with respect to its subordinated liabilities during the year (2012: none). No repayment or purchase by the issuer of the subordinated liabilities may be made prior to their stated maturity without the consent of the Prudential Regulatory Authority.

44 Subordinated liabilities (continued)

The Group	Note	2013 £m	2012 £m
Preferred securities			
6.90% Perpetual Capital Securities (US$1,000 million)	c	**209**	214
Floating Rate Non-Cumulative Callable Preference Shares callable 2015 (£600 million)	a	**601**	601
Floating Rate Non-Cumulative Callable Preference Shares callable 2016 (US$1,000 million)	a	**605**	619
6% Non-cumulative Redeemable Preference Shares	b	**–**	–
7.875% Non-cumulative Preference Shares callable 2013 (€500 million)	c	**419**	308
7.875% Non-cumulative Preference Shares callable 2013 (US$1,250 million)	c	**761**	597
6.35% Step-up Perpetual Capital Securities callable 2013 (€500 million)	c, k	**212**	226
7.834% Sterling Step-up Non-Voting Non-Cumulative Preferred Securities callable 2015 (£250 million)		**5**	5
4.385% Step-up Perpetual Capital Securities callable 2017 (€750 million)		**89**	689
13% Step-up Perpetual Capital Securities callable 2019 (£785 million)		**8**	8
13% Euro Step-up Perpetual Capital Securities callable 2019 (€532 million)		**50**	48
12% Fixed to Floating Rate Perpetual Tier 1 Capital Securities callable 2024 (US$2,000 million)		**1,211**	1,239
13% Step-up Perpetual Capital Securities callable 2029 (£700 million)		**660**	629
6.071% Non-cumulative Perpetual Preferred Securities (US$750 million)		**423**	382
6.85% Non-cumulative Perpetual Preferred Securities (US$1,000 million)	c	**121**	238
6.461% Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities (£600 million)		**455**	439
8.117% Non-cumulative Perpetual Preferred Securities (Class A) (£250 million)	c, d	**256**	262
7.754% Non-cumulative Perpetual Preferred Securities (Class B) (£150 million)		**101**	98
7.881% Guaranteed Non-voting Non-cumulative Preferred Securities (£245 million)		**187**	227
7.627% Fixed to Floating Rate Guaranteed Non-voting Non-cumulative Preferred Securities (€415 million)	c, f	**66**	239
4.939% Non-voting Non-cumulative Perpetual Preferred Securities (€750 million)		**26**	23
7.286% Perpetual Regulatory Tier One Securities (Series A) (£150 million)		**132**	128
7.281% Perpetual Regulatory Tier One Securities (Series B) (£150 million)		**90**	95
Total preferred securities		**6,687**	7,314

44 Subordinated liabilities (continued)

	Note	2013 £m	2012 £m
Undated subordinated liabilities			
Primary Capital Undated Floating Rate Notes:			
Series 1 (US$750 million)	c	**162**	165
Series 2 (US$500 million)	c	**169**	173
Series 3 (US$600 million)	c	**218**	223
11.75% Perpetual Subordinated Bonds (£100 million)		**102**	102
6.625% Undated Subordinated Step-up Notes (£410 million)	c, e	**6**	157
5.125% Step-up Perpetual Subordinated Notes callable 2015 (£560 million) (Scottish Widows plc)		**533**	556
5.57% Undated Subordinated Step-up Coupon Notes callable 2015 (¥20,000 million)		**–**	146
5.125% Undated Subordinated Step-up Notes callable 2016 (£500 million)		**2**	152
10.5% Subordinated Notes callable 2018 (€487 million)		**–**	398
10.5% Subordinated Notes callable 2018 (£775 million)		**–**	777
6.5% Undated Subordinated Step-up Notes callable 2019 (£270 million)		**1**	99
8% Undated Subordinated Step-up Notes callable 2023 (£200 million)		**–**	–
10.5% Subordinated Notes callable 2028 (£109 million)		**–**	109
6.5% Undated Subordinated Step-up Notes callable 2029 (£450 million)		**–**	109
6% Undated Subordinated Step-up Guaranteed Bonds callable 2032 (£500 million)		**114**	114
5.625% Cumulative Callable Fixed to Floating Rate Undated Subordinated Notes callable 2019 (£500 million)		**5**	4
4.875% Undated Subordinated Fixed to Floating Rate Instruments (€750 million)		**79**	70
Floating Rate Undated Subordinated Notes (€500 million)		**49**	44
5.375% Undated Fixed to Floating Rate Subordinated Notes (US$1,000 million)		**–**	9
5.125% Undated Subordinated Fixed to Floating Rate Notes (€750 million)		**49**	45
5.75% Undated Subordinated Step-up Notes (£600 million)		**3**	3
6.05% Fixed to Floating Rate Undated Subordinated Notes (€500 million)	c, g	**8**	5
7.5% Undated Subordinated Step-up Notes (£300 million)		**5**	4
8.625% Perpetual Subordinated Notes (£200 million)		**–**	22
7.375% Undated Subordinated Guaranteed Bonds (£200 million) (Clerical Medical Finance plc)		**44**	37
Floating Rate Undated Subordinated Step-up Notes (€300 million)	c	**16**	13
Floating Rate Primary Capital Notes (US$250 million)	c	**109**	111
10.25% Subordinated Undated Instruments (£100 million)		**1**	1
12% Perpetual Subordinated Bonds (£100 million)		**20**	21
8.75% Perpetual Subordinated Bonds (£100 million)		**5**	5
13.625% Perpetual Subordinated Bonds (£75 million)		**19**	19
9.375% Perpetual Subordinated Bonds (£50 million)		**14**	14
5.75% Undated Subordinated Step-up Notes (£500 million)		**4**	4
4.25% Perpetual Fixed to Floating Rate Reset Subordinated Guaranteed Notes (€750 million) (Clerical Medical Finance plc)		**283**	261
7.375% Subordinated Undated Instruments (£150 million)		**–**	74
4.25% Subordinated Undated Instruments (¥17,000 million)		**–**	138
Floating Rate Undated Subordinated Notes (£524 million) (Scottish Widows Group Limited)		**532**	532
Total undated subordinated liabilities		**2,552**	4,716

44 Subordinated liabilities (continued)

	Note	2013 £m	2012 £m
Dated subordinated liabilities			
Subordinated Floating Rate Notes 2013 (£150 million)		–	150
Subordinated Floating Rate Notes 2014 (£464 million)		**465**	464
5.875% Subordinated Notes 2014 (£150 million)		**155**	157
6.625% Subordinated Notes 2015 (£350 million)		**371**	375
Subordinated Step-up Floating Rate Notes 2016 (£300 million)	c	**183**	184
Subordinated Step-up Floating Rate Notes 2016 (€500 million)	c	**172**	172
5.625% Subordinated Fixed to Floating Rate Notes due 2018 callable 2013 (€1,000 million)		–	858
6.9625% Callable Subordinated Fixed to Floating Rate Notes 2020 callable 2015 (£750 million)		**701**	716
Subordinated Floating Rate Notes 2020 (€100 million)		**85**	83
5.75% Subordinated Fixed to Floating Rate Notes 2025 callable 2020 (£350 million)		**331**	371
9.625% Subordinated Bonds 2023 (£300 million)		**341**	376
Subordinated Non-Interest Bearing Loan on rolling 6 year notice (£150 million)		**150**	150
6.125% Notes 2013 (€325 million)		–	280
4.25% Subordinated Guaranteed Notes 2013 (US$1,000 million)		–	619
11% Subordinated Bonds 2014 (£250 million)		**275**	284
4.875% Subordinated Notes 2015 (€1,000 million)		**862**	844
Callable Floating Rate Subordinated Notes 2016 (€500 million)	c	**109**	96
Callable Floating Rate Subordinated Notes 2016 (€500 million)	c	**156**	137
Subordinated Callable Notes 2016 (US$750 million)	c	**218**	198
Subordinated Callable Notes 2017 (€1,000 million)	c	**276**	243
Subordinated Callable Notes 2017 (US$1,000 million)	c	**211**	198
Subordinated Callable Floating Rate Instruments 2017 (Aus$400 million)	c	**33**	38
6.75% Subordinated Callable Fixed to Floating Rate Instruments 2017 (Aus$200 million)	c, h	**5**	6
5.109% Callable Fixed to Floating Rate Notes 2017 (Can$500 million)	c, i	**10**	8
6.305% Subordinated Callable Fixed to Floating Rate Notes 2017 (£500 million)	c, j	**23**	21
10.5% Subordinated Bonds 2018 (£150 million)		**174**	177
6.75% Subordinated Fixed Rate Notes 2018 (US$2,000 million)		**1,102**	1,146
10.375% Subordinated Fixed to Fixed Rate Notes 2024 callable 2019 (€154 million)		**141**	143
6.375% Subordinated Instruments 2019 (£250 million)		**256**	281
4.375% Callable Fixed to Floating Rate Subordinated Notes 2019 (€750 million)		**621**	604
6.5% Dated Subordinated Notes 2020 (€1,500 million)		**1,433**	1,458
7.375% Dated Subordinated Notes 2020		**3**	4
6.5% Subordinated Fixed Rate Notes 2020 (US$2,000 million)		**1,231**	1,345
9.375% Subordinated Bonds 2021 (£500 million)		**617**	727
5.374% Subordinated Fixed Rate Notes 2021 (€160 million)		**147**	152
6.45% Fixed to Floating Subordinated Guaranteed Bonds 2023 (€400 million) (Clerical Medical Finance plc)		–	181
7.07% Subordinated Fixed Rate Notes 2023 (€175 million)		**175**	183
7.625% Dated Subordinated Notes 2025 (£750 million)		**822**	915

44 Subordinated liabilities (continued)

	Note	2013 £m	2012 £m
Dated subordinated liabilities (continued)			
4.50% Fixed Rate Step-up Subordinated Notes due 2030 (€750 million)		**445**	457
6% Subordinated Notes 2033 (US$750 million)		**313**	399
11.875% Subordinated Fixed to Fixed Rate Notes 2021 callable 2016 (€1,147 million)		**975**	977
10.75% Subordinated Fixed to Fixed Rate Notes 2021 callable 2016 (£466 million)		**458**	477
9.875% Subordinated Fixed to Fixed Rate Notes 2021 callable 2016 (US$568 million)		**349**	360
10.125% Subordinated Fixed to Fixed Rate Notes 2021 callable 2016 (Can$387 million)		**223**	240
13% Subordinated Fixed to Fixed Rate Notes 2021 callable 2016 (Aus$417 million)		**234**	280
5.50% Subordinated Notes 2023 (£850 million) (Scottish Widows plc)		**794**	–
7.00% Subordinated Notes 2043 (£650 million) (Scottish Widows plc)		**593**	–
11.77% Subordinated Notes 2020 (€115 million)		**99**	96
11.81% Subordinated Notes 2020 (€78 million)		**68**	65
10.55% Subordinated Notes 2019 (£1,005 million)		**977**	994
10.17% Subordinated Notes 2020 (US$361 million)		**225**	227
11.84% Subordinated Notes 2020 (€496 million)		**441**	419
11.84% Subordinated Notes 2020 (€532 million)		**473**	450
10.21% Subordinated Notes 2020 (US$1,095 million)		**681**	688
11.88% Subordinated Notes 2020 (€176 million)		**154**	148
10.24% Subordinated Notes 2020 (US$854 million)		**532**	564
10.61% Subordinated Notes 2020 (£773 million)		**774**	775
10.33% Subordinated Notes 2021 (US$243 million)		**150**	152
10.67% Subordinated Notes 2020 (£614 million)		**637**	627
10.69% Subordinated Notes 2020 (£517 million)		**534**	526
10.75% Subordinated Notes 2022 (£101 million)		**99**	100
10.85% Subordinated Notes 2019 (£91 million)		**93**	92
10.86% Subordinated Notes 2019 (£292 million)		**303**	298
10.89% Subordinated Notes 2020 (£207 million)		**211**	209
10.88% Subordinated Notes 2019 (£4 million)		**4**	4
10.90% Subordinated Notes 2020 (£65 million)		**65**	65
10.90% Subordinated Notes 2019 (£126 million)		**131**	129
10.91% Subordinated Notes 2023 (£100 million)		**101**	101
11.02% Subordinated Notes 2024 (£83 million)		**82**	83
10.94% Subordinated Notes 2020 (£139 million)		**142**	141
10.95% Subordinated Notes 2024 (£39 million)		**39**	39
10.97% Subordinated Notes 2020 (£39 million)		**40**	40
10.92% Subordinated Notes 2024 (£83 million)		**85**	84
11.07% Subordinated Notes 2029 (£92 million)		**92**	92
11.18% Subordinated Notes 2023 (£57 million)		**58**	58
11.21% Subordinated Notes 2023 (£67 million)		**68**	68
11.46% Subordinated Notes 2029 (£92 million)		**93**	93
11.52% Subordinated Notes 2032 (£84 million)		**86**	85
11.35% Subordinated Notes 2019 (€603 million)		**492**	488
11.42% Subordinated Notes 2020 (€30 million)		**28**	26
Total dated subordinated liabilities		**24,295**	25,560
Total subordinated liabilities		**33,534**	37,590

At 31 December 2013 £32,639 million (2012: £37,440 million) of subordinated liabilities had a contractual residual maturity of greater than one year.

44 Subordinated liabilities (continued)

The Bank	Note	2013 £m	2012 £m
Preferred securities			
6.90% Perpetual Capital Securities (US$1,000 million)	c	**209**	214
Floating Rate Non-Cumulative Callable Preference Shares callable 2015 (£600 million)	a	**601**	601
Floating Rate Non-Cumulative Callable Preference Shares callable 2016 (US$1,000 million)	a	**605**	619
6% Non-cumulative Redeemable Preference Shares	b	**–**	–
7.875% Non-cumulative Preference shares callable 2013 (€500 million)	c	**419**	308
7.875% Non-cumulative Preference shares callable 2013 (US$1,250 million)	c	**761**	597
6.35% Step-up Perpetual Capital Securities callable 2013 (€500 million)	c, k	**212**	226
7.834% Sterling Step-up Non-Voting Non-Cumulative Preferred Securities callable 2015 (£250 million)		**5**	5
4.385% Step-up Perpetual Capital Securities callable 2017 (€750 million)		**89**	689
13% Step-up Perpetual Capital Securities callable 2019 (£785 million)		**11**	10
13% Step-up Perpetual Capital Securities callable 2019 (€532 million)		**50**	48
13% Step-up Perpetual Capital Securities callable 2029 (£700 million)		**662**	629
12% Fixed to Floating Rate Perpetual Tier 1 Capital Securities callable 2024 (US$2,000 million)		**1,211**	1,239
		4,835	5,185
Undated subordinated liabilities			
Primary Capital Undated Floating Rate Notes:			
Series 1 (US$750 million)	c	**162**	165
Series 2 (US$500 million)	c	**169**	173
Series 3 (US$600 million)	c	**218**	223
11.75% Perpetual Subordinated Bonds (£100 million)		**102**	102
6.625% Undated Subordinated Step-up Notes (£410 million)	c, e	**6**	157
5.57% Undated Subordinated Step-up Coupon Notes callable 2015 (¥20,000 million)		**–**	146
5.125% Undated Subordinated Step-up Notes callable 2016 (£500 million)		**2**	152
10.5% Subordinated Notes callable 2018 (€487 million)		**–**	398
10.5% Subordinated Notes callable 2018 (£775 million)		**–**	777
6.5% Undated Subordinated Step-up Notes callable 2019 (£270 million)		**1**	99
8% Undated Subordinated Step-up Notes callable 2023 (£200 million)		**–**	–
10.5% Subordinated Notes callable 2028 (£109 million)		**–**	109
6.5% Undated Subordinated Step-up Notes callable 2029 (£450 million)		**–**	109
6% Undated Subordinated Step-up Guaranteed Bonds callable 2032 (£500 million)		**114**	114
		774	2,724
Dated subordinated liabilities			
Subordinated Floating Rate Notes 2013 (£150 million)		**–**	150
Subordinated Floating Rate Notes 2014 (£464 million)		**465**	464
5.875% Subordinated Notes 2014 (£150 million)		**155**	157
6.625% Subordinated Notes 2015 (£350 million)		**371**	375
Subordinated Step-up Floating Rate Notes 2016 (£300 million)	c	**183**	184
Subordinated Step-up Floating Rate Notes 2016 (€500 million)	c	**172**	172
5.625% Subordinated Fixed to Floating Rate Notes due 2018 callable 2013 (€1,000 million)		**–**	858
6.9625% Callable Subordinated Fixed to Floating Rate Notes due 2020 callable 2015 (£750 million)		**749**	754
Subordinated Floating Rate Notes 2020 (€100 million)		**85**	83
5.75% Subordinated Fixed to Floating Rate Notes 2025 callable 2020 (£350 million)		**374**	392
9.625% Subordinated Bonds 2023 (£300 million)		**341**	376

44 Subordinated liabilities (continued)

The Bank (continued)	Note	**2013 £m**	2012 £m
Dated subordinated liabilities (continued)			
Subordinated Non-Interest Bearing Loan on rolling 6 year notice (£150 million)		**150**	150
10.375% Subordinated Fixed to Fixed Rate Notes 2024 callable 2019 (€154 million)		**147**	143
6.5% Dated Subordinated Notes 2020 (€1,500 million)		**1,433**	1,458
7.375% Dated Subordinated Notes 2020		**3**	4
6.5% Subordinated Fixed Rate Notes 2020 (US$2,000 million)		**1,231**	1,345
7.625% Dated Subordinated Notes 2025 (£750 million)		**828**	915
11.875% Subordinated Fixed to Fixed Rate Notes 2021 callable 2016 (€1,147 million)		**975**	977
10.75% Subordinated Fixed to Fixed Rate Notes 2021 callable 2016 (£466 million)		**466**	477
9.875% Subordinated Fixed to Fixed Rate Notes 2021 callable 2016 (US$568 million)		**349**	360
10.125% Subordinated Fixed to Fixed Rate Notes 2021 callable 2016 (Can$387 million)		**223**	240
13% Subordinated Fixed to Fixed Rate Notes 2021 callable 2016 (Aus$417 million)		**234**	280
11.77% Subordinated Notes 2020 (€115 million)		**99**	96
11.81% Subordinated Notes 2020 (€78 million)		**68**	65
10.55% Subordinated Notes 2019 (£1,005 million)		**977**	994
10.17% Subordinated Notes 2020 (US$361 million)		**225**	227
11.84% Subordinated Notes 2020 (€496 million)		**441**	419
11.84% Subordinated Notes 2020 (€532 million)		**473**	450
10.21% Subordinated Notes 2020 (US$1,095 million)		**681**	688
11.88% Subordinated Notes 2020 (€176 million)		**154**	148
10.24% Subordinated Notes 2020 (US$854 million)		**532**	564
10.61% Subordinated Notes 2020 (£773 million)		**774**	775
10.33% Subordinated Notes 2021 (US$243 million)		**150**	152
10.67% Subordinated Notes 2020 (£614 million)		**637**	627
10.69% Subordinated Notes 2020 (£517 million)		**534**	526
10.75% Subordinated Notes 2022 (£101 million)		**99**	100
10.85% Subordinated Notes 2019 (£91 million)		**93**	92
10.86% Subordinated Notes 2019 (£292 million)		**303**	298
10.89% Subordinated Notes 2020 (£207 million)		**211**	209
10.88% Subordinated Notes 2019 (£4 million)		**4**	4
10.90% Subordinated Notes 2020 (£65 million)		**65**	65
10.90% Subordinated Notes 2019 (£126 million)		**131**	129
10.91% Subordinated Notes 2023 (£100 million)		**101**	101
11.02% Subordinated Notes 2024 (£83 million)		**82**	83
10.94% Subordinated Notes 2020 (£139 million)		**142**	141
10.95% Subordinated Notes 2024 (£39 million)		**39**	39
10.97% Subordinated Notes 2020 (£39 million)		**40**	40
10.92% Subordinated Notes 2024 (£83 million)		**85**	84
11.07% Subordinated Notes 2029 (£92 million)		**92**	92
11.18% Subordinated Notes 2023 (£57 million)		**58**	58
11.21% Subordinated Notes 2023 (£67 million)		**68**	68
11.46% Subordinated Notes 2029 (£92 million)		**93**	93
11.52% Subordinated Notes 2032 (£84 million)		**86**	85
11.35% Subordinated Notes 2019 (€603 million)		**492**	488
11.42% Subordinated Notes 2020 (€30 million)		**28**	26
Total dated subordinated liabilities		**16,991**	18,340
Total subordinated liabilities		**22,600**	26,249

At 31 December 2013 £21,980 million (2012: £26,099 million) of subordinated liabilities had a contractual residual maturity of greater than one year.

44 Subordinated liabilities (continued)

a) In certain circumstances, these preference shares may be mandatorily exchanged for qualifying non-innovative tier 1 securities. The Bank may declare no dividend or a partial dividend on these preference shares. Dividends may be reduced if the distributable profits of the Bank are insufficient to cover the payment in full of the dividends and also the payment in full of all other dividends on shares issued by the Bank.

b) Since 2004, the Bank has had in issue 400 6 per cent non-cumulative redeemable preference shares of 25p each. The shares, which are redeemable at the option of the Bank at any time, carry the rights to a fixed rate non-cumulative preferential dividend at a rate of 6 per cent per annum; no dividend shall be payable in the event that the directors determine that prudent capital ratios would not be maintained if the dividend were paid. Upon winding up, the shares rank equally with any other preference shares issued by the Bank.

c) These securities have passed their first call dates, and are callable at specific dates as per the terms of the securities at the option of the issuer and with the approval of the PRA.

d) The fixed rate on this security was reset from 8.117 per cent to 6.059 per cent with effect from 31 May 2010.

e) The fixed rate payable on this security was reset from 6.625 per cent to 4.64821 per cent with effect from 15 July 2010.

f) The fixed rate on this security was reset from 7.627 per cent to 3 months Euribor plus 2.875 per cent with effect from 9 December 2011.

g) The fixed rate on this security was reset from 6.05 per cent to 3 month Euribor plus 2.25 per cent with effect from 23 November 2011.

h) The interest rate payable on this security was reset from 6.75 per cent fixed to Bank Bill Swap Rate plus 0.76 per cent with effect from 1 May 2012.

i) The interest rate payable on this security was reset from 5.109 per cent fixed to Canadian Dealer Offered Rate plus 0.65 per cent with effect from 21 June 2012.

j) The interest rate payable on this security was reset from 6.305 per cent fixed to 3-month Libor plus 1.2 per cent with effect from 18 October 2012.

k) The fixed rate on this security was reset from 6.35 per cent to 3-month Euribor plus 2.50 per cent with effect from 25 February 2013.

45 Share capital

(1) Authorised share capital

	Group and Bank	
	2013 £m	2012 £m
Sterling		
1,650 million ordinary shares of £1 each	**1,650**	1,650
1 cumulative floating rate Preference share of £1	**–**	–
100 6 per cent Non-Cumulative Redeemable Preference shares of £1 each	**–**	–
175 million Preference shares of 25p each	**44**	44
	1,694	1,694
US dollars		US$m
160 million Preference shares of 25 cents each	**40**	40
Euro		€m
160 million Preference shares of 25 cents each	**40**	40
Japanese yen		¥m
50 million Preference shares of ¥25 each	**1,250**	1,250

(2) Issued and fully paid ordinary shares

	2013 Number of shares	2012 Number of shares	**2013 £m**	2012 £m
Sterling				
Ordinary shares of £1 each				
At 1 January and 31 December	**1,574,285,751**	1,574,285,751	**1,574**	1,574

Issued and fully paid preference shares
The Bank has in issue various classes of preference shares which are all classified as liabilities under IFRS and details of which are shown in note 44.

46 Share premium account

	Group and Bank	
	2013 £m	2012 £m
At 1 January and 31 December	**35,533**	35,533

47 Other reserves

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Other reserves comprise:				
Merger reserve	**6,348**	6,348	**–**	–
Revaluation reserve in respect of available-for-sale financial assets	**(1,273)**	(259)	**(573)**	792
Cash flow hedging reserve	**(827)**	590	**–**	(16)
Foreign currency translation reserve	**(125)**	(106)	**72**	98
At 31 December	**4,123**	6,573	**(501)**	874

Movements in other reserves were as follows:

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Merger reserve				
At 1 January and 31 December	**6,348**	6,348	**–**	–

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Revaluation reserve in respect of available-for-sale financial assets				
At 1 January	**(259)**	668	**792**	2,052
Adjustment on transfer from held-to-maturity portfolio	**–**	1,168	**–**	1,168
Change in fair value of available-for-sale financial assets	**(680)**	900	**(889)**	155
Deferred tax	**92**	(516)	**129**	(398)
Current tax	**3**	(3)	**–**	–
	(585)	1,549	**(760)**	925
Income statement transfers:				
Disposals (see note 9)	**(629)**	(3,547)	**(842)**	(3,118)
Deferred tax	**185**	848	**237**	764
	(444)	(2,699)	**(605)**	(2,354)
Impairment	**18**	42	**–**	–
Deferred tax	**(3)**	12	**–**	–
	15	54	**–**	–
Other transfers	**–**	169	**–**	169
Deferred tax	**–**	–	**–**	–
	–	169	**–**	169
At 31 December	**(1,273)**	(259)	**(573)**	792

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Cash flow hedging reserve				
At 1 January	**590**	576	**(16)**	(12)
Change in fair value of hedging derivatives	**(1,229)**	100	**21**	(5)
Deferred tax	**259**	(12)	**(5)**	1
	(970)	88	**16**	(4)
Income statement transfers	**(566)**	(92)	**–**	–
Deferred tax	**119**	18	**–**	–
	(447)	(74)	**–**	–
At 31 December	**(827)**	590	**–**	(16)

47 Other reserves (continued)

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Foreign currency translation reserve				
At 1 January	**(106)**	(92)	**98**	119
Currency translation differences arising in the year	**(168)**	(69)	**(26)**	(21)
Foreign currency gains (losses) on net investment hedges (tax: £nil)	**149**	55	**–**	–
At 31 December	**(125)**	(106)	**72**	98

48 Retained profits

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
At 1 January				
As previously reported		5,992		4,648
Restatement (notes 1 and 57)		(414)		(558)
Restated	**2,618**	5,578	**1,184**	4,090
(Loss) profit for the year[1,2]	**(402)**	(1,315)	**2,772**	(2,187)
Post-retirement defined benefit scheme remeasurements	**(108)**	(1,645)	**320**	(719)
Employee share option schemes – value of employee services	**401**	–	**256**	–
At 31 December	**2,509**	2,618	**4,532**	1,184

[1]Restated – see note 1.

[2]No income statement has been shown for the Bank, as permitted by Section 408 of the Companies Act 2006.

49 Ordinary dividends

No dividends were paid on the Bank's ordinary shares in 2013 or 2012.

In November 2009, as part of the restructuring plan that was a requirement for European Commission approval of state aid received by the Lloyds Banking Group, Lloyds Banking Group plc agreed to suspend the payment of coupons and dividends on certain preference shares and preferred securities for the two year period from 31 January 2010 to 31 January 2012. Lloyds Banking Group plc also agreed to temporarily suspend and/or waive dividend payments on certain preference shares which have been issued intra-group. Consequently, in accordance with the terms of some of these instruments, the Bank was prevented from making dividend payments on its ordinary shares up to that date.

50 Share-based payments

Share-based payment scheme details
During the year ended 31December 2013 Lloyds Banking Group pic operated a number of share-based payment schemes for which employees of the Lloyds Bank Group were eligible and all of which are equity settled. Details of all schemes operated by Lloyds Banking Group are set out below; these are managed and operated on a Lloyds Banking Group-wide basis. The amount charged to the Group's income statement in respect of Lloyds Banking Group share-based payment schemes, and which is included within staff costs (note 11), was £399 million (2012: £333 million).

Deferred bonus plans
Bonuses in respect of the performance in 2013 of employees within certain of the Group's bonus plans have been recognised in these financial statements in full. The amounts to be settled in shares are included within the total charge to the income statement detailed above.

Lloyds Banking Group executive share option schemes
The executive share option schemes were long-term incentive schemes available to certain senior executives of the Group, with grants usually made annually. Options were granted within limits set by the rules of the schemes relating to the number of shares under option and the price payable on the exercise of options. The last grant of executive options was made in August 2005. These options were granted without a performance multiplier and the maximum limit for the grant of options in normal circumstances was three times annual salary. Between March 2004 and August 2004, the aggregate value of the award based upon the market price at the date of grant could not exceed four times the executive's annual remuneration and, normally, the limit for the grant of options to an executive in any one year would be equal to 1.5 times annual salary with a maximum performance multiplier of 3.5.

Performance conditions for executive options
For options granted in 2004
The performance condition was linked to the performance of Lloyds Banking Group plc's total shareholder return (calculated by reference to both dividends and growth in share price) against a comparator group of 17 companies including Lloyds Banking Group plc.

50 Share-based payments (continued)

The performance condition was measured over a three year period which commenced at the end of the financial year preceding the grant of the option and continued until the end of the third subsequent year. If the performance condition was not then met, it was measured at the end of the fourth financial year. If the condition was not then met, the options would lapse.

To meet the performance conditions, the Group's ranking against the comparator group was required to be at least ninth. The full grant of options only became exercisable if the Group was ranked first. A performance multiplier (of between nil and 100 per cent) was applied below this level to calculate the number of shares in respect of which options granted to Executive Directors would become exercisable, and were calculated on a sliding scale. If Lloyds Banking Group plc was ranked below median the options would not be exercisable.

Options granted to senior executives other than Executive Directors were not so highly leveraged and, as a result, different performance multipliers were applied to their options. For the majority of executives, options were granted with the performance condition but with no performance multiplier.

Options granted in 2004 became exercisable as the performance condition was met on the re-test. The performance condition vested at 14 per cent for Executive Directors, 24 per cent for Managing Directors, and 100 per cent for all other executives.

For options granted in 2005
The same conditions applied as for grants made in 2004, except that:

- the performance condition was linked to the performance of Lloyds Banking Group plc's total shareholder return (calculated by reference to both dividends and growth in share price) against a comparator group of 15 companies including Lloyds Banking Group plc;
- if the performance condition was not met at the end of the third subsequent year, the options would lapse; and
- the full grant of options became exercisable only if the Group was ranked in the top four places of the comparator group. A sliding scale applied between fourth and eighth positions. If Lloyds Banking Group was ranked below the median (ninth or below) the options would lapse.

Options granted in 2005 became exercisable as the performance condition was met when tested. The performance condition vested at 82.5 per cent for all options granted.

Movements in the number of share options outstanding under the executive share option schemes during 2012 and 2013 are set out below:

	2013		2012	
	Number of options	**Weighted average exercise price (pence)**	Number of options	Weighted average exercise price (pence)
Outstanding at 1 January	**8,044,896**	**224.95**	10,174,869	225.15
Forfeited	**(1,992,303)**	**227.70**	(2,129,973)	225.92
Lapsed	**–**	**–**	–	–
Outstanding at 31 December	**6,052,593**	**224.04**	8,044,896	224.95
Exercisable at 31 December	**6,052,593**	**224.03**	8,044,896	224.95

No options were exercised during 2013 or 2012. The weighted average remaining contractual life of options outstanding at the end of the year was 0.8 years (2012: 1.9 years). The fair values of the executive share options have been determined using a standard Black-Scholes model.

50 Share-based payments (continued)

Save-As-You-Earn schemes

Eligible employees may enter into contracts through the Save-As-You-Earn schemes to save up to £250 per month and, at the expiry of a fixed term of three, five or seven years, have the option to use these savings within six months of the expiry of the fixed term to acquire shares in the Group at a discounted price of no less than 80 per cent of the market price at the start of the invitation.

Movements in the number of share options outstanding under the SAYE schemes are set out below:

	2013		2012	
	Number of options	**Weighted average exercise price (pence)**	Number of options	Weighted average exercise price (pence)
Outstanding at 1 January	**314,572,023**	**48.01**	453,019,032	49.74
Granted	**510,414,399**	**40.62**	–	–
Exercised	**(294,905,606)**	**46.78**	–	–
Forfeited	**(7,715,717)**	**43.08**	(8,427,262)	49.15
Cancelled	**(10,761,588)**	**45.61**	(88,340,810)	49.83
Expired	**(10,633,894)**	**56.28**	(41,678,937)	62.67
Outstanding at 31 December	**500,969,617**	**41.16**	314,572,023	48.01
Exercisable at 31 December	**2,255,239**	**120.76**	119,141	86.50

The weighted average share price at the time that the options were exercised during 2013 was £0.65. No options were exercised in 2012. The weighted average remaining contractual life of options outstanding at the end of the year was 2.9 years (2012: 0.8 years).

The weighted average fair value of SAYE options granted during 2013 was £0.24. No options were granted in 2012. The fair values of the SAYE options have been determined using a standard Black-Scholes model.

For the HBOS sharesave plan, no options were exercised during 2013 or 2012. The options outstanding at 31 December 2013 had an exercise price of £1.8066 (2012: £1.8066) and a weighted average remaining contractual life of 1.1 years (2012: 2.1 years).

50 Share-based payments (continued)

Other share option plans
Lloyds Banking Group Executive Share Plan 2003
The Plan was adopted in December 2003 and under the Plan share options may be granted to senior employees. Options under this plan have been granted specifically to facilitate recruitment and as such were not subject to any performance conditions. The Plan's usage has now been extended to not only compensate new recruits for any lost share awards but also to make grants to key individuals for retention purposes with, in some instances, the grant being made subject to individual performance conditions.

Participants are not entitled to any dividends paid during the vesting period.

	2013		2012	
	Number of options	**Weighted average exercise price (pence)**	Number of options	Weighted average exercise price (pence)
Outstanding at 1 January	**45,614,150**	**Nil**	53,000,069	Nil
Granted	**9,284,956**	**Nil**	34,345,366	Nil
Exercised	**(16,079,222)**	**Nil**	(41,290,412)	Nil
Forfeited	**(1,290,720)**	**Nil**	(440,873)	Nil
Lapsed	**(174,185)**	**Nil**	–	Nil
Outstanding at 31 December	**37,354,979**	**Nil**	45,614,150	Nil
Exercisable at 31 December	**4,275,432**	**Nil**	3,065,531	Nil

The weighted average fair value of options granted in the year was £0.56 (2012: £0.30). The fair values of options granted have been determined using a standard Black-Scholes model. The weighted average share price at the time that the options were exercised during 2013 was £0.55 (2012: £0.33). The weighted average remaining contractual life of options outstanding at the end of the year was 3.6 years (2012: 3.7 years)

Lloyds Banking Group Share Buy Out Awards
As part of arrangements to facilitate the recruitment of certain Executives, options have been granted by individual deed and, where appropriate, in accordance with the Listing Rules of the UK Listing Authority.

The awards were granted in recognition that the Executives' outstanding awards over shares in their previous employing company lapsed on accepting employment with the Group.

Movements in the number of options outstanding are set out below:

	2013		2012	
	Number of options	**Weighted average exercise price (pence)**	Number of options	Weighted average exercise price (pence)
Outstanding at 1 January	21,321,237	Nil	21,321,237	Nil
Granted	–	Nil	–	–
Exercised	(5,953,810)	Nil	–	–
Forfeited	(4,194,827)	Nil	–	–
Outstanding at 31 December	11,172,600	Nil	21,321,237	Nil
Exercisable at 31 December	11,083,749	Nil	16,509,862	Nil

No options were granted in 2013 or 2012. The weighted average remaining contractual life of options outstanding at the end of the year was 7.5 years (2012: 8.6 years).

The weighted average share price at the time the options were exercised during 2013 was £0.75. No options were exercised in 2012.

Participants are entitled to any dividends paid during the vesting period. This amount will be paid in cash unless the Remuneration Committee decides it will be paid in shares.

The fair values of the majority of options granted have been determined using a standard Black-Scholes model. The fair values of the remaining options have been determined by Monte Carlo simulation.

50 Share-based payments (continued)

HBOS share option plans

The table below details the outstanding options for the HBOS Share Option Plan and the St James's Place Share Option Plan. The final award under the HBOS Share Option Plan was made in 2004. Under this plan, options over shares, at market value with a face value equal to 20 per cent of salary, were granted to employees with the exception of certain senior executives. A separate option plan exists for some partners of St James's Place, which granted options in respect of Lloyds Banking Group plc shares. The final award under the St James's Place Share Option Plan was made in 2009. Movements in the number of share options outstanding under these schemes are set out below:

During 2013 the Group completed the sale of all of its holding in St James's Place plc, as set out in note 9. The participants of the St James's Place Share Option Plan remain entitled to the Lloyds Banking Group plc shares awarded under the terms of this Plan and these options are included in the table below.

Participants are not entitled to any dividends paid during the vesting period.

	2013		2012	
	Number of options	**Weighted average exercise price (pence)**	Number of options	Weighted average exercise price (pence)
Outstanding at 1 January	19,857,692	363.76	22,058,552	394.30
Exercised	(2,609,272)	51.83	–	–
Forfeited	(240,349)	568.80	(319,134)	572.22
Lapsed	(2,144,026)	546.43	(1,881,726)	686.47
Cancelled	(1,744,461)	532.39	–	–
Outstanding at 31 December	13,119,584	369.76	19,857,692	363.76
Exercisable at 31 December	13,119,584	369.76	19,857,692	363.76

The weighted average share price at the time the options were exercised during 2013 was £0.72. No options were exercised in 2012.

The options outstanding under the HBOS Share Option Plan and St James's Place Share Option Plan at 31 December 2013 had exercise prices in the range of £0.5183 to £5.80 (2012: £0.5183 to £5.80) and a weighted average remaining contractual life of 0.2 years (2012: 1.1 years).

Other share plans

Lloyds Banking Group Long-Term Incentive Plan

The Long-Term Incentive Plan (LTIP) introduced in 2006 is aimed at delivering shareholder value by linking the receipt of shares to an improvement in the performance of the Group over a three year period. Awards are made within limits set by the rules of the Plan, with the limits determining the maximum number of shares that can be awarded equating to three times annual salary. In exceptional circumstances this may increase to four times annual salary.

Participants may be entitled to any dividends paid during the vesting period if the performance conditions are met. An amount equal in value to any dividends paid between the award date and the date the Remuneration Committee determine that the performance conditions were met may be paid, based on the number of shares that vest. The Remuneration Committee will determine if any dividends are to be paid in cash or in shares.

The performance conditions for awards made in March and August 2010 were as follows:

(i) **EPS:** relevant to 50 per cent of the award. Performance was measured based on EPS growth over a three-year period from the baseline EPS of 2009.

If the absolute improvement in adjusted EPS reached 158 per cent, 25 per cent of this element of the award, being the threshold, would vest. If absolute improvement in adjusted EPS reached 180 per cent, 100 per cent of this element would vest.

Vesting between threshold and maximum would be on a straight line basis.

(ii) **EP:** relevant to 50 per cent of the award. Performance was measured based on the compound annual growth rate of adjusted EP over the three financial years starting on 1 January 2010 relative to an adjusted 2009 EP base.

If the compounded annual growth rate of adjusted EP reached 57 per cent per annum, 25 per cent of this element of the award, being the threshold, would vest. If the compounded annual growth rate of adjusted EP reached 77 per cent per annum, 100 per cent of this element would vest.

Vesting between threshold and maximum would be on a straight line basis.

For awards made to Executive Directors, a third performance condition was set, relating to Absolute Share Price, relevant to 28 per cent of the award. Performance was measured based on the Absolute Share Price on 26 March 2013, being the third anniversary of the award date. If the share price at the end of the performance period was 75 pence or less, none of this element of the award would vest. If the share price was 114 pence or higher, 100 per cent of this element would vest. Vesting between threshold and maximum would be on a straight line basis, provided that shares comprised in the Absolute Share Price element may only be released if both the EPS and EP performance measures had been satisfied at the threshold level or above. The EPS and EP performance conditions each relate to 36 per cent of the total award.

At the end of the performance period for the EPS and EP measures, it was assessed that neither of the performance conditions had been met and the awards did not vest.

The performance conditions for awards made in March and September 2011 are as follows:

(i) **EPS:** relevant to 50 per cent of the award. The performance target is based on 2013 adjusted EPS outcome.

If the adjusted EPS reaches 6.4p, 25 per cent of this element of the award, being the threshold, will vest.

If adjusted EPS reaches 7.8p, 100 per cent of this element will vest.

Vesting between threshold and maximum will be on a straight line basis.

50 Share-based payments (continued)

(ii) **EP:** relevant to 50 per cent of the award. The performance target is based on 2013 adjusted EP outcome.

If the adjusted EP reaches £567 million, 25 per cent of this element of the award, being the threshold, will vest. If the adjusted EP reaches £1,534 million, 100 per cent of this element will vest.

Vesting between threshold and maximum will be on a straight line basis.

For awards made to Executive Directors, a third performance condition was set, relating to Absolute Total Shareholder Return, relevant to one third of the award. Performance will be measured based on the annualised Absolute Total Shareholder Return over the three year performance period. If the annualised Absolute Total Shareholder Return at the end of the performance period is less than 8 per cent, none of this element of the award will vest. If the Absolute Total Shareholder Return is 8 per cent, 25 per cent of this element of the award, being the threshold, will vest. If the Absolute Total Shareholder Return is 14 per cent or higher, 100 per cent of this element will vest. Vesting between threshold and maximum will be on a straight line basis. The EPS and EP performance conditions will each relate to 33.3 per cent of the total award.

At the end of the performance period for the EPS and EP measures, the targets had not been fully met and therefore these awards will vest in 2014 at a rate of 68 per cent (54 per cent for members of the Group Executive Committee, including Executive Directors).

The performance conditions for awards made in March and September 2012 are as follows:

(i) **EP:** relevant to 30 per cent of the award. The performance target is based on 2014 adjusted EP outcome.

If the adjusted EP reaches £225 million, 25 per cent of this element of the award, being the threshold, will vest.

If the adjusted EP reaches £2,330 million, 100 per cent of this element will vest.

Vesting between threshold and maximum will be on a straight line basis.

(ii) **Absolute Total Shareholder Return (ATSR):** relevant to 30 per cent of the award. Performance will be measured against the annualised return over the three year period ending 31 December 2014.

If the ATSR reaches 12 per cent per annum, 25 per cent of this element of the award, being the threshold, will vest.

If the ATSR reaches 30 per cent per annum, 100 per cent of this element will vest.

Vesting between threshold and maximum will be on a straight line basis.

(iii) **Short-term funding as a percentage of total funding:** relevant to 10 per cent of the award. Performance will be measured relative to 2014 targets.

If the average percentage reaches 20 per cent, 25 per cent of this element of the award, being the threshold, will vest.

If the average percentage reaches 15 per cent, 100 per cent of this element will vest.

Vesting between threshold and maximum will be on a straight line basis.

(iv) **Non-core assets at the end of 2014:** relevant to 10 per cent of the award. Performance will be measured by reference to balance sheet non-core assets at 31 December 2014.

If non-core assets amount to £95 billion or less, 25 per cent of this element of the award, being the threshold, will vest.

If non-core assets amount to £80 billion or less, 100 per cent of this element will vest.

Vesting between threshold and maximum will be on a straight line basis.

(v) **Net Simplification benefits:** relevant to 10 per cent of the award. Performance will be measured by reference to the run rate achieved by the end of 2014.

If a run rate of net Simplification benefits of £1.5 billion is achieved, 25 per cent of this element of the award, being the threshold, will vest.

If a run rate of net Simplification benefits of £1.8 billion is achieved, 100 per cent of this element will vest.

Vesting between threshold and maximum will be on a straight line basis.

(vi) **Customer satisfaction:** relevant to 10 per cent of the award. Performance will be measured by reference to the total number of FSA reportable complaints per 1,000 customers over the three year period to 31 December 2014.

If complaints per 1,000 customers average 1.5 per annum or less over three years, 25 per cent of this element of the award, being the threshold, will vest.

If complaints per 1,000 customers average 1.3 per annum or less over three years, 100 per cent of this element will vest.

Vesting between threshold and maximum will be on a straight line basis.

The performance conditions for awards made in March and October 2013 are as follows:

(i) **EP:** relevant to 35 per cent of the award. The performance target is based on 2015 adjusted EP outcome.

If the adjusted EP reaches £1,254 million, 25 per cent of this element of the award, being the threshold, will vest.

If the adjusted EP reaches £1,881 million, 100 per cent of this element will vest.

Vesting between threshold and maximum will be on a straight line basis.

(ii) **Absolute Total Shareholder Return (ATSR):** relevant to 30 per cent of the award. Performance will be measured against the annualised return over the three year period ending 31 December 2015.

If the ATSR reaches 8 per cent per annum, 25 per cent of this element of the award, being the threshold, will vest.

If the ATSR reaches 16 per cent per annum, 100 per cent of this element will vest.

Vesting between threshold and maximum will be on a straight line basis.

50 Share-based payments (continued)

(iii) **Adjusted total costs:** relevant to 10 per cent of the award. The performance target is based on 2015 adjusted total costs.

If adjusted total costs are £9,323 million or less, 25 per cent of this element of the award, being the threshold, will vest.

If adjusted total costs are £8,973 million or less, 100 per cent of this element will vest.

Vesting between threshold and maximum will be on a straight line basis.

(iv) **Non-core assets (excluding UK Retail) at the end of 2015:** relevant to 10 per cent of the award. Performance will be measured by reference to balance sheet non-core assets at 31 December 2015.

If non-core assets amount to £37 billion or less, 25 per cent of this element of the award, being the threshold, will vest.

If non-core assets amount to £28 billion or less, 100 per cent of this element will vest.

Vesting between threshold and maximum will be on a straight line basis.

(v) **Customer satisfaction:** relevant to 10 per cent of the award. Performance will be measured by reference to the total number of FCA reportable complaints per 1,000 customers over the three year period to 31 December 2015.

If complaints per 1,000 customers average 1.05 per annum or less over three years, 25 per cent of this element of the award, being the threshold, will vest.

If complaints per 1,000 customers average 0.95 per annum or less over three years, 100 per cent of this element will vest.

Vesting between threshold and maximum will be on a straight line basis.

(vi) **SME lending:** relevant to 5 per cent of the award. Performance will be measured by reference to the movement in lending to SMEs relative to the market as reported by the Bank of England over the three year period ending 31 December 2015.

If the movement in SME lending equates to the market movement, 25 per cent of this element of the award, being the threshold, will vest.

If the movement in SME lending is 4 per cent or more greater than the market movement, 100 per cent of this element will vest.

Vesting between threshold and maximum will be on a straight line basis.

In addition, short-term funding must remain within that stated in the Group's Risk Appetite throughout the three year period to 31 December 2015.

	2013 Number of shares	2012 Number of shares
Outstanding at 1 January	**515,951,517**	543,738,186
Granted	**186,360,995**	265,011,679
Vested	**–**	(71,591,014)
Forfeited	**(153,426,617)**	(221,207,334)
Outstanding at 31 December	**548,885,895**	515,951,517

The weighted average fair value of the share awards granted in 2013 was £0.34 (2012: £0.24). The fair values of the majority of share awards granted have been determined using a standard Black-Scholes model. The fair values of the remaining share awards have been determined by Monte Carlo simulation.

Scottish Widows Investment Partnership Long-Term Incentive Plan

The Scottish Widows Investment Partnership (SWIP) Long-Term Incentive Plan applicable to senior executives and employees of SWIP, which had previously been a cash-only scheme, was amended in May 2012 for awards granted on or after that date. The amendment introduced the receipt of shares in Lloyds Banking Group plc as an element of the total award. For awards made in June 2012, the other element continued to be cash-based, with the split between cash-based and share-based determined by the Remuneration Committee. Awards made in June 2013 were fully share-based. The amendment is aimed at delivering shareholder value by linking the receipt of shares to an improvement in the performance of SWIP over a three year period. Awards are made within limits set by the rules of the Plan, with the maximum limits for combined cash and shares awarded equating to 3.5 times annual salary. In exceptional circumstances this may increase to 4 times annual salary.

The performance conditions for share-based awards made in June 2012 are as follows:

(i) **Profitability:** relevant to 40 per cent of the award. The performance target is based on a cumulative 3 year profit before tax. If cumulative profit before tax reaches a specified target level, 100 per cent of this element will vest. If cumulative profit before tax reaches 90 per cent of the target level, 25 per cent of this element of the award, being the threshold, will vest. If cumulative profit before tax reaches 110 per cent of the target level, 200 per cent of this element of the award, being the maximum, will vest.

No award will be made where performance is below the threshold. Vesting between threshold and target and between target and maximum will be on a straight line basis.

(ii) **Investment performance:** relevant to 40 per cent of the award. The performance target is based on the percentage of SWIP funds achieving at or above benchmark performance (on a competitor median or index basis) over the 3 year period. If 50 per cent of funds exceed benchmark performance, 25 per cent of this element of the award, being the threshold, will vest. If 55 per cent of funds exceed benchmark performance, 100 per cent of this element, being the target, will vest. If 70 per cent of funds exceed benchmark performance, 200 per cent of this element of the award, being the maximum, will vest.

No award will be made where performance is below the threshold. Vesting between threshold and target and between target and maximum will be on a straight line basis.

(iii) **Funds under management (FUM) growth:** relevant to 20 per cent of the award. The performance target is based on growth in the value of third party assets managed by SWIP by the end of the 3 year period. If third party FUM reaches a specified target level, 100 per cent of this element of the award will vest. If third party FUM reaches 80 per cent of the target level, 25 per cent of this element, being the threshold, will vest. If third party FUM reaches 120 per cent of the target level, 200 per cent of this element of the award, being the maximum, will vest.

No award will be made where performance is below the threshold. Vesting between threshold and target and between target and maximum will be on a straight line basis.

50 Share-based payments (continued)

For awards made to SWIP's Code Staff (as defined by FSA), a fourth performance condition was set, relating to an internal measure of operational risk. This additional measure is relevant to 15 per cent of the award for these individuals, with a corresponding 5 per cent reduction in each of the weightings for the other three measures described above. As with the other measures, this performance condition has a target value at which 100 per cent of the award will vest, a maximum value at which 200 per cent of the award will vest, and a threshold value at which 25 per cent of the award will vest.

No award will be made where performance is below the threshold. Vesting between threshold and target and between target and maximum will be on a straight line basis.

The relevant period commenced on 1 January 2012 and ends on 31 December 2014.

The performance conditions for share-based awards made in June 2013 are as follows:

(i) **Profitability:** relevant to 35 per cent of the award. The performance target is based on a cumulative 3 year profit before tax. If cumulative profit before tax reaches a specified target level, 100 per cent of this element will vest. If cumulative profit before tax reaches 80 per cent of the target level, 25 per cent of this element of the award, being the threshold, will vest. If cumulative profit before tax reaches 120 per cent of the target level, 200 per cent of this element of the award, being the maximum, will vest.

No award will be made where performance is below the threshold. Vesting between threshold and target and between target and maximum will be on a straight line basis.

(ii) **Investment performance:** relevant to 35 per cent of the award. The performance target is based on the percentage of SWIP funds achieving at or above benchmark performance (on a competitor median or index basis) over the 3 year period. If 50 per cent of funds exceed benchmark performance, 25 per cent of this element of the award, being the threshold, will vest. If 55 per cent of funds exceed benchmark performance, 100 per cent of this element, being the target, will vest. If 70 per cent of funds exceed benchmark performance, 200 per cent of this element of the award, being the maximum, will vest.

No award will be made where performance is below the threshold. Vesting between threshold and target and between target and maximum will be on a straight line basis.

(iii) **Funds under management (FUM) growth:** relevant to 15 per cent of the award. The performance target is based on growth in the value of third party assets managed by SWIP by the end of the 3 year period. If third party FUM reaches a specified target level, 100 per cent of this element of the award will vest. If third party FUM reaches 80 per cent of the target level, 25 per cent of this element, being the threshold, will vest. If third party FUM reaches 120 per cent of the target level, 200 per cent of this element of the award, being the maximum, will vest.

No award will be made where performance is below the threshold. Vesting between threshold and target and between target and maximum will be on a straight line basis.

(iv) **Risk:** relevant to 15 per cent of the award. The performance target is based on a cumulative three year risk score. If the cumulative risk score reaches a specified target level, 100 per cent of this element will vest. If the cumulative risk score reaches 120 per cent of the target level, 25 per cent of this element of the award, being the threshold, will vest. If the cumulative risk score is 80 per cent of the target level, 200 per cent of this element of the award, being the maximum, will vest.

No award will be made where performance is below the threshold. Vesting between threshold and target and between target and maximum will be on a straight line basis.

The relevant period commenced on 1 January 2013 and ends on 31 December 2015.

	2013 Number of shares	2012 Number of shares
Outstanding at 1 January	5,452,877	–
Granted	10,331,924	5,452,877
Outstanding at 31 December	15,784,801	5,452,877

The fair value of the share awards granted in 2013 was £0.43. The fair values of share awards granted have been determined using a standard Black-Scholes model.

50 Share-based payments (continued)

The ranges of exercise prices, weighted average exercise prices, weighted average remaining contractual life and number of options outstanding for the option schemes were as follows:

	Executive schemes			SAYE schemes			Other share option plans		
	Weighted average exercise price (pence)	**Weighted average remaining life (years)**	**Number of options**	**Weighted average exercise price (pence)**	**Weighted average remaining life (years)**	**Number of options**	**Weighted average exercise price (pence)**	**Weighted average remaining life (years)**	**Number of options**
At 31 December 2013									
Exercise price range									
£0 to £1	–	–	–	40.63	2.91	499,088,383	5.25	4.1	51,528,728
£1 to £2	199.91	0.6	196,201	180.64	1.09	1,881,234	–	–	–
£2 to £3	224.85	0.8	5,856,392	–	–	–	–	–	–
£5 to £6	–	–	–	–	–	–	580.00	0.2	7,897,324

	Executive schemes			SAYE schemes			Other share option plans		
	Weighted average exercise price (pence)	Weighted average remaining life (years)	Number of options	Weighted average exercise price (pence)	Weighted average remaining life (years)	Number of options	Weighted average exercise price (pence)	Weighted average remaining life (years)	Number of options
At 31 December 2012									
Exercise price range									
£0 to £1	–	–	–	46.79	0.8	311,648,405	5.43	4.9	74,766,919
£1 to £2	199.91	1.6	233,714	178.14	1.8	2,923,618	–	–	–
£2 to £3	225.69	1.9	7,811,182	–	–	–	–	–	–
£3 to £4	–	–	–	–	–	–	–	–	–
£5 to £6	–	–	–	–	–	–	566.89	0.9	12,026,160

The fair value calculations at 31 December 2013 for grants made in the year, using Black-Scholes models and Monte Carlo simulation, are based on the following assumptions:

	Save-As-You-Earn	Executive Share Plan 2003	LTIP	SWIP LTIP
Weighted average risk-free interest rate	**0.33%**	**0.37%**	**0.31%**	**0.30%**
Weighted average expected life	**3.1 years**	**1.0 years**	**3.0 years**	**3.0 years**
Weighted average expected volatility	**45%**	**35%**	**45%**	**45%**
Weighted average expected dividend yield	**2.5%**	**2.5%**	**4.3%**	**4.4%**
Weighted average share price	**£0.51**	**£0.57**	**£0.49**	**£0.49**
Weighted average exercise price	**£0.41**	**Nil**	**Nil**	**Nil**

Expected volatility is a measure of the amount by which the Group's shares are expected to fluctuate during the life of an option. The expected volatility is estimated based on the historical volatility of the closing daily share price over the most recent period that is commensurate with the expected life of the option. The historical volatility is compared to the implied volatility generated from market traded options in the Group's shares to assess the reasonableness of the historical volatility and adjustments made where appropriate.

Share incentive plan

Free shares

An award of shares may be made annually to employees based on a percentage of each employee's salary in the preceding year up to a maximum of £3,000. The percentage is normally announced concurrently with the Group's annual results and the price of the shares awarded is announced at the time of award. The shares awarded are held in trust for a mandatory period of three years on the employee's behalf, during which period the employee is entitled to any dividends paid on such shares. The award is subject to a non-market based condition: if an employee leaves the Group within this three year period for other than a 'good' reason, all of the shares awarded will be forfeited.

The last award of free shares was made in 2008.

Matching shares

The Group undertakes to match shares purchased by employees up to the value of £30 per month; these matching shares are held in trust for a mandatory period of three years on the employee's behalf, during which period the employee is entitled to any dividends paid on such shares. The award is subject to a non-market based condition: if an employee leaves within this three year period for other than a 'good' reason, 100 per cent of the matching shares are forfeited. Similarly if the employees sell their purchased shares within three years, their matching shares are forfeited.

The number of shares awarded relating to matching shares in 2013 was 19,870,495 (2012: 36,158,343), with an average fair value of £0.63 (2012: £0.34), based on market prices at the date of award.

51 Related party transactions

Key management personnel
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of an entity; the Group's key management personnel are the members of the Lloyds Banking Group plc Group Executive Committee together with its Non-Executive Directors.

The table below details, on an aggregated basis, key management personnel compensation:

	2013 £m	2012 £m
Compensation		
Salaries and other short-term benefits	**15**	12
Post-employment benefits	**–**	–
Share-based payments	**21**	13
Total compensation	**36**	25

The aggregate of the emoluments of the directors was £14.9 million (2012: £7.6 million).

Aggregate company contributions in respect of directors to defined contribution pension schemes were £0.2 million (2012: £0.1 million).

The total for the highest paid director (António Horta-Osório) was £6,542,000 (2012: (António Horta-Osório) £3,397,000); this did not include any gain on exercise of Lloyds Banking Group plc shares in either year.

	2013 million	2012 million
Share options over Lloyds Banking Group plc shares		
At 1 January	**25**	22
Granted, including certain adjustments (includes entitlements of appointed key management personnel)	**5**	8
Exercised/lapsed (includes entitlements of former key management personnel)	**(16)**	(5)
At 31 December	**14**	25

	2013 million	2012 million
Share plans settled in Lloyds Banking Group plc shares		
At 1 January	**70**	58
Granted, including certain adjustments (includes entitlements of appointed key management personnel)	**42**	45
Exercised/lapsed (includes entitlements of former key management personnel)	**(7)**	(33)
At 31 December	**105**	70

The tables below detail, on an aggregated basis, balances outstanding at the year end and related income and expense, together with information relating to other transactions between the Group and its key management personnel:

	2013 £m	2012 £m
Loans		
At 1 January	**2**	3
Advanced (includes loans of appointed key management personnel)	**2**	3
Repayments (includes loans of former key management personnel)	**(2)**	(4)
At 31 December	**2**	2

The loans are on both a secured and unsecured basis and are expected to be settled in cash. The loans attracted interest rates of between 2.5 per cent and 23.7 per cent in 2013 (2012: 2.5 per cent and 29.95 per cent).

No provisions have been recognised in respect of loans given to key management personnel (2012: £nil).

51 Related party transactions (continued)

	2013 £m	2012 £m
Deposits		
At 1 January	**10**	6
Placed (includes deposits of appointed key management personnel)	**29**	39
Withdrawn (includes deposits of former key management personnel)	**(26)**	(35)
At 31 December	**13**	10

Deposits placed by key management personnel attracted interest rates of up to 2.9 per cent (2012: 3.8 per cent).

At 31 December 2013, the Group did not provide any guarantees in respect of key management personnel (2012: none).

At 31 December 2013, transactions, arrangements and agreements entered into by the Group and its banking subsidiaries with directors and connected persons included amounts outstanding in respect of loans and credit card transactions of £1 million with six directors and five connected persons (2012: £1 million with five directors and three connected persons).

Balances and transactions with fellow Lloyds Banking Group undertakings
Balances and transactions between members of the Lloyds Bank group
In accordance with IFRS10 *Consolidated financial statements*, transactions and balances between the Bank and its subsidiary undertakings, and between those subsidiary undertakings, have all been eliminated on consolidation and thus are not reported as related party transactions of the Group.

The Bank, as a result of its position as parent of a banking group, has a large number of transactions with various of its subsidiary undertakings; these are included on the balance sheet of the Bank as follows:

	2013 £m	2012 £m
Assets, included within:		
Derivative financial instruments	**10,751**	7,730
Trading and other assets designated at fair value through profit or loss	**10,154**	2,573
Loans and receivables	**250,996**	226,782
Available-for-sale financial assets	**1,876**	4,717
	273,777	241,802
Liabilities, included within:		
Deposits from banks and customers	**239,595**	222,280
Trading and other financial liabilities at fair value through profit or loss	**25,759**	3,092
Derivative financial instruments	**10,169**	6,972
Debt securities in issue	**3,028**	5,663
Subordinated liabilities	**115**	67
	278,666	238,074

Due to the size and volume of transactions passing through these accounts, it is neither practical nor meaningful to disclose information on gross inflows and outflows. During 2013 the Bank earned interest income on the above asset balances of £2,732 million (2012: £3,307 million) and incurred interest expense on the above liability balances of £2,073 million (2012: £2,599 million).

In addition, the Bank raised recharges of £819 million (2012: £812 million) on its subsidiaries in respect of costs incurred and also received fees of £262 million (2012: £239 million), and paid fees of £131 million (2012: £312 million), for various services provided between the Bank and its subsidiaries.

Details of contingent liabilities and commitments entered into on behalf of fellow Lloyds Banking Group undertakings are given in note 52.

51 Related party transactions (continued)

Balances and transactions with Lloyds Banking Group plc and fellow subsidiaries of the Bank
The Bank and its subsidiaries have balances due to and from the Bank's parent company, Lloyds Banking Group plc and fellow subsidiaries of the Bank. These are included on the balance sheet as follows:

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Assets, included within:				
Loans and receivables	**15,453**	18,882	**11,981**	15,417
Other	**–**	200	**22**	–
	15,453	19,082	**12,003**	15,417
Liabilities, included within:				
Customer deposits	**8,797**	9,950	**4,430**	3,830
Derivative financial instruments	**239**	274	**239**	274
Subordinated liabilities	**11,705**	14,520	**11,173**	13,573
Debt securities in issue	**–**	–	**–**	–
	20,741	24,744	**15,842**	17,677

These balances include Lloyds Banking Group plc's banking arrangements and, due to the size and volume of transactions passing through these accounts, it is neither practical nor meaningful to disclose information on gross inflows and outflows. During 2013 the Group earned £202 million and the Bank earned £169 million interest income on the above asset balances (2012: Group £383 million; Bank £337 million); the Group incurred £1,510 million and the Bank incurred £1,374 million interest expense on the above liability balances (2012: Group £1,634 million; Bank £1,455 million).

UK Government
In January 2009, the UK Government through HM Treasury became a related party of Lloyds Banking Group plc, the Bank's ultimate parent company, following its subscription for ordinary shares issued under a placing and open offer. At 31 December 2013, HM Treasury held a 32.7 per cent (2012: 39.2 per cent) interest in Lloyds Banking Group plc's ordinary share capital and consequently HM Treasury remained a related party of the Bank during the year ended 31 December 2013; this percentage holding has reduced from 39.2 per cent at 31 December 2012 following the UK Government's sale of 4,282 million shares on 17 September 2013 and the impact of issues of ordinary shares.

From 1 January 2011, in accordance with IAS 24, UK Government-controlled entities became related parties of the Group. The Group regards the Bank of England and entities controlled by the UK Government, including The Royal Bank of Scotland Group plc, Northern Rock (Asset Management) plc and Bradford & Bingley plc, as related parties.

Since 31 December 2012, the Group has had the following significant transactions with the UK Government or UK Government-related entities:

During the year ended 31 December 2013, the Lloyds Banking Group participated in a number of schemes operated by the UK Government and central banks and made available to eligible banks and building societies.

National Loan Guarantee Scheme
The Lloyds Banking Group has participated in the UK Government's National Loan Guarantee Scheme, which was launched on 20 March 2012. Through the scheme, the Lloyds Banking Group is providing eligible UK businesses with discounted funding, subject to continuation of the scheme and its financial benefits, and based on the Lloyds Banking Group's existing lending criteria. Eligible businesses who have taken up the funding benefit from a 1 per cent discount on their funding rate for a certain period of time.

Business Growth Fund
In May 2011, the Lloyds Banking Group agreed, together with The Royal Bank of Scotland plc (and three other non-related parties), to commit up to £300 million of equity investment by subscribing for shares in the Business Growth Fund plc which is the company created to fulfil the role of the Business Growth Fund as set out in the British Bankers' Association's Business Taskforce Report of October 2010. At 31 December 2013, the Lloyds Banking Group had invested £64 million (2012: £50 million) in the Business Growth Fund and carried the investment at a fair value of £52 million (2012: £44 million).

Big Society Capital
In January 2012, the Lloyds Banking Group agreed, together with The Royal Bank of Scotland plc (and two other non-related parties), to commit up to £50 million each of equity investment into the Big Society Capital Fund. The Fund, which was created as part of the Project Merlin arrangements, is a UK social investment fund. The Fund was officially launched on 3 April 2012 and Lloyds Banking Group had invested £12 million in the Fund by 31 December 2012 and invested a further £11 million during the year ended 31 December 2013.

Funding for Lending
In August 2012, the Lloyds Banking Group announced its support for the UK Government's Funding for Lending Scheme and confirmed its intention to participate in the scheme. The Funding for Lending Scheme represents a further source of cost effective secured term funding available to the Lloyds Banking Group. The initiative supports a broad range of UK-based customers, providing householders with more affordable housing finance and businesses with cheaper finance to invest and grow. In November 2013, the Group entered into extension letters with the Bank of England to take part in the extension of the Funding for Lending Scheme until the end of January 2015. The extension of the Funding for Lending Scheme focuses on providing businesses with cheaper finance to invest and grow. At 31 December 2013, the Group had drawn down £8.0 billion under the Funding for Lending Scheme. A further £2.2 billion was drawn in January 2014, which under the Funding for Lending rules counts as funding from the 2013 scheme capacity. This figure includes £0.2 billion drawn by Sainsbury's Bank plc. As a result of the Group's holding in the joint venture, Sainsbury's Bank plc was part of the Group for Funding for Lending purposes for the period to 31 January 2014.

51 Related party transactions (continued)

Help to Buy
On 7 October 2013, Bank of Scotland plc entered into an agreement with The Commissioners of Her Majesty's Treasury by which it agreed that the Halifax Division of Bank of Scotland plc would participate in the Help to Buy Scheme with effect from 11 October 2013 and that Lloyds Bank plc would participate from 3 January 2014. The Help to Buy Scheme is a scheme promoted by the Government and is aimed to encourage participating lenders to make mortgage loans available to customers who require higher loan-to-value mortgages. Halifax and Lloyds are currently participating in the Scheme whereby customers borrow between 90 per cent and 95 per cent of the purchase price.

In return for the payment of a commercial fee, HM Treasury has agreed to provide a guarantee to the lender to cover a proportion of any loss made by the lender arising from a higher loan-to-value loan being made. By 31 December 2013, £79 million had been advanced under this scheme.

Central bank facilities
In the ordinary course of business, the Lloyds Banking Group may from time to time access market-wide facilities provided by central banks.

Other government-related entities
Other than the transactions referred to above, there were no other significant transactions with the UK Government and UK Government-controlled entities (including UK Government-controlled banks) during the period that were not made in the ordinary course of business or that were unusual in their nature or conditions.

Other related party transactions
Sale of certain securitisation notes
During the year ended 31 December 2013, the Group sold at fair value certain securitisation notes to Lloyds Bank Pension Trust (No. 1) Limited for a consideration of approximately £340 million. Following the sale, the Group deconsolidated the relevant securitisation entities recognising a profit of £236 million.

Subsequently, the Group entered into a commercially negotiated agreement with Lloyds Bank Pension Trust (No.1) Limited to jointly sell a portfolio of US Residential Mortgage-Backed Securities with a book value of £3.5 billion. As a result of selling the portfolio together a price premium was achieved compared to selling the notes separately. Under the terms of the agreement the Group and Lloyds Bank Pension Trust (No.1) Limited agreed to share any price premium achieved above an agreed minimum threshold amount. The joint sale resulted in the Group realising a total pre-tax gain of approximately £538 million, of which £99 million related to the premium sharing agreement.

St. James's Place plc
In March 2013 the Group sold 102 million shares in St. James's Place plc; fees totalling some £5 million in relation to the sale were settled by St. James's Place plc.

Pension funds
The Group provides banking and some investment management services to certain of its pension funds. At 31 December 2013, customer deposits of £145 million (2012: £129 million) and investment and insurance contract liabilities of £4,728 million (2012: £4,569 million (restated)) related to the Group's pension funds.

Collective investment vehicles
The Group manages 210 (2012: 244) collective investment vehicles, such as Open Ended Investment Companies (OEICs), and of these 145 (2012: 136) are consolidated. The Group invested £2,472 million (2012: £1,563 million) and redeemed £2,189 million (2012: £1,690 million) in the unconsolidated collective investment vehicles during the year and had investments, at fair value, of £3,291 million (2012: £6,479 million) at 31 December. The Group earned fees of £277 million from the unconsolidated collective investment vehicles during 2013 (2012: £325 million).

Joint ventures and associates
The Group provides both administration and processing services to its principal joint venture, Sainsbury's Bank plc. The amounts receivable by the Group during the year were £35 million (2012: £32 million), of which £10 million was outstanding at 31 December 2013 (2012: £16 million). At 31 December 2013, Sainsbury's Bank plc also had balances with the Group that were included in loans and advances to banks of £806 million (2012: £1,229 million) and deposits by banks of £927 million (2012: £1,268 million).

At 31 December 2013 there were loans and advances to customers of £4,448 million (2012: £3,424 million) outstanding and balances within customer deposits of £70 million (2012: £45 million) relating to other joint ventures and associates.

In addition to the above balances, the Group has a number of other associates held by its venture capital business that it accounts for at fair value through profit or loss. At 31 December 2013, these companies had total assets of approximately £6,913 million (2012: £10,759 million), total liabilities of approximately £7,084 million (2012: £10,956 million) and for the year ended 31 December 2013 had turnover of approximately £6,989 million (2012: £8,169 million) and made a net loss of approximately £16 million (2012: net profit of approximately £488 million). In addition, the Group has provided £3,355 million (2012: £5,146 million) of financing to these companies on which it received £170 million (2012: £208 million) of interest income in the year.

52 Contingent liabilities and commitments

Interchange fees
On 24 May 2012, the General Court of the European Union (the General Court) upheld the European Commission's 2007 decision that an infringement of EU competition law had arisen from arrangements whereby MasterCard issuers charged a uniform fallback multilateral interchange fee (MIF) in respect of cross border transactions in relation to the use of a MasterCard or Maestro branded payment card.

MasterCard has appealed the General Court's judgment to the Court of Justice of the European Union. MasterCard is supported by several card issuers, including the Group. Judgment is not expected until the summer of 2014 or later.

In parallel:

- the European Commission is also considering further action, and has proposed legislation to regulate interchange fees, following its 2012 Green Paper (Towards an integrated European market for cards, internet and mobile payments) consultation;
- the European Commission has consulted on commitments proposed by VISA to settle an investigation into whether arrangements adopted by VISA for the levying of the MIF in respect of cross-border credit card payment transactions also infringe European Union competition laws. VISA has proposed inter alia to reduce the level of interchange fees on cross-border credit card transactions to the interim level (30 basis points) also agreed by MasterCard. VISA has previously reached an agreement (which expires in 2014) with the European Commission to reduce the level of interchange fees for cross-border debit card transactions to the interim levels agreed by MasterCard;
- the Office of Fair Trading (OFT) has placed on hold its examination of whether the levels of interchange fees paid by retailers in respect of MasterCard and VISA credit cards, debit cards and charge cards in the UK infringe competition law. The OFT has placed the investigation on hold pending the outcome of the MasterCard appeal to the Court of Justice of the European Union; and
- the UK Government held a consultation in 2013, Opening Up UK Payments. The consultation included a proposal to legislate to introduce a new economic regulator with responsibility for payment systems, including three and four party card schemes, and a role in setting or approving interchange fees.

The ultimate impact of the investigations and any regulatory or legislative developments on the Group can only be known at the conclusion of these investigations and any relevant appeal proceedings and once regulatory or legislative proposals are more certain.

Investigations and litigation relating to interbank offered rates, and other reference rates
A number of government agencies in the UK, US and elsewhere, including the UK Financial Conduct Authority, the Serious Fraud Office, the US Commodity Futures Trading Commission, the US Securities and Exchange Commission, the US Department of Justice and a number of State Attorneys General, as well as the European and Swiss Competition Commissions, are conducting investigations into submissions made by panel members to the bodies that set various interbank offered rates including the BBA London Interbank Offered Rates (LIBOR) and the European Banking Federation's Euribor, along with other reference rates. Certain Group companies were (at the relevant times) and remain members of various panels whose members make submissions to these bodies including the BBA LIBOR panels. No Group company is or was a member of the Euribor panel. Certain Group companies have received subpoenas and requests for information from certain government agencies and the Group is co-operating with their investigations.

Certain Group companies, together with other panel banks, have also been named as defendants in private lawsuits, including purported class action suits, in the US in connection with their roles as panel banks contributing to the setting of US Dollar LIBOR. The claims have been asserted by plaintiffs claiming to have had an interest in various types of financial instruments linked to US Dollar LIBOR. The allegations in these cases, the majority of which have been coordinated for pre-trial purposes in multi-district litigation proceedings (MDL) in the US District Court for the Southern District of New York (the 'District Court'), are substantially similar to each other. The lawsuits allege violations of the Sherman Antitrust Act, the Racketeer Influenced and Corrupt Organizations Act (RICO) and the Commodity Exchange Act (CEA), as well as various state statutes and common law doctrines. Certain of the plaintiffs' claims have been dismissed by the District Court, various motions directed to the sufficiency of their pleading of certain claims are still pending, and many of these cases have been stayed by order of the District Court.

The Group is also reviewing its activities in relation to the setting of certain foreign exchange daily benchmark rates, following the FCA's publicised initiation of an investigation into other financial institutions in relation to this activity. In addition, the Group, together with a number of other banks, has been named as a defendant in several actions in the District Court, in which the plaintiffs allege that the defendants manipulated WM/Reuters foreign exchange rates in violation of US antitrust laws. The time-frame for the Group and the other defendants to move to dismiss these claims has not yet been set.

It is currently not possible to predict the scope and ultimate outcome on the Group of the various regulatory investigations, private lawsuits or any related challenges to the interpretation or validity of any of the Group's contractual arrangements, including their timing and scale.

Financial Services Compensation Scheme
The Financial Services Compensation Scheme (FSCS) is the UK's independent statutory compensation fund of last resort for customers of authorised financial services firms and pays compensation if a firm is unable or likely to be unable to pay claims against it. The FSCS is funded by levies on the authorised financial services industry. Each deposit-taking institution contributes towards the FSCS levies in proportion to their share of total protected deposits on 31 December of the year preceding the scheme year, which runs from 1 April to 31 March.

Following the default of a number of deposit takers in 2008, the FSCS borrowed funds from HM Treasury to meet the compensation costs for customers of those firms. Although the substantial majority of this loan, which totalled approximately £17 billion at 31 March 2013, will be repaid from funds the FSCS receives from asset sales, surplus cash flow or other recoveries in relation to the assets of the firms that defaulted, any shortfall will be funded by deposit-taking participants of the FSCS. In July 2013, the FSCS confirmed that it expects to raise compensation costs levies of approximately £1.1 billion on all deposit-taking participants over a three year measurement period from 2012 to 2014 to enable it to repay the balance of the HM Treasury loan which matures in 2016. The Group has provided for its share of the 2012 and 2013 element of the levy. The amount of future compensation costs levies payable by the Group depends on a number of factors including participation in the market at 31 December, the level of protected deposits and the population of deposit-taking participants.

Investigation into Bank of Scotland and report on HBOS
The FSA's enforcement investigation into Bank of Scotland plc's Corporate division between 2006 and 2008 concluded with the publication of a Final Notice on 9 March 2012. No financial penalty was imposed on the Group or Bank of Scotland plc. On 12 September 2012 the FSA confirmed it was starting work on a public interest report on HBOS. That report is currently expected to be published in 2014.

US shareholder litigation
In November 2011 the Group and two former members of the Group's Board of Directors were named as defendants in a purported securities class action filed in the United States District Court for the Southern District of New York. The complaint asserted claims under the Securities Exchange Act of 1934 in connection

52 Contingent liabilities and commitments (continued)

with alleged material omissions from statements made in 2008 in connection with the acquisition of HBOS. In October 2012 the court dismissed the complaint. The plaintiffs' appeal against this decision was dismissed on 19 September 2013 and the time limit for further appeals expired in December 2013.

US-Swiss tax programme

The US Department of Justice (the DOJ) and the Swiss Federal Department of Finance announced on 29 August 2013 a programme (the Programme) for Swiss banks to obtain resolution concerning their status in connection with on-going investigations by the DOJ into individuals and entities that use foreign (i.e. non-U.S.) bank accounts to evade U.S. taxes and reporting requirements, and individuals and entities that facilitate or have facilitated the evasion of such taxes and reporting requirements. Swiss banks that choose to participate have to notify the DOJ of their election to categorise their relevant banking operations according to one of a number of defined categories under the Programme.

The Group, which carried out private banking operations in Switzerland prior to disposing of these operations in November 2013, has notified the DOJ of its elected categorisation on the basis that while it believes it has operated in full compliance with all US federal tax laws, there remains the possibility that certain of its clients may not have declared their assets in compliance with such laws. The Group will continue to co-operate with the DOJ under the terms of the Programme. However, at this time, it is not possible to predict the ultimate outcome of the Group's participation in the Programme, including the timing and scale of any fine finally payable to the DOJ.

Tax authorities

The Group provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. This includes open matters where Her Majesty's Revenue and Customs (HMRC) adopt a different interpretation and application of tax law which might lead to additional tax. The Lloyds Banking Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In the second half of 2013 HMRC informed the Lloyds Banking Group that their interpretation of the UK rules, permitting the offset of such losses, denies the claim; if HMRC's position is found to be correct management estimate that this would result in an increase in current tax liabilities of approximately £600 million and a reduction in the Lloyds Banking Group's deferred tax asset of approximately £400 million (overall impact on the Group of approximately £950 million). The Lloyds Banking Group does not agree with HMRC's position and, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

Other legal actions and regulatory matters

In addition, during the ordinary course of business the Lloyds Banking Group is subject to other threatened and actual legal proceedings (including class or group action claims brought on behalf of customers, shareholders or other third parties), and regulatory challenges, investigations and enforcement actions, both in the UK and overseas. All such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Lloyds Banking Group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required to settle the obligation at the relevant balance sheet date. In some cases it will not be possible to form a view, either because the facts are unclear or because further time is needed properly to assess the merits of the case and no provisions are held against such matters. However the Lloyds Banking Group does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

Contingent liabilities and commitments arising from the banking business

Acceptances and endorsements arise where the Group or the Bank agrees to guarantee payment on a negotiable instrument drawn up by a customer.

Other items serving as direct credit substitutes include standby letters of credit, or other irrevocable obligations, where the Group or the Bank has an irrevocable obligation to pay a third party beneficiary if the customer fails to repay an outstanding commitment; they also include acceptances drawn under letters of credit or similar facilities where the acceptor does not have specific title to an identifiable underlying shipment of goods.

Performance bonds and other transaction-related contingencies (which include bid or tender bonds, advance payment guarantees, VAT Customs & Excise bonds and standby letters of credit relating to a particular contract or non-financial transaction) are undertakings where the requirement to make payment under the guarantee depends on the outcome of a future event.

52 Contingent liabilities and commitments (continued)

The Group's and the Bank's maximum exposure to loss is represented by the contractual nominal amount detailed in the table below. Consideration has not been taken of any possible recoveries from customers for payments made in respect of such guarantees under recourse provisions or from collateral held.

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Contingent liabilities				
Acceptances and endorsements	**204**	107	**124**	104
Other:				
Other items serving as direct credit substitutes	**710**	523	**686**	495
Performance bonds and other transaction-related contingencies	**1,966**	2,266	**1,647**	1,704
	2,676	2,789	**2,333**	2,199
Total contingent liabilities	**2,880**	2,896	**2,457**	2,303

	The Bank	
	2013 £m	2012 £m
Incurred on behalf of fellow Lloyds Banking Group undertakings	**–**	12

The contingent liabilities of the Group and the Bank arise in the normal course of banking business and it is not practicable to quantify their future financial effect.

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Commitments				
Documentary credits and other short-term trade-related transactions	**54**	11	**51**	7
Forward asset purchases and forward deposits placed	**440**	546	**440**	546
Undrawn formal standby facilities, credit lines and other commitments to lend:				
Less than 1 year original maturity:				
Mortgage offers made	**9,559**	7,404	**1,112**	932
Other commitments	**55,002**	53,196	**30,404**	31,354
	64,561	60,600	**31,516**	32,286
1 year or over original maturity	**40,616**	40,794	**35,912**	39,861
Total commitments	**105,671**	101,951	**67,919**	72,700

	The Bank	
	2013 £m	2012 £m
Incurred on behalf of fellow Lloyds Banking Group undertakings	**4,718**	5,235

Of the amounts shown above in respect of undrawn formal standby facilities, credit lines and other commitments to lend £56,292 million (2012: £52,733 million) for the Group and £40,341 million (2012: £38,527 million) for the Bank were irrevocable.

Operating lease commitments
Where a Group company is the lessee, the future minimum lease payments under non-cancellable premises operating leases are as follows:

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Not later than 1 year	**292**	310	**148**	162
Later than 1 year and not later than 5 years	**928**	987	**452**	495
Later than 5 years	**1,166**	1,332	**500**	592
Total operating lease commitments	**2,386**	2,629	**1,100**	1,249

Operating lease payments represent rental payable by the Group for certain of its properties. Some of these operating lease arrangements have renewal options and rent escalation clauses, although the effect of these is not material. No arrangements have been entered into for contingent rental payments.

Capital commitments
Excluding commitments of the Group in respect of investment property (note 25), capital expenditure contracted but not provided for at 31 December 2013 amounted to £345 million (2012: £279 million) for the Group and £1 million (2012: £2 million) for the Bank. Of this amount for the Group, £344 million (2012: £277 million) relates to assets to be leased to customers under operating leases. The Group's management is confident that future net revenues and funding will be sufficient to cover these commitments.

53 Financial instruments

(1) Measurement basis of financial assets and liabilities

The accounting policies in note 2 describe how different classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following tables analyse the carrying amounts of the financial assets and liabilities by category and by balance sheet heading.

		At fair value through profit or loss						
The Group	**Derivatives designated as hedging instruments £m**	**Held for trading £m**	**Designated upon initial recognition £m**	**Available-for-sale £m**	**Loans and receivables £m**	**Held at amortised cost £m**	**Insurance contracts £m**	**Total £m**
At 31 December 2013								
Financial assets								
Cash and balances at central banks	–	–	–	–	–	49,915	–	49,915
Items in the course of collection from banks	–	–	–	–	–	1,007	–	1,007
Trading and other financial assets at fair value through profit or loss	–	37,480	105,727	–	–	–	–	143,207
Derivative financial instruments	6,787	25,126	–	–	–	–	–	31,913
Loans and receivables:								
Loans and advances to banks	–	–	–	–	25,365	–	–	25,365
Loans and advances to customers	–	–	–	–	495,281	–	–	495,281
Debt securities	–	–	–	–	1,355	–	–	1,355
Due from fellow Lloyds Banking group undertakings	–	–	–	–	15,453	–	–	15,453
	–	–	–	–	537,454	–	–	537,454
Available-for-sale financial assets	–	–	–	43,976	–	–	–	43,976
Total financial assets	6,787	62,606	105,727	43,976	537,454	50,922	–	807,472
Financial liabilities								
Deposits from banks	–	–	–	–	–	13,982	–	13,982
Customer deposits	–	–	–	–	–	441,311	–	441,311
Due to fellow Lloyds Banking group undertakings	–	–	–	–	–	8,797	–	8,797
Items in course of transmission to banks	–	–	–	–	–	774	–	774
Trading and other financial liabilities at fair value through profit or loss	–	38,319	5,306	–	–	–	–	43,625
Derivative financial instruments	25,946	4,758	–	–	–	–	–	30,704
Notes in circulation	–	–	–	–	–	1,176	–	1,176
Debt securities in issue	–	–	–	–	–	86,566	–	86,566
Liabilities arising from insurance contracts and participating investment contracts	–	–	–	–	–	–	82,801	82,801
Liabilities arising from non-participating investment contracts	–	–	–	–	–	–	27,590	27,590
Unallocated surplus within insurance businesses	–	–	–	–	–	–	391	391
Financial guarantees	–	–	50	–	–	–	–	50
Subordinated liabilities	–	–	–	–	–	33,534	–	33,534
Total financial liabilities	25,946	43,077	5,356	–	–	586,140	110,782	771,301

53 Financial instruments (continued)

The Group	Derivatives designated as hedging instruments £m	At fair value through profit or loss: Held for trading £m	At fair value through profit or loss: Designated upon initial recognition £m	Available-for-sale £m	Loans and receivables £m	Held at amortised cost £m	Insurance contracts £m	Total £m
At 31 December 2012[1]								
Financial assets								
Cash and balances at central banks	–	–	–	–	–	80,298	–	80,298
Items in the course of collection from banks	–	–	–	–	–	1,256	–	1,256
Trading and other financial assets at fair value through profit or loss	–	23,358	137,616	–	–	–	–	160,974
Derivative financial instruments	11,571	43,565	–	–	–	–	–	55,136
Loans and receivables:								
Loans and advances to banks	–	–	–	–	32,757	–	–	32,757
Loans and advances to customers	–	–	–	–	517,225	–	–	517,225
Debt securities	–	–	–	–	5,273	–	–	5,273
Due from fellow Lloyds Banking Group undertakings	–	–	–	–	18,882	–	–	18,882
	–	–	–	–	574,137	–	–	574,137
Available-for-sale financial assets	–	–	–	31,374	–	–	–	31,374
Total financial assets	11,571	66,923	137,616	31,374	574,137	81,554	–	903,175
Financial liabilities								
Deposits from banks	–	–	–	–	–	38,405	–	38,405
Customer deposits	–	–	–	–	–	426,912	–	426,912
Due to fellow Lloyds Banking Group undertakings	–	–	–	–	–	9,950	–	9,950
Items in course of transmission to banks	–	–	–	–	–	996	–	996
Trading and other financial liabilities at fair value through profit or loss	–	27,692	5,700	–	–	–	–	33,392
Derivative financial instruments	6,870	42,078	–	–	–	–	–	48,948
Notes in circulation	–	–	–	–	–	1,198	–	1,198
Debt securities in issue	–	–	–	–	–	116,701	–	116,701
Liabilities arising from insurance contracts and participating investment contracts	–	–	–	–	–	–	82,968	82,968
Liabilities arising from non-participating investment contracts	–	–	–	–	–	–	54,372	54,372
Unallocated surplus within insurance businesses	–	–	–	–	–	–	267	267
Financial guarantees	–	–	48	–	–	–	–	48
Subordinated liabilities	–	–	–	–	–	37,590	–	37,590
Total financial liabilities	6,870	69,770	5,748	–	–	631,752	137,607	851,747

[1]Restated – see note 1.

53 Financial instruments (continued)

The Bank	Derivatives designated as hedging instruments £m	At fair value through profit or loss: Held for trading £m	At fair value through profit or loss: Designated upon initial recognition £m	Available-for-sale £m	Loans and receivables £m	Held at amortised cost £m	Total £m
At 31 December 2013							
Financial assets							
Cash and balances at central banks	–	–	–	–	–	42,283	42,283
Items in the course of collection from banks	–	–	–	–	–	663	663
Trading and other financial assets at fair value through profit or loss	–	35,580	4,587	–	–	–	40,167
Derivative financial instruments	2,959	27,433	–	–	–	–	30,392
Loans and receivables:							
Loans and advances to banks	–	–	–	–	3,095	–	3,095
Loans and advances to customers	–	–	–	–	167,903	–	167,903
Debt securities	–	–	–	–	150	–	150
Due from fellow Lloyds Banking Group undertakings	–	–	–	–	262,977	–	262,977
	–	–	–	–	434,125	–	434,125
Available-for-sale financial assets	–	–	–	41,348	–	–	41,348
Total financial assets	2,959	63,013	4,587	41,348	434,125	42,946	588,978
Financial liabilities							
Deposits from banks	–	–	–	–	–	10,448	10,448
Customer deposits	–	–	–	–	–	187,399	187,399
Due to fellow Lloyds Banking Group undertakings	–	–	–	–	–	244,025	244,025
Items in course of transmission to banks	–	–	–	–	–	432	432
Trading and other financial liabilities at fair value through profit or loss	–	37,790	5,316	–	–	–	43,106
Derivative financial instruments	2,408	28,706	–	–	–	–	31,114
Debt securities in issue	–	–	–	–	–	53,195	53,195
Financial guarantees	–	–	33	–	–	–	33
Subordinated liabilities	–	–	–	–	–	22,600	22,600
Total financial liabilities	2,408	66,496	5,349	–	–	518,099	592,352

53 Financial instruments (continued)

The Bank	Derivatives designated as hedging instruments £m	At fair value through profit or loss: Held for trading £m	At fair value through profit or loss: Designated upon initial recognition £m	Available-for-sale £m	Loans and receivables £m	Held at amortised cost £m	Total £m
At 31 December 2012							
Financial assets							
Cash and balances at central banks	–	–	–	–	–	74,078	74,078
Items in the course of collection from banks	–	–	–	–	–	806	806
Trading and other financial assets at fair value through profit or loss	–	6,049	413	–	–	–	6,462
Derivative financial instruments	1,905	30,342	–	–	–	–	32,247
Loans and receivables:							
Loans and advances to banks	–	–	–	–	4,888	–	4,888
Loans and advances to customers	–	–	–	–	179,283	–	179,283
Debt securities	–	–	–	–	454	–	454
Debt from fellow Lloyds Banking Group undertakings	–	–	–	–	244,629	–	244,629
	–	–	–	–	429,254	–	429,254
Available-for-sale financial assets	–	–	–	31,092	–	–	31,092
Total financial assets	1,905	36,391	413	31,092	429,254	74,884	573,939
Financial liabilities							
Deposits from banks	–	–	–	–	–	29,675	29,675
Customer deposits	–	–	–	–	–	187,620	187,620
Due to fellow Lloyds Banking Group undertakings	–	–	–	–	–	229,203	229,203
Items in course of transmission to banks	–	–	–	–	–	445	445
Trading and other financial liabilities at fair value through profit or loss	–	5,141	5,700	–	–	–	10,841
Derivative financial instruments	1,884	28,732	–	–	–	–	30,616
Debt securities in issue	–	–	–	–	–	61,494	61,494
Financial guarantees	–	–	34	–	–	–	34
Subordinated liabilities	–	–	–	–	–	26,249	26,249
Total financial liabilities	1,884	33,873	5,734	–	–	534,686	576,177

(2) Reclassification of financial assets
No financial assets have been reclassified in 2013.

During 2012 the Group and the Bank reviewed the holding of government securities classified as held-to-maturity. Since it was no longer the intention to hold these to maturity, securities with a carrying amount of £10,811 million and a fair value of £11,979 million were reclassified as available-for-sale financial assets in December 2012. The difference between the carrying amount and the fair value was recognised in equity.

No financial assets were reclassified in 2011.

In 2010, government securities with a fair value of £3,601 million, which are held by the Bank, were reclassified from available-for-sale financial assets to held-to-maturity investments reflecting the Group's then positive intent and ability to hold them until maturity.

In 2009, no financial assets were reclassified.

In 2008, in accordance with the amendment to IAS 39 that became applicable during that year, the Group reviewed the categorisation of its financial assets classified as held for trading and available-for-sale. On the basis that there was no longer an active market for some of those assets, which are therefore more appropriately managed as loans, with effect from 1 July 2008, the Group transferred £2,993 million of assets previously classified as held for trading into loans and receivables. With effect from 1 November 2008, the Group transferred £437 million of assets previously classified as available-for-sale financial assets into loans and receivables. At the time of these transfers, the Group had the intention and ability to hold them for the foreseeable future or until maturity. As at the date of reclassification, the weighted average effective interest rate of the assets transferred was 6.3 per cent with the estimated recoverable cash flows of £3,524 million.

53 Financial instruments (continued)

Carrying value and fair value of reclassified assets
The table below sets out the carrying value and fair value of reclassified financial assets.

	31 December 2013		31 December 2012		31 December 2011		31 December 2010		31 December 2009		31 December 2008	
The Group	**Carrying value £m**	**Fair value £m**	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
From held for trading to loans and receivables	**–**	**–**	11	9	67	56	750	727	1,833	1,822	2,883	2,926
From available-for-sale financial assets to loans and receivables	**–**	**–**	162	203	217	219	313	340	394	422	454	402
From available-for-sale financial assets to held-to-maturity investments	**–**	**–**	–	–	3,624	3,846	3,455	3,539	–	–	–	–
From held-to-maturity investments to available-for-sale financial assets	**1,117**	**1,117**	4,998	4,998	–	–	–	–	–	–	–	–
Total carrying value and fair value	**1,117**	**1,117**	5,171	5,210	3,908	4,121	4,518	4,606	2,227	2,244	3,337	3,328

During the year ended 31 December 2013, the carrying value of the assets reclassified to loans and receivables decreased by £173 million due to sales and maturities of £173 million.

No financial assets have been reclassified in accordance with paragraphs 50B, 50D or 50E of IAS 39 in since 2008; the following disclosures relate to those assets which were so reclassified in 2008.

a) Additional fair value gains (losses) that would have been recognised had the reclassifications not occurred
The table below shows the additional gains (losses) that would have been recognised in the income statement if the reclassifications had not occurred.

The Group	**2013 £m**	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
From held for trading to loans and receivables	**1**	1	(3)	(34)	208	(347)

The table below shows the additional gains (losses) that would have been recognised in other comprehensive income if the reclassifications had not occurred.

The Group	**2013 £m**	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
From available-for-sale financial assets to loans and receivables	**(56)**	24	(68)	69	161	(108)

b) Actual amounts recognised in respect of reclassified assets
After reclassification the reclassified financial assets contributed the following amounts to the income statement.

The Group	**2013 £m**	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
From held for trading to loans and receivables:						
Net interest income	**–**	–	1	24	55	31
Impairment losses	**–**	–	–	(6)	(49)	(158)
Total amounts recognised	**–**	–	1	18	6	(127)

The Group	**2013 £m**	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
From available-for-sale financial assets to loans and receivables:						
Net interest income	**1**	1	2	1	34	3
Impairment losses	**–**	5	(8)	(2)	(56)	(23)
Losses on disposal	**(5)**	–	–	–	–	–
Total amounts recognised	**(4)**	6	(6)	(1)	(22)	(20)

53 Financial instruments (continued)

(3) Fair values of financial assets and liabilities

The following table summarises the carrying values of financial assets and liabilities presented on the Group's balance sheet. The fair values presented in the table are at a specific date and may be significantly different from the amount which will actually be paid on the maturity or settlement date.

	The Group				The Bank			
	2013		2012[1]		2013		2012	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets								
Trading and other financial assets at fair value through profit or loss	**143,207**	**143,207**	160,974	160,974	**40,167**	**40,167**	6,462	6,462
Derivative financial instruments	**31,913**	**31,913**	55,136	55,136	**30,392**	**30,392**	32,247	32,247
Loans and receivables:								
Loans and advances to banks	**25,365**	**25,296**	32,757	32,746	**3,095**	**3,073**	4,888	4,877
Loans and advances to customers	**495,281**	**486,495**	517,225	506,418	**167,903**	**165,002**	179,283	177,124
Debt securities	**1,355**	**1,251**	5,273	5,402	**150**	**150**	454	342
Due from fellow Lloyds Banking Group undertakings	**15,453**	**15,453**	18,882	18,882	**262,977**	**262,977**	244,629	244,629
	537,454	**528,495**	574,137	563,448	**434,125**	**431,202**	429,254	426,972
Available-for-sale financial assets	**43,976**	**43,976**	31,374	31,374	**41,348**	**41,348**	31,092	31,092
Financial liabilities								
Deposits from banks	**13,982**	**14,101**	38,405	38,739	**10,448**	**10,536**	29,675	29,985
Customer deposits	**441,311**	**441,855**	426,912	428,749	**187,399**	**187,734**	187,620	187,866
Due to fellow Lloyds Banking Group undertakings	**8,797**	**8,797**	9,950	9,950	**244,025**	**244,025**	229,203	229,203
Trading and other financial liabilities at fair value through profit or loss	**43,625**	**43,625**	33,392	33,392	**43,106**	**43,106**	10,841	10,841
Derivative financial instruments	**30,704**	**30,704**	48,948	48,948	**31,114**	**31,114**	30,616	30,616
Debt securities in issue	**86,566**	**90,268**	116,701	122,295	**53,195**	**52,666**	61,494	64,857
Liabilities arising from non-participating investment contracts	**27,590**	**27,590**	54,372	54,372	**–**	**–**	–	–
Financial guarantees	**50**	**50**	48	48	**33**	**33**	34	34
Subordinated liabilities	**33,534**	**33,976**	37,590	39,028	**22,600**	**24,442**	26,249	27,093

[1]Restated – see note 1.

Carrying value of financial instruments

The carrying amount of the following financial instruments is a reasonable approximation of fair value: cash and balances at central banks, items in the course of collection from banks, items in course of transmission to banks and notes in circulation.

(4) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Wherever possible, fair values have been calculated using unadjusted quoted market prices in active markets for identical instruments held by the Group. Where quoted market prices are not available, or are unreliable because of poor liquidity, fair values have been determined using valuation techniques which, to the extent possible, use market observable inputs, but in some cases use non-market observable inputs. Valuation techniques used include discounted cash flow analysis and pricing models and, where appropriate, comparison to instruments with characteristics similar to those of the instruments held by the Group.

Because a variety of estimation techniques are employed and significant estimates made, comparisons of fair values between financial institutions may not be meaningful. Readers of these financial statements are thus advised to use caution when using this data to evaluate the Group's financial position.

Fair value information is not provided for items that are not financial instruments or for other assets and liabilities which are not carried at fair value in the Group's consolidated balance sheet. These items include intangible assets, such as the value of the Group's branch network, the long-term relationships with depositors and credit card relationships; premises and equipment; and shareholders' equity. These items are material and accordingly the Group believes that the fair value information presented does not represent the underlying value of the Group.

53 Financial instruments (continued)

Valuation control framework
The key elements of the control framework for the valuation of financial instruments include model validation, product implementation review and independent price verification. These functions are carried out by appropriately skilled risk and finance teams, independent of the business area responsible for the products.

Model validation covers both qualitative and quantitative elements relating to new models. In respect of new products, a product implementation review is conducted pre- and post-trading. Pre-trade testing ensures that the new model is integrated into the Group's systems and that the profit and loss and risk reporting are consistent throughout the trade life cycle. Post-trade testing examines the explanatory power of the implemented model, actively monitoring model parameters and comparing in-house pricing to external sources. Independent price verification procedures cover financial instruments carried at fair value. The frequency of the review is matched to the availability of independent data, monthly being the minimum. Valuation differences in breach of established thresholds are escalated to senior management. The results from independent pricing and valuation reserves are reviewed monthly by senior management.

Formal committees, consisting of senior risk, finance and business management, meet at least quarterly to discuss and approve valuations in more judgemental areas, in particular for unquoted equities, structured credit, over-the-counter options and the Credit Valuation Adjustment (CVA) reserve.

Valuation of financial assets and liabilities
Assets and liabilities carried at fair value or for which fair values are disclosed have been classified into three levels according to the quality and reliability of information used to determine the fair values.

Level 1
Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 predominantly comprise equity shares, treasury bills and other government securities.

Level 2
Level 2 valuations are those where quoted market prices are not available, for example where the instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. Examples of such financial instruments include most over-the-counter derivatives, financial institution issued securities, certificates of deposit and certain asset-backed securities.

Level 3
Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include the Group's venture capital and unlisted equity investments which are valued using various valuation techniques that require significant management judgement in determining appropriate assumptions, including earnings multiples and estimated future cash flows. Certain of the Group's asset-backed securities and derivatives, principally where there is no trading activity in such securities, are also classified as level 3.

Unless otherwise noted, the following disclosures are provided separately for assets and liabilities carried at fair value and those carried at amortised cost.

The Group manages valuation adjustments for its derivative exposures on a net basis; the Group determines their fair values on the basis of their net exposures. In all other cases, fair values of financial assets and liabilities measured at fair value are determined on the basis of their gross exposures.

There were no transfers between level 1 and level 2 during the period.

53 Financial instruments (continued)

Financial assets and liabilities carried at fair value

The table below analyses the financial assets and liabilities of the Group which are carried at fair value. They are categorised into levels 1 to 3 based on the degree to which their fair value is observable. The fair value measurement approach is recurring in nature.

Valuation hierarchy

The Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2013				
Trading and other financial assets at fair value through profit or loss				
Loans and advances to customers	–	21,110	–	21,110
Loans and advances to banks	–	8,333	–	8,333
Debt securities:				
Government securities	20,191	498	–	20,689
Other public sector securities	–	1,312	885	2,197
Bank and building society certificates of deposit	–	1,491	–	1,491
Asset-backed securities:				
Mortgage-backed securities	30	768	–	798
Other asset-backed securities	171	756	–	927
Corporate and other debt securities	244	18,735	1,687	20,666
	20,636	23,560	2,572	46,768
Equity shares	65,211	10	1,660	66,881
Treasury and other bills	7	108	–	115
Total trading and other financial assets at fair value through profit or loss	85,854	53,121	4,232	143,207
Available-for-sale financial assets				
Debt securities:				
Government securities	38,262	28	–	38,290
Other public sector securities	–	–	–	–
Bank and building society certificates of deposit	–	208	–	208
Asset-backed securities:				
Mortgage-backed securities	–	1,263	–	1,263
Other asset-backed securities	–	841	74	915
Corporate and other debt securities	56	1,799	–	1,855
	38,318	4,139	74	42,531
Equity shares	48	147	375	570
Treasury and other bills	852	23	–	875
Total available-for-sale financial assets	39,218	4,309	449	43,976
Derivative financial instruments	235	29,871	1,807	31,913
Total financial assets carried at fair value	125,307	87,301	6,488	219,096
Trading and other financial liabilities at fair value through profit or loss				
Liabilities held at fair value through profit or loss	–	5,267	39	5,306
Trading liabilities:				
Liabilities in respect of securities sold under repurchase agreements	–	28,902	–	28,902
Short positions in securities	6,473	417	–	6,890
Other	–	2,527	–	2,527
	6,473	31,846	–	38,319
Total trading and other financial liabilities at fair value through profit or loss	6,473	37,113	39	43,625
Derivative financial instruments	119	29,599	986	30,704
Financial guarantees	–	–	50	50
Total financial liabilities carried at fair value	6,592	66,712	1,075	74,379

53 Financial instruments (continued)

Valuation hierarchy

The Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2012				
Trading and other financial assets at fair value through profit or loss				
Loans and advances to customers	–	13,632	–	13,632
Loans and advances to banks	–	919	–	919
Debt securities:				
Government securities	19,138	2,207	–	21,345
Other public sector securities		1,056	–	1,056
Bank and building society certificates of deposit	68	3,326	–	3,394
Asset-backed securities:				
Mortgage-backed securities	232	693	–	925
Other asset-backed securities	348	1,565	–	1,913
Corporate and other debt securities	8,346	17,894	1,519	27,759
	28,132	26,741	1,519	56,392
Equity shares	87,742	72	1,787	89,601
Treasury and other bills	430	–	–	430
Total trading and other financial assets at fair value through profit or loss	116,304	41,364	3,306	160,974
Available-for-sale financial assets				
Debt securities:				
Government securities	25,555	–	–	25,555
Other public sector securities	–	–	–	–
Bank and building society certificates of deposit	42	146	–	188
Asset-backed securities:				
Mortgage-backed securities	–	1,524	–	1,524
Other asset-backed securities	–	687	73	760
Corporate and other debt securities	22	1,826	–	1,848
	25,619	4,183	73	29,875
Equity shares	21	99	408	528
Treasury and other bills	869	16	86	971
Total available-for-sale financial assets	26,509	4,298	567	31,374
Derivative financial instruments	76	54,123	937	55,136
Total financial assets carried at fair value	142,889	99,785	4,810	247,484
Trading and other financial liabilities at fair value through profit or loss				
Liabilities held at fair value through profit or loss	–	5,700	–	5,700
Trading liabilities:				
Liabilities in respect of securities sold under repurchase agreements	–	24,553	–	24,553
Short positions in securities	1,850	350	–	2,200
Other	15	924	–	939
	1,865	25,827	–	27,692
Total trading and other financial liabilities at fair value through profit or loss	1,865	31,527	–	33,392
Derivative financial instruments	36	48,369	543	48,948
Financial guarantees	–	–	48	48
Total financial liabilities carried at fair value	1,901	79,896	591	82,388

There were no significant transfers between level 1 and level 2 during the year.

53 Financial instruments (continued)

Valuation hierarchy

The Bank	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
At 31 December 2013				
Trading and other financial assets at fair value through profit or loss				
Loans and advances to customers	–	23,904	–	23,904
Loans and advances to banks	–	5,778	–	5,778
Debt securities:				
Government securities	8,567	97	–	8,664
Bank and building society certificates of deposit	–	32	–	32
Asset-backed securities:				
Mortgage-backed securities	–	7	–	7
Other asset-backed securities	171	–	–	171
Corporate and other debt securities	6	1,533	18	1,557
	8,744	1,669	18	10,431
Equity shares	–	–	–	–
Treasury and other bills	–	54	–	54
Total trading and other financial assets at fair value through profit or loss	8,744	31,405	18	40,167
Available-for-sale financial assets				
Debt securities:				
Government securities	38,159	–	–	38,159
Other public sector securities	–	–	–	–
Bank and building society certificates of deposit	–	196	–	196
Asset-backed securities:				
Mortgage-backed securities	–	366	–	366
Other asset-backed securities	–	171	8	179
Corporate and other debt securities	32	2,244	–	2,276
	38,191	2,977	8	41,176
Equity shares	41	108	–	149
Treasury and other bills	–	23	–	23
Total available-for-sale financial assets	38,232	3,108	8	41,348
Derivative financial instruments	–	29,025	1,367	30,392
Total financial assets carried at fair value	46,976	63,538	1,393	111,907
Trading and other financial liabilities at fair value through profit or loss				
Liabilities held at fair value through profit or loss	–	5,267	–	5,267
Trading liabilities:				
Liabilities in respect of securities sold under repurchase agreements	–	24,617	–	24,617
Short positions in securities	1,450	417	–	1,867
Other	–	11,355	–	11,355
	1,450	36,389	–	37,839
Total trading and other financial liabilities at fair value through profit or loss	1,450	41,656	–	43,106
Derivative financial instruments	–	30,174	940	31,114
Financial guarantees	–	–	33	33
Total financial liabilities carried at fair value	1,450	71,830	973	74,253

53 Financial instruments (continued)

Valuation hierarchy

The Bank	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
At 31 December 2012				
Trading and other financial assets at fair value through profit or loss				
Loans and advances to customers	–	21	–	21
Loans and advances to banks	–	191	–	191
Debt securities:				
Government securities	3,781	–	–	3,781
Bank and building society certificates of deposit	–	926	–	926
Asset-backed securities:				
Mortgage-backed securities	–	130	–	130
Other asset-backed securities	–	17	–	17
Corporate and other debt securities	–	1,294	–	1,294
	3,781	2,367	–	6,148
Equity shares	2	11	–	13
Treasury and other bills	89	–	–	89
Total trading and other financial assets at fair value through profit or loss	3,872	2,590	–	6,462
Available-for-sale financial assets				
Debt securities:				
Government securities	25,418	–	–	25,418
Other public sector securities	–	–	–	–
Bank and building society certificates of deposit	38	121	–	159
Asset-backed securities:				
Mortgage-backed securities	–	456	–	456
Other asset-backed securities	–	88	–	88
Corporate and other debt securities	–	4,808		4,808
	25,456	5,473	–	30,929
Equity shares	–	47	–	47
Treasury and other bills	15	16	85	116
Total available-for-sale financial assets	25,471	5,536	85	31,092
Derivative financial instruments	2	31,480	765	32,247
Total financial assets carried at fair value	29,345	39,606	850	69,801
Trading and other financial liabilities at fair value through profit or loss				
Liabilities held at fair value through profit or loss	–	5,700	–	5,700
Trading liabilities:				
Liabilities in respect of securities sold under repurchase agreements	–	584	–	584
Short positions in securities	703	350	–	1,053
Other	–	3,504	–	3,504
	703	4,438	–	5,141
Total trading and other financial liabilities at fair value through profit or loss	703	10,138	–	10,841
Derivative financial instruments	6	30,122	488	30,616
Financial guarantees	–	–	34	34
Total financial liabilities carried at fair value	709	40,260	522	41,491

53 Financial instruments (continued)

Valuation methodology

Loans and advances and debt securities

Loans and advances and debt securities measured at fair value and classified as level 2 are valued by discounting expected cash flows using an observable credit spread applicable to the particular instrument.

Where there is limited trading activity in debt securities, the Group uses valuation models, consensus pricing information from third party pricing services and broker or lead manager quotes to determine an appropriate valuation. Debt securities are classified as level 3 if there is a significant valuation input that cannot be corroborated through market sources or where there are materially inconsistent values for an input. Asset classes classified as level 3 mainly comprise certain collateralised loan obligations and collateralised debt obligations.

Equity investments

Unlisted equity and fund investments are valued using different techniques in accordance with the Group's valuation policy and International Private Equity and Venture Capital Guidelines.

Depending on the business sector and the circumstances of the investment, unlisted equity valuations are based on earnings multiples, net asset values or discounted cash flows.

- A number of earnings multiples are used in valuing the portfolio including price earnings, earnings before interest and tax and earnings before interest, tax, depreciation and amortisation. The particular multiple selected being appropriate for the type of business being valued and is derived by reference to the current market-based multiple. Consideration is given to the risk attributes, growth prospects and financial gearing of comparable businesses when selecting an appropriate multiple.
- Discounted cash flow valuations use estimated future cash flows, usually based on management forecasts, with the application of appropriate exit yields or terminal multiples and discounted using rates appropriate to the specific investment, business sector or recent economic rates of return. Recent transactions involving the sale of similar businesses may sometimes be used as a frame of reference in deriving an appropriate multiple.
- For fund investments the most recent capital account value calculated by the fund manager is used as the basis for the valuation and adjusted, if necessary, to align valuation techniques with the Group's valuation policy.

Unlisted equity investments and investments in property partnerships held in the life assurance funds are valued using third party valuations. Management take account of any pertinent information, such as recent transactions and information received on particular investments, to adjust the third party valuations where necessary.

Derivatives

Where the Group's derivative assets and liabilities are not traded on an exchange, they are valued using valuation techniques, including discounted cash flow and options pricing models, as appropriate. The types of derivatives classified as level 2 and the valuation techniques used include:

- Interest rate swaps which are valued using discounted cash flow models; the most significant inputs into those models are interest rate yield curves which are developed from publicly quoted rates.
- Foreign exchange derivatives that do not contain options which are priced using rates available from publicly quoted sources.
- Credit derivatives which are valued using standard models with observable inputs, except for the items classified as level 3, which are valued using publicly available yield and credit default swap (CDS) curves.
- Less complex interest rate and foreign exchange option products which are valued using volatility surfaces developed from publicly available interest rate cap, interest rate swaption and other option volatilities; option volatility skew information is derived from a market standard consensus pricing service. For more complex option products, the Group calibrates its models using observable at-the-money data; where necessary, the Group adjusts for out-of-the-money positions using a market standard consensus pricing service.

Complex interest rate and foreign exchange products where there is significant dispersion of consensus pricing or where implied funding costs are material and unobservable are classified as level 3.

Where credit protection, usually in the form of credit default swaps, has been purchased or written on asset-backed securities, the security is referred to as a negative basis asset-backed security and the resulting derivative assets or liabilities have been classified as either level 2 or level 3 according to the classification of the underlying asset-backed security.

Liabilities held at fair value through profit or loss

These principally comprise debt securities in issue which are classified as level 2 and their fair value is determined using techniques whose inputs are based on observable market data.

53 Financial instruments (continued)

Movements in level 3 portfolio

The table below analyses movements in the level 3 financial assets portfolio (recurring measurement):

The Group	Trading and other financial assets at fair value through profit or loss £m	Available-for-sale £m	Derivative assets £m	Total financial assets £m
At 1 January 2012	2,941	2,056	1,477	6,474
Exchange and other adjustments	10	(60)	12	(38)
Gains recognised in the income statement within other income	166	(356)	(584)	(774)
Losses recognised in other comprehensive income within the revaluation reserve in respect of available-for-sale financial assets	–	(58)	–	(58)
Purchases	513	218	45	776
Sales	(570)	(1,358)	(13)	(1,941)
Transfers into the level 3 portfolio	337	138	–	475
Transfers out of the level 3 portfolio	(91)	(13)	–	(104)
At 31 December 2012	3,306	567	937	4,810
Exchange and other adjustments	**21**	**15**	**2**	**38**
Gains recognised in the income statement within other income	**296**	**–**	**353**	**649**
Gains recognised in other comprehensive income within the revaluation reserve in respect of available-for-sale financial assets	**–**	**40**	**–**	**40**
Purchases	**582**	**43**	**271**	**896**
Sales	**(631)**	**(224)**	**(102)**	**(957)**
Transfers into the level 3 portfolio	**995**	**12**	**354**	**1,361**
Transfers out of the level 3 portfolio	**(337)**	**(4)**	**(8)**	**(349)**
At 31 December 2013	**4,232**	**449**	**1,807**	**6,488**
Gains recognised in the income statement, within other income, relating to the change in fair value of those assets held at 31 December 2013	**70**	**5**	**376**	**451**
Gains (losses) recognised in the income statement, within other income, relating to the change in fair value of those assets held at 31 December 2012	85	(33)	(584)	(532)

The table below analyses movements in the level 3 financial liabilities portfolio:

	Trading and other financial liabilities at fair value through profit or loss £m	Derivative liabilities £m	Financial guarantees £m	Total financial liabilities £m
At 1 January 2012	–	741	49	790
Exchange and other adjustments	–	10	–	10
Gains recognised in the income statement within other income	–	(227)	(3)	(230)
Additions	–	28	2	30
Redemptions	–	(25)	–	(25)
Transfers into the level 3 portfolio	–	16	–	16
At 31 December 2012	–	543	48	591
Exchange and other adjustments	**–**	**8**	**–**	**8**
Losses (gains) recognised in the income statement within other income	**10**	**(30)**	**3**	**(17)**
Additions	**29**	**262**	**–**	**291**
Redemptions	**–**	**(29)**	**(1)**	**(30)**
Transfers into the level 3 portfolio	**–**	**233**	**–**	**233**
Transfers out of the level 3 portfolio	**–**	**(1)**	**–**	**(1)**
At 31 December 2013	**39**	**986**	**50**	**1,075**
Losses recognised in the income statement, within other income, relating to the change in fair value of those liabilities held at 31 December 2013	**(10)**	**20**	**(3)**	**7**
Gains recognised in the income statement, within other income, relating to the change in fair value of those liabilities held at 31 December 2012	–	223	3	226

Transfers out of the level 3 portfolio arise when inputs that could have a significant impact on the instrument's valuation become market observable after previously having been non-market observable. In the case of asset-backed securities this can arise if more than one consistent independent source of data becomes available. Conversely transfers into the portfolio arise when consistent sources of data cease to be available.

53 Financial instruments (continued)

The Bank	Trading and other financial assets at fair value through profit or loss £m	Available-for-sale £m	Derivative assets £m	Total financial assets £m
At 1 January 2012	–	153	1,125	1,278
Exchange and other adjustments	–	–	12	12
Gains recognised in the income statement within other income	–	–	(415)	(415)
Losses recognised in other comprehensive income within the revaluation reserve in respect of available-for-sale financial assets	–	–	–	–
Purchases	–	–	45	45
Sales	–	(141)	(2)	(143)
Transfers into the level 3 portfolio	–	85	–	85
Transfers out of the level 3 portfolio	–	(12)	–	(12)
At 31 December 2012	–	85	765	850
Exchange and other adjustments	**–**	**–**	**(2)**	**(2)**
Gains recognised in the income statement within other income	**–**	**–**	**154**	**154**
Losses recognised in other comprehensive income within the revaluation reserve in respect of available-for-sale financial assets	**–**	**–**	**–**	**–**
Purchases	**–**	**8**	**270**	**278**
Sales	**(295)**	**(85)**	**(10)**	**(390)**
Transfers into the level 3 portfolio	**313**	**–**	**192**	**505**
Transfers out of the level 3 portfolio	**–**	**–**	**(2)**	**(2)**
At 31 December 2013	**18**	**8**	**1,367**	**1,393**
Gains recognised in the income statement, within other income, relating to the change in fair value of those assets held at 31 December 2013	**–**	**–**	**178**	**178**
Losses recognised in the income statement, within other income, relating to the change in fair value of those assets held at 31 December 2012	–	–	(415)	(415)

The table below analyses movements in the level 3 financial liabilities portfolio:

	Derivative liabilities £m	Financial guarantees £m	Total financial liabilities £m
At 1 January 2012	706	32	738
Exchange and other adjustments	10	–	10
Gains recognised in the income statement within other income	(246)	–	(246)
Additions	28	2	30
Redemptions	(10)	–	(10)
At 31 December 2012	488	34	522
Exchange and other adjustments	**(1)**	**–**	**(1)**
Gains recognised in the income statement within other income	**(2)**	**(1)**	**(3)**
Additions	**262**	**–**	**262**
Redemptions	**–**	**–**	**–**
Transfers into the level 3 portfolio	**194**	**–**	**194**
Transfers out of the level 3 portfolio	**(1)**	**–**	**(1)**
At 31 December 2013	**940**	**33**	**973**
Gains recognised in the income statement, within other income, relating to the change in fair value of those liabilities held at 31 December 2013	**–**	**–**	**–**
Gains recognised in the income statement, within other income, relating to the change in fair value of those liabilities held at 31 December 2012	246	–	246

53 Financial instruments (continued)

Sensitivity of level 3 valuations

			At 31 December 2013			At 31 December 2012		
				Effect of reasonably possible alternative assumptions[2]			Effect of reasonably possible alternative assumptions	
	Valuation basis/technique	Significant unobservable inputs[1]	Carrying value £m	Favourable changes £m	Unfavourable changes £m	Carrying value £m	Favourable changes £m	Unfavourable changes £m
Trading and other financial assets at fair value through profit or loss:								
Debt securities	Discounted cash flows	Credit spreads (bps) n/a[3]	18	5	(2)	–	–	–
Equity and venture capital investments	Market approach	Earnings multiple (0.2/14.6)	2,132	70	(70)	1,854	51	(51)
	Underlying asset/ net asset value (incl. property prices)[4]	n/a	130	–	–	227	–	–
Unlisted equities and property partnerships in the life funds	Underlying asset/ net asset value (incl. property prices)[4]	n/a	1,952	–	–	1,225	–	–
			4,232			3,306		
Available-for-sale financial assets								
Asset-backed securities	Lead manager or broker quote/consensus pricing	n/a	74	–	–	73	–	–
Equity and venture capital investments	Underlying asset/ net asset value (incl. property prices)[4]	n/a	375	28	(19)	494	36	(11)
			449			567		
Derivative financial assets								
Interest rate derivatives	Discounted cash flow	Inflation swap rate – funding component (62 bps/192 bps)	1,461	66	(39)	899	69	(48)
	Option pricing model	Interest rate volatility (3%/112%)	346	6	(7)	38	2	(21)
			1,807			937		
Level 3 financial assets carried at fair value			6,488			4,810		
Trading and other financial liabilities at fair value through profit or loss			39	1	(1)	–	–	–
Derivative financial liabilities								
Interest rate derivatives	Discounted cash flow	Inflation swap rate – funding component (62 bps/192 bps)	754	–	–	475	–	–
	Option pricing model	Interest rate volatility (3%/112%)	232	–	–	68	–	–
			986			543		
Financial guarantees			50			48		
Level 3 financial liabilities carried at fair value			1,075			591		

[1]Ranges are shown where appropriate and represent the highest and lowest inputs used in the level 3 valuations.

[2]Where the exposure to an unobservable input is managed on a net basis, only the net impact is shown in the table.

[3]A single pricing source is used.

[4]Underlying asset/net asset values represent fair value.

[5]Comparatives are provided only where disclosures were required in 2012.

53 Financial instruments (continued)

Unobservable inputs
Significant unobservable inputs affecting the valuation of debt securities, unlisted equity investments and derivatives are as follows:

- Interest rates and inflation rates are referenced in some derivatives where the payoff that the holder of the derivative receives depends on the behaviour of those underlying references through time.
- Credit spreads represent the premium above the benchmark reference instrument required to compensate for lower credit quality; higher spreads lead to a lower fair value.
- Volatility parameters represent key attributes of option behaviour; higher volatilities typically denote a wider range of possible outcomes.
- Earnings multiples are used to value certain unlisted equity investments; a higher earnings multiple will result in a higher fair value.

Reasonably possible alternative assumptions
Valuation techniques applied to many of the Group's level 3 instruments often involve the use of two or more inputs whose relationship is interdependent. The calculation of the effect of reasonably possible alternative assumptions included in the table above reflects such relationships.

Debt securities
Reasonably possible alternative assumptions have been determined in respect of the Group's structured credit investment by flexing credit spreads.

Derivatives
Reasonably possible alternative assumptions have been determined in respect of the Group's derivative portfolios as follows:

- In respect of the embedded equity conversion feature of the Enhanced Capital Notes, the sensitivity was based on the absolute difference between the actual price of the enhanced capital note and the closest, alternative broker quote available plus the impact of applying a 10 bps increase/decrease in the market yield used to derive a market price for similar bonds without the conversion feature. The effect of interdependency of the assumptions is not material to the effect of applying reasonably possible alternative assumptions to the valuations of derivative financial instruments.
- Uncollateralised inflation swaps are valued using appropriate discount spreads for such transactions. These spreads are not generally observable for longer maturities. The reasonably possible alternative valuations reflect flexing of the spreads for the differing maturities to alternative values of between 62 bps and 192 bps (2012: 51 bps and 260 bps).
- Swaptions are priced using industry standard option pricing models. Such models require interest rate volatilities which may be unobservable at longer maturities. To derive reasonably possible alternative valuations these volatilities have been flexed within a range of 3 per cent to 112 per cent (2012: 31 per cent and 79 per cent).

Unlisted equity, venture capital investments and investments in property partnerships
The valuation techniques used for unlisted equity and venture capital investments vary depending on the nature of the investment. Reasonably possible alternative valuations for these investments have been calculated by reference to the approach taken, as appropriate to the business sector and investment circumstances and as such the following inputs have been considered:

- for valuations derived from earnings multiples, consideration is given to the risk attributes, growth prospects and financial gearing of comparable businesses when selecting an appropriate multiple;
- the discount rates used in discounted cash flow valuations; and
- in line with International Private Equity and Venture Capital Guidelines, the values of underlying investments in fund investments portfolios.

53 Financial instruments (continued)

Financial assets and liabilities carried at amortised cost

Valuation hierarchy

The table below analyses the fair values of the financial assets and liabilities of the Group which are carried at amortised cost. They are categorised into levels 1 to 3 based on the degree to which their fair value is observable.

The Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2013				
Loans and receivables:				
Loans and advances to customers	–	–	486,495	486,495
Loans and advances to banks	–	–	25,296	25,296
Debt securities	157	42	1,052	1,251
Due from fellow Lloyds Banking Group undertakings	–	–	15,453	15,453
Deposits from banks	–	13,957	144	14,101
Customer deposits	–	423,122	18,733	441,855
Due to fellow Lloyds Banking Group undertakings	–	8,797	–	8,797
Debt securities in issue	–	90,093	175	90,268
Subordinated liabilities	–	33,976	–	33,976

The Bank	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2013				
Loans and receivables:				
Loans and advances to customers	–	–	165,002	165,002
Loans and advances to banks	–	–	3,073	3,073
Debt securities	150	–	–	150
Due from fellow Lloyds Banking Group undertakings	–	–	262,977	262,977
Deposits from banks	–	10,392	144	10,536
Customer deposits	–	187,734	–	187,734
Due to fellow Lloyds Banking Group undertakings	–	244,025	–	244,025
Debt securities in issue	–	52,666	–	52,666
Subordinated liabilities	–	24,442	–	24,442

Note: Comparatives not provided as disclosure not required in 2012.

Valuation methodology

Financial assets

The Group provides loans and advances to commercial, corporate and personal customers at both fixed and variable rates. The carrying value of the variable rate loans and those relating to lease financing is assumed to be their fair value. For fixed rate lending, several different techniques are used to estimate fair value taking into account expected credit losses, prevailing market interest rates and expected future cash flows. For retail exposures, fair value is principally estimated by discounting anticipated cash flows (including interest at contractual rates) at market rates for similar loans offered by the Group and other financial institutions. Certain loans secured on residential properties are made at a fixed rate for a limited period, typically two to five years, after which the loans revert to the relevant variable rate. The fair value of such loans is estimated by reference to the market rates for similar loans of maturity equal to the remaining fixed interest rate period. The fair value of wholesale loans is estimated by discounting anticipated cash flows at a rate which reflects the effects of interest rate changes, adjusted for changes in credit risk.

The fair values of debt securities, which were previously within assets held for trading and were reclassified to loans and receivables, are determined predominantly from lead manager quotes and, where these are not available, by alternative techniques including reference to credit spreads on similar assets with the same obligor, market standard consensus pricing services, broker quotes and other research data.

Financial liabilities

The fair value of deposits repayable on demand is considered to be equal to their carrying value. The fair value for all other deposits is estimated using discounted cash flows applying either market rates, where applicable, or current rates for deposits of similar remaining maturities.

The fair value of short-term debt securities in issue is approximately equal to their carrying value. Fair value for other debt securities and for subordinated liabilities is estimated using discounted cash flow techniques at a rate which reflects market rates of interest and the Group's own credit spread.

53 Financial instruments (continued)

Derivative valuation adjustments
Derivative financial instruments which are carried in the balance sheet at fair value are adjusted where appropriate to reflect credit risk, market liquidity and other risks.

(i) Uncollateralised derivative valuation adjustments, excluding monoline counterparties
The following table summarises the movement on this valuation adjustment account for the Group during 2013 and 2012.

	2013 £m	2012 £m
At 1 January	**897**	1,226
Income statement (credit) charge	**(241)**	(209)
Transfers	**(158)**	(120)
At 31 December	**498**	897

Represented by:

	2013 £m	2012 £m
Credit Valuation Adjustment	**485**	928
Debit Valuation Adjustment	**(122)**	(174)
Funding Valuation Adjustment	**135**	143
	498	897

Credit and Debit Valuation Adjustments (CVA and DVA) are applied to the Group's over-the-counter derivative exposures with counterparties that are not subject to standard interbank collateral arrangements. These exposures largely relate to the provision of risk management solutions for corporate customers within the Commercial Banking division.

A CVA is taken where the Group has a positive future uncollateralised exposure (asset). A DVA is taken where the Group has a negative future uncollateralised exposure (liability). These adjustments reflect interest rates and expectations of counterparty creditworthiness and the Group's own credit spread respectively.

The CVA is sensitive to:

- the current size of the mark-to-market position on the uncollateralised asset;
- expectations of future market volatility of the underlying asset; and
- expectations of counterparty creditworthiness.

In circumstances where exposures to a counterparty become impaired, any associated derivative valuation adjustment is transferred and assessed for specific loss alongside other non-derivative assets and liabilities that the counterparty may have with the Group.

Market Credit Default Swap (CDS) spreads are used to develop the probability of default for quoted counterparties. For unquoted counterparties, internal credit ratings and market sector CDS curves and recovery rates are used. The Loss Given Default (LGD) is based on market recovery rates and internal credit assessments.

The combination of a one notch deterioration in the credit rating of derivative counterparties and a ten per cent increase in LGD increases the CVA by £67 million. Current market value is used to estimate the projected exposure for products not supported by the model, which are principally complex interest rate options that are traded in very low volumes. For these, the CVA is calculated on an add-on basis (in total contributing £5 million of the overall CVA balance at 31 December 2013).

The DVA is sensitive to:

- the current size of the mark-to-market position on the uncollateralised liability;
- expectations of future market volatility of the underlying liability; and
- the Group's own CDS spread.

A one per cent rise in the CDS spread would lead to an increase in the DVA of £89 million to £211 million.

The risk exposures that are used for the CVA and DVA calculations are strongly influenced by interest rates. Due to the nature of the Group's business the CVA/DVA exposures tend to be on average the same way around such that the valuation adjustments fall when interest rates rise. A one per cent rise in interest rates would lead to a £187 million fall in the overall valuation adjustment to £177 million. The CVA model used by the Group does not assume any correlation between the level of interest rates and default rates.

53 Financial instruments (continued)

The Group has also recognised a Funding Valuation Adjustment to adjust for the net cost of funding certain uncollateralised derivative positions where the Group considers that this cost is included in market pricing. This adjustment is calculated on the expected future exposure discounted at a suitable cost of funds. A ten basis points increase in the cost of funds will increase the funding valuation adjustment by approximately £9 million.

(ii) Uncollateralised derivative valuation adjustments – monoline counterparties
The Group has no significant derivative exposures remaining against monoline counterparties.

(iii) Market liquidity
The Group includes mid to bid-offer valuation adjustments against the expected cost of closing out the net market risk in the Group's trading positions within a timeframe that is consistent with historical trading activity and spreads that the trading desks have accessed historically during the ordinary course of business in normal market conditions.

At 31 December 2013, the Group's derivative trading business held mid to bid-offer valuation adjustments of £70 million (2012: £103 million).

(iv) Libor/Overnight Index Swap (OIS) basis
The Group's derivative trading business applies £50 million (2012: £74 million) of valuation adjustments against the changing market approach to valuing derivatives that are subject to daily collateral margin, where standard market practice is to pay interest on an Overnight Index Swap (OIS) basis rather than a Libor rate.

No credit valuation adjustment is taken on collateralised swaps.

Own credit adjustments
The carrying amount of issued notes that are designated at fair value through profit and loss is adjusted to reflect the effect of changes in own credit spreads. The resulting gain or loss is recognised in the income statement.

At 31 December 2013, the own credit adjustment arising from the fair valuation of £5,306 million (2012: £5,700 million) of the Group's debt securities in issue designated at fair value through profit or loss resulted in a gain of £40 million (2012: a loss of £437 million).

(5) Transfers of financial assets

A. Transferred financial assets that continue to be recognised in full
The Group and the Bank enter into repurchase and securities lending transactions in the normal course of business that do not result in derecognition of the financial assets covered as substantially all of the risks and rewards, including credit, interest rate, prepayment and other price risks are retained by the Group. In all cases, the transferee has the right to sell or repledge the assets concerned.

As set out in note 20, included within loans and receivables are loans transferred under the Group's securitisation and covered bond programmes. As the Group retains all of a majority of the risks and rewards associated with these loans, including credit, interest rate, prepayment and liquidity risk, they remain on the Group's balance sheet. Assets transferred into the Group's securitisation and covered bond programmes are not available to be used by the Group whilst the assets are within the programmes. However, the Group retains the right to remove loans from the covered bond programmes where they are in excess of the programme's requirements. In addition, where the Group has retained some of the notes issued by securitisation and covered bond programmes, the Group has the ability to sell or pledge these retained notes.

The table below sets out the carrying values of the transferred assets and the associated liabilities. For repurchase and securities lending transactions, the associated liabilities represent the Group's obligation to repurchase the transferred assets. For securitisation programmes, the associated liabilities represent the external notes in issue (note 35). Except as otherwise noted below, none of the liabilities shown in the table below have recourse only to the transferred assets.

	The Group		The Bank	
	Carrying value of transferred assets £m	**Carrying value of associated liabilities £m**	**Carrying value of transferred assets £m**	**Carrying value of associated liabilities £m**
At 31 December 2013				
Repurchase and securities lending transactions				
Trading and other financial assets at fair value through profit or loss	**10,832**	**927**	**6,922**	**6,664**
Available-for-sale financial assets	**6,093**	**3,726**	**18,001**	**8,733**
Loans and receivables:				
Loans and advances to customers	**19,074**	**3,936**	**826**	**789**
Debt securities classified as loans and receivables	**88**	**–**	**78**	**–**
Securitisation programmes				
Loans and receivables:				
Loans and advances to customers	**80,878**	**18,613**[1]	**10,407**	**10,735**

[1]Excludes securitisation notes held by the group (£38,288 million).

53 Financial instruments (continued)

	The Group		The Bank	
	Carrying value of transferred assets £m	**Carrying value of associated liabilities £m**	**Carrying value of transferred assets £m**	**Carrying value of associated liabilities £m**
At 31 December 2012				
Repurchase and securities lending transactions				
Trading and other financial assets at fair value through profit or loss	10,612	620	3,174	2,588
Available-for-sale financial assets	8,967	4,693	24,784	8,499
Loans and receivables:				
Loans and advances to customers	19,015	6,662	1,083	1,016
Debt securities classified as loans and receivables	498	346	1,089	812
Securitisation programmes				
Loans and receivables:				
Loans and advances to customers[1]	118,183	28,059[2]	51,167	10,435

[1] Includes US residential mortgage-backed securities and associated liabilities whose carrying values were £185 million and £221 million respectively; the associated liabilities have recourse only to the securities transferred and, at 31 December 2013, the fair values of the securities and the associated liabilities were £244 million and £311 million respectively, a difference of £67 million.

[2] Excludes securitisation notes held by the Group (£58,732 million).

B. Transferred financial assets derecognised in their entirety with ongoing exposure

The following information by type of ongoing exposure relates to assets and liabilities arising from contractual rights or obligations retained or obtained in connection with financial assets that have been derecognised in their entirety.

	The Group				The Bank			
	Carrying amount of ongoing exposure in balance sheet				**Carrying amount of ongoing exposure in balance sheet**			
		At fair value through profit or loss				**At fair value through profit or loss**		
At 31 December 2013	**Loans and receivables £m**	**Designated upon initial recognition £m**	**Fair value of ongoing exposure £m**	**Maximum exposure to loss £m**	**Loans and receivables £m**	**Designated upon initial recognition £m**	**Fair value of ongoing exposure £m**	**Maximum exposure to loss £m**
Debt securities	**78**	**–**	**76**	**78**[1]	**78**	**–**	**76**	**78**

	The Group				The Bank			
	Carrying amount of ongoing exposure in balance sheet				**Carrying amount of ongoing exposure in balance sheet**			
		At fair value through profit or loss				**At fair value through profit or loss**		
	Loans and receivables £m	**Designated upon initial recognition £m**	**Fair value of ongoing exposure £m**	**Maximum exposure to loss £m**	**Loans and receivables £m**	**Designated upon initial recognition £m**	**Fair value of ongoing exposure £m**	**Maximum exposure to loss £m**
At 31 December 2012								
Debt securities	119	–	102	119[1]	119	–	102	119[1]
Fund investments	–	70	70	100[2]	–	–	–	–
Total	119	70	172	219	119	–	102	119

[1] Amount represents the carrying amount of the asset.

[2] Amount represents the carrying amount of the asset plus undrawn commitments of £30 million.

Debt securities shown in the table above are notes held in non-controlled securitisation vehicles representing the Group's and the Bank's ongoing involvement in financial assets transferred into those securitisation vehicles in prior years. The debt securities, which benefit from significant credit enhancement, are classified as available-for-sale financial assets and are managed on a similar basis to the Group's and the Bank's other non-traded asset backed securities.

Fund investments shown in the table above are equity and debt interests in an investment fund representing the Group's ongoing involvement in financial assets transferred into the fund in a prior year. The fund investments were designated at fair value through profit or loss and are managed on a similar basis to the Group's trading assets.

The Group and the Bank have no obligation or option to repurchase any of the assets transferred.

53 Financial instruments (continued)

Amounts recognised in the income statement in 2013
In respect of debt securities shown above, an amount of £1 million was recognised during the year (2012: £2 million; £6 million cumulatively since derecognition) within net interest income.

In respect of fund investments shown above, an amount of £nil million was recognised during the year (2012: £3 million; £55 million cumulatively since derecognition) within net trading income.

(6) Financial instruments subject to offsetting, enforceable master netting agreements and similar arrangements
The following information relates to financial assets and liabilities which have been set off in the balance sheet and those which have not been set off but for which the Group has enforceable master netting agreements in place with counterparties.

At 31 December 2013 – The Group	Gross amounts of assets/liabilities £m	Amounts set off in the balance sheet[3] £m	Net amounts presented in the balance sheet £m
Financial assets			
Trading and other financial assets at fair value through profit or loss[1]	113,919	–	113,919
Derivative financial instruments	49,073	(17,160)	31,913
Loans and receivables:			
Loans and advances to banks[1]	25,182	–	25,182
Loans and advances to customers[1]	495,161	–	495,161
Debt securities	1,355	–	1,355
Due from fellow Lloyds Banking Group undertakings	15,453	–	15,453
Reverse repurchase agreements	34,028	(4,437)	29,591
Available-for-sale financial assets	43,976	–	43,976
Financial liabilities			
Deposits from banks[2]	12,108	–	12,108
Customer deposits[2]	438,333	–	438,333
Due to fellow Lloyds Banking Group undertakings	8,797	–	8,797
Trading and after financial liabilities at fair value through profit or loss[2]	14,723	–	14,723
Repurchase agreements	38,191	(4,437)	33,754
Derivative financial instruments	47,864	(17,160)	30,704

53 Financial instruments (continued)

At 31 December 2013	Net amounts presented in the balance sheet £m	Related amounts where set off in the balance sheet not permitted[4] Financial instruments £m	Cash collateral received/ pledged £m	Potential net amounts if offset of related amounts permitted £m
Financial assets				
Trading and other financial assets at fair value through profit or loss[1]	**113,919**	**(903)**	**–**	**113,016**
Derivative financial instruments	**31,913**	**(19,479)**	**(3,188)**	**9,246**
Loans and receivables:				
Loans and advances to banks[1]	**25,182**	**–**	**–**	**25,182**
Loans and advances to customers[1]	**495,161**	**(10,958)**	**(49)**	**484,154**
Debt securities	**1,355**	**–**	**–**	**1,355**
Due from fellow Lloyds Banking Group undertakings	**15,453**	**–**	**–**	**15,453**
Reverse repurchase agreements	**29,591**	**(4,160)**	**(416)**	**25,015**
Available-for-sale financial assets	**43,976**	**(3,782)**	**–**	**40,194**
Financial liabilities				
Deposits from banks[2]	**12,108**	**–**	**(2,798)**	**9,310**
Customer deposits[2]	**438,333**	**(6,811)**	**(806)**	**430,716**
Due to fellow Lloyds Banking Group undertakings	**8,797**	**–**	**–**	**8,797**
Trading and after financial liabilities at fair value through profit or loss[2]	**14,723**	**–**	**–**	**14,723**
Repurchase agreements	**33,754**	**(12,992)**	**(49)**	**20,713**
Derivative financial instruments	**30,704**	**(19,479)**	**–**	**11,225**

At 31 December 2012	Gross amounts of assets/liabilities £m	Amounts set off in the balance sheet[3] £m	Net amounts presented in the balance sheet £m
Financial assets			
Trading and other financial assets at fair value through profit or loss[1]	146,541	–	146,541
Derivative financial instruments	70,771	(15,635)	55,136
Loans and receivables:			
Loans and advances to banks[1]	32,095	–	32,095
Loans and advances to customers[1]	512,138	–	512,138
Debt securities	5,273	–	5,273
Due from fellow Lloyds Banking Group undertakings	18,882	–	18,882
Reverse repurchase agreements	25,476	(5,294)	20,182
Available-for-sale financial assets	31,374	–	31,374
Financial liabilities			
Deposits from banks[2]	15,037	–	15,037
Customer deposits[2]	422,479	–	422,479
Due to fellow Lloyds Banking Group undertakings	9,950	–	9,950
Trading and after financial liabilities at fair value through profit or loss[2]	8,839	–	8,839
Repurchase agreements	57,648	(5,294)	52,354
Derivative financial instruments	64,583	(15,635)	48,948

53 Financial instruments (continued)

At 31 December 2012	Net amounts presented in the balance sheet £m	Related amounts where set off in the balance sheet not permitted[4] Financial instruments £m	Cash collateral received/pledged £m	Potential net amounts if offset of related amounts permitted £m
Financial assets				
Trading and other financial assets at fair value through profit or loss[1]	146,541	(612)	–	145,929
Derivative financial instruments	55,136	(38,158)	(5,429)	11,549
Loans and receivables:				
Loans and advances to banks[1]	32,095	–	(135)	31,960
Loans and advances to customers[1]	512,138	(13,140)	(2)	498,996
Debt securities	5,273	(344)	–	4,929
Due from fellow Lloyds Banking Group undertakings	18,882	–	–	18,882
Reverse repurchase agreements	20,182	(8,863)	(196)	11,123
Available-or-sale financial assets	31,374	(4,716)	–	26,658
Financial liabilities				
Deposits from banks[2]	15,037	–	(5,259)	9,778
Customer deposits[2]	422,479	(5,728)	(367)	416,384
Due to fellow Lloyds Banking Group undertakings	9,950	–	–	9,950
Trading and after financial liabilities at fair value through profit or loss[2]	8,839	–	–	8,839
Repurchase agreements	52,354	(21,498)	(1)	30,855
Derivative financial instruments	48,948	(38,158)	(135)	10,655

[1]Excluding reverse repurchase agreements.

[2]Excluding repurchase agreements.

[3]The amounts set off in the balance sheet as shown above represent derivatives and repurchase agreements with central clearing houses which meet the criteria for offsetting under IAS 32.

[4]The Group enters into derivatives and repurchase and reverse repurchase agreements with various counterparties which are governed by industry standard master netting agreements. The Group holds and provides cash and securities collateral in respective of derivative transactions covered by these agreements. The right to set off balances under these master netting agreements or to set off cash and securities collateral only arises in the event of non-payment or default and, as a result, these arrangements do not qualify for offsetting under IAS 32.

[5]The effects of over collateralisation have not been taken into account in the above table.

54 Financial risk management

Financial instruments are fundamental to the Group's activities and, as a consequence, the risks associated with financial instruments represent a significant component of the risks faced by the Group.

The primary risks affecting the Group through its use of financial instruments are: credit risk; market risk, which includes interest rate risk and currency risk; liquidity risk and insurance risk. Information about the Group's management of these risks is given below.

(1) Credit risk

The Group's credit risk exposure arises in respect of the instruments below and predominantly in the United Kingdom, the European Union, Australia and the United States. Credit risk appetite is set at Board level and is described and reported through a suite of metrics devised from a combination of accounting and credit portfolio performance measures, which include the use of various credit risk rating systems as inputs and measure the credit risk of loans and advances to customers and banks at a counterparty level using three components: (i) the probability of default by the counterparty on its contractual obligations; (ii) the current exposures to the counterparty and their likely future development, from which the Group derives the exposure at default; and (iii) the likely loss ratio on the defaulted obligations, the loss given default. The Group uses a range of approaches to mitigate credit risk, including internal control policies, obtaining collateral, using master netting agreements and other credit risk transfers, such as asset sales and credit derivative based transactions.

A. Maximum credit exposure

The maximum credit risk exposure of the Group and the Bank in the event of other parties failing to perform their obligations is detailed below. No account is taken of any collateral held and the maximum exposure to loss, which includes amounts held to cover unit-linked and With-Profit funds liabilities, is considered to be the balance sheet carrying amount or, for non-derivative off-balance sheet transactions and financial guarantees, their contractual nominal amounts.

	The Group		The Bank	
	2013 £m	2012[1] £m	**2013 £m**	2012 £m
Loans and receivables:				
Loans and advances to banks, net[2]	**25,365**	32,757	**3,095**	4,888
Loans and advances to customers, net[2]	**495,281**	517,225	**167,903**	179,283
Debt securities, net[2]	**1,355**	5,273	**150**	454
Due from fellow Lloyds Banking Group undertakings	**15,453**	18,882	**262,977**	244,629
Deposit amounts available for offset, net[3]	**(6,811)**	(5,728)	**(4,959)**	(4,366)
	530,643	568,409	**429,166**	424,888
Available-for-sale financial assets (excluding equity shares)	**43,406**	30,846	**41,199**	31,045
Trading and other financial assets at fair value through profit or loss (excluding equity shares)[4]:				
Loans and advances	**29,443**	14,551	**29,682**	212
Debt securities, treasury and other bills	**46,883**	56,822	**10,485**	6,237
	76,326	71,373	**40,167**	6,449
Derivative assets:				
Derivative assets, before netting	**31,913**	55,136	**30,392**	32,247
Amounts available for offset under master netting arrangements[3]	**(19,479)**	(38,158)	**(12,192)**	(17,185)
	12,434	16,978	**18,200**	15,062
Assets arising from reinsurance contracts held	**732**	2,320	**–**	–
Financial guarantees	**8,591**	9,520	**7,903**	8,660
Irrevocable loan commitments and other credit-related contingencies[5]	**59,172**	55,629	**42,798**	40,830
Maximum credit risk exposure	**731,304**	755,075	**579,433**	526,934
Maximum credit risk exposure before offset items	**757,594**	798,961	**596,584**	548,485

[1]Restated – note 1.

[2]Amounts shown net of related impairment allowances.

[3]Deposit amounts available for offset and amounts available for offset under master netting arrangements do not meet the criteria under IAS 32 to enable loans and advances and derivative assets respectively to be presented net of these balances in the financial statements.

[4]Includes assets within the Group's unit-linked funds for which credit risk is borne by the policyholders and assets within the Group's with-profits funds for which credit risk is largely borne by the policyholders. Consequently the Group has no significant exposure to credit risk for such assets which back related contract liabilities.

[5]See note 52 – Contingent liabilities and commitments for further information.

54 Financial risk management (continued)

B. Credit quality of assets

Loans and receivables

The disclosures in the table above are produced under the management basis used for the Lloyds Banking Group's segmental reporting. The Group believes that, for reporting periods immediately following a significant business combination such as the transfer of HBOS in 2010, this management basis, which includes the allowance for loan losses in place at the date of the acquisition of HBOS by the Lloyds Banking Group on a gross basis, more fairly reflects the underlying provisioning status of the loans. The remaining acquisition-related fair value adjustments in respect of this lending are therefore identified separately in this table.

The analysis of lending between retail and wholesale has been prepared based upon the type of exposure and not the business segment in which the exposure is recorded. Included within retail are exposures to personal customers and small businesses, whilst included within wholesale are exposures to corporate customers and other large institutions.

Loans and advances – The Group

	Loans and advances to banks £m	Loans and advances to customers				Loans and advances designated at fair value through profit or loss £m
		Retail – mortgages £m	Retail – other £m	Wholesale £m	Total £m	
31 December 2013						
Neither past due nor impaired	**25,219**	**318,668**	**36,789**	**110,093**	**465,550**	**29,443**
Past due but not impaired	**146**	**12,329**	**580**	**786**	**13,695**	**–**
Impaired – no provision required	**–**	**637**	**1,284**	**1,824**	**3,745**	**–**
– provision held	**–**	**6,229**	**1,456**	**20,829**	**28,514**	**–**
Gross	**25,365**	**337,863**	**40,109**	**133,532**	**511,504**	**29,443**
Allowance for impairment losses	**–**	**(2,194)**	**(1,044)**	**(12,469)**	**(15,707)**	**–**
Fair value adjustments	**–**				**(516)**	**–**
Net balance sheet carrying value	**25,365**				**495,281**	**29,443**

	Loans and advances to banks[1] £m	Loans and advances to customers				Loans and advances designated at fair value through profit or loss £m
		Retail – mortgages £m	Retail – other £m	Wholesale £m	Total £m	
31 December 2012						
Neither past due nor impaired	32,726	319,613	41,223	117,613	478,449	14,551
Past due but not impaired	31	12,880	922	1,527	15,329	–
Impaired – no provision required	–	741	1,530	1,504	3,775	–
– provision held	3	7,391	2,124	33,003	42,518	–
Gross	32,760	340,625	45,799	153,647	540,071	14,551
Allowance for impairment losses	(3)	(2,845)	(1,326)	(17,601)	(21,772)	–
Fair value adjustments	–				(1,074)	–
Net balance sheet carrying value	32,757				517,225	14,551

[1] Restated – note 1.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss are disclosed in note 2(h). All impaired loans which exceed certain thresholds, principally within the Group's wholesale and corporate businesses, are individually assessed for impairment by reviewing expected future cash flows including those that could arise from the realisation of security. Included in loans and receivables are advances individually determined to be impaired with a gross amount before impairment allowances of £22,390 million (2012: £34,533 million).

54 Financial risk management (continued)

Loans and advances which are neither past due nor impaired – The Group

	Loans and advances to banks £m	Loans and advances to customers				Loans and advances designated at fair value through profit or loss £m
		Retail – mortgages £m	Retail – other £m	Wholesale £m	Total £m	
31 December 2013						
Good quality	**25,044**	**314,749**	**29,129**	**68,674**		**29,432**
Satisfactory quality	**171**	**2,948**	**6,414**	**29,038**		**7**
Lower quality	**2**	**308**	**501**	**9,991**		**3**
Below standard, but not impaired	**2**	**663**	**745**	**2,390**		**1**
Total loans and advances which are neither past due nor impaired	**25,219**	**318,668**	**36,789**	**110,093**	**465,550**	**29,443**
31 December 2012						
Good quality	28,833	313,372	30,924	60,510		14,514
Satisfactory quality	174	4,532	8,579	33,477		28
Lower quality	10	552	862	18,153		6
Below standard, but not impaired	369	1,157	858	5,473		3
Total loans and advances which are neither past due nor impaired	29,386	319,613	41,223	117,613	478,449	14,551

The definitions of good quality, satisfactory quality, lower quality and below standard, but not impaired applying to retail and wholesale are not the same, reflecting the different characteristics of these exposures and the way they are managed internally, and consequently totals are not provided. Wholesale lending has been classified using internal probability of default rating models mapped so that they are comparable to external credit ratings. Good quality lending comprises the lower assessed default probabilities, with other classifications reflecting progressively higher default risk. Classifications of retail lending incorporate expected recovery levels for mortgages, as well as probabilities of default assessed using internal rating models.

Loans and advances which are past due but not impaired – The Group

	Loans and advances to banks £m	Loans and advances to customers				Loans and advances designated at fair value through profit or loss £m
		Retail – mortgages £m	Retail – other £m	Wholesale £m	Total £m	
31 December 2013						
0-30 days	**146**	**5,596**	**489**	**347**	**6,432**	**–**
30-60 days	**–**	**2,639**	**87**	**102**	**2,828**	**–**
60-90 days	**–**	**1,734**	**4**	**57**	**1,795**	**–**
90-180 days	**–**	**2,360**	**–**	**41**	**2,401**	**–**
Over 180 days	**–**	**–**	**–**	**239**	**239**	**–**
Total loans and advances which are past due but not impaired	**146**	**12,329**	**580**	**786**	**13,695**	**–**
31 December 2012						
0-30 days	–	5,996	744	860	7,600	–
30-60 days	3	2,667	138	131	2,936	–
60-90 days	2	1,750	29	328	2,107	–
90-180 days	6	2,467	5	56	2,528	–
Over 180 days	20	–	6	152	158	–
Total loans and advances which are past due but not impaired	31	12,880	922	1,527	15,329	–

A financial asset is ‘past due’ if a counterparty has failed to make a payment when contractually due.

54 Financial risk management (continued)

Loans and advances – The Bank

	Loans and advances to banks £m	Loans and advances to customers				Loans and advances designated at fair value through profit or loss[1] £m
		Retail – mortgages £m	Retail – other £m	Wholesale £m	Total £m	
31 December 2013						
Neither past due nor impaired	**3,092**	**70,200**	**23,173**	**68,133**	**161,506**	**19,685**
Past due but not impaired	**3**	**1,987**	**267**	**184**	**2,438**	**–**
Impaired – no provision required	**–**	**246**	**846**	**708**	**1,800**	**–**
– provision held	**–**	**539**	**770**	**3,149**	**4,458**	**–**
Gross	**3,095**	**72,972**	**25,056**	**72,174**	**170,202**	**19,685**
Allowance for impairment losses (note 23)	**–**	**(171)**	**(454)**	**(1,674)**	**(2,299)**	**–**
Net balance sheet carrying value	**3,095**	**72,801**	**24,602**	**70,500**	**167,903**	**19,685**

[1] Excludes amounts due from fellow Lloyds Banking Group undertakings.

	Loans and advances to banks £m	Loans and advances to customers				Loans and advances designated at fair value through profit or loss £m
		Retail – mortgages £m	Retail – other £m	Wholesale £m	Total £m	
31 December 2012						
Neither past due nor impaired	4,857	86,555	22,546	62,395	171,496	212
Past due but not impaired	31	2,117	358	364	2,839	–
Impaired – no provision required	–	307	869	466	1,642	–
– provision held	3	703	1,097	4,685	6,485	–
Gross	4,891	89,682	24,870	67,910	182,462	212
Allowance for impairment losses (note 23)	(3)	(229)	(495)	(2,455)	(3,179)	–
Net balance sheet carrying value	4,888	89,453	24,375	65,455	179,283	212

Included in loans and receivables are advances individually determined to be impaired with a gross amount before impairment allowances of £4,814 million (2012: £5,003 million).

54 Financial risk management (continued)

Loans and advances which are neither past due nor impaired – The Bank

	Loans and advances to banks £m	Loans and advances to customers: Retail – mortgages £m	Retail – other £m	Wholesale £m	Total £m	Loans and advances designated at fair value through profit or loss £m
31 December 2013						
Good quality	**2,936**	**69,939**	**19,590**	**44,077**		**19,680**
Satisfactory quality	**151**	**251**	**3,089**	**20,344**		**2**
Lower quality	**2**	**6**	**172**	**2,769**		**2**
Below standard, but not impaired	**3**	**4**	**322**	**943**		**1**
Total loans and advances which are neither past due nor impaired	**3,092**	**70,200**	**23,173**	**68,133**	**161,506**	**19,685**
31 December 2012						
Good quality	4,694	86,249	17,081	39,571		209
Satisfactory quality	142	293	4,525	18,040		3
Lower quality	1	9	569	3,763		–
Below standard, but not impaired	20	4	371	1,021		–
Total loans and advances which are neither past due nor impaired	4,857	86,555	22,546	62,395	171,496	212

Loans and advances which are past due but not impaired – The Bank

	Loans and advances to banks £m	Loans and advances to customers: Retail – mortgages £m	Retail – other £m	Wholesale £m	Total £m	Loans and advances designated at fair value through profit or loss £m
31 December 2013						
0-30 days	**3**	**877**	**215**	**54**	**1,146**	**–**
30-60 days	**–**	**390**	**51**	**39**	**480**	**–**
60-90 days	**–**	**242**	**1**	**10**	**253**	**–**
90-180 days	**–**	**478**	**–**	**1**	**479**	**–**
Over 180 days	**–**	**–**	**–**	**5**	**5**	**–**
Total loans and advances which are past due but not impaired	**3**	**1,987**	**267**	**109**	**2,363**	**–**
31 December 2012						
0-30 days	–	1,011	284	193	1,488	–
30-60 days	3	441	68	22	531	–
60-90 days	2	253	6	46	305	–
90-180 days	6	412	–	38	450	–
Over 180 days	20	–	–	65	65	–
Total loans and advances which are past due but not impaired	31	2,117	358	364	2,839	–

A financial asset is ‘past due’ if a counterparty has failed to make a payment when contractually due.

54 Financial risk management (continued)

Debt securities classified as loans and receivables

An analysis by credit rating of debt securities classified as loans and receivables is provided below:

	AAA £m	AA £m	A £m	BBB £m	Rated BB or lower £m	Not rated £m	Total £m
The Group							
At 31 December 2013							
Asset-backed securities:							
Mortgage-backed securities	**1**	**–**	**172**	**160**	**–**	**–**	**333**
Other asset-backed securities	**265**	**58**	**203**	**79**	**117**	**18**	**740**
	266	**58**	**375**	**239**	**117**	**18**	**1,073**
Corporate and other debt securities	**150**	**25**	**–**	**–**	**–**	**232**	**407**
Total debt securities classified as loans and receivables	**416**	**83**	**375**	**239**	**117**	**250**	**1,480**
At 31 December 2012							
Asset-backed securities:							
Mortgage-backed securities	637	1,109	877	745	368	191	3,927
Other asset-backed securities	541	57	199	107	245	1	1,150
	1,178	1,166	1,076	852	613	192	5,077
Corporate and other debt securities	150	–	–	–	–	252	402
Total debt securities classified as loans and receivables	1,328	1,166	1,076	852	613	444	5,479
The Bank							
At 31 December 2013							
Asset-backed securities:							
Mortgage-backed securities	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other asset-backed securities	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	–	**–**	**–**	**–**	**–**	**–**	**–**
Corporate and other debt securities	**150**	**–**	**–**	**–**	**–**	**–**	**150**
Total debt securities classified as loans and receivables	**150**	**–**	**–**	**–**	**–**	**–**	**150**
At 31 December 2012							
Asset-backed securities:							
Mortgage-backed securities	36	47	37	32	155	86	393
Other asset-backed securities	–	5	–	–	–	–	5
	36	52	37	32	155	86	398
Corporate and other debt securities	150	–	–	–	–	–	150
Total debt securities classified as loans and receivables	186	52	37	32	155	86	548

54 Financial risk management (continued)

Available-for-sale financial assets (excluding equity shares)

An analysis of available-for-sale financial assets is included in note 24. The credit quality of available-for-sale financial assets (excluding equity shares) is set out below:

	AAA £m	AA £m	A £m	BBB £m	Rated BB or lower £m	Not rated £m	Total £m
The Group							
At 31 December 2013							
Debt securities							
Government securities	31,623	6,667	–	–	–	–	38,290
Bank and building society certificates of deposit	–	163	45	–	–	–	208
Asset-backed securities:							
Mortgage-backed securities	911	115	25	130	82	–	1,263
Other asset-backed securities	557	226	107	–	25	–	915
	1,468	341	132	130	107	–	2,178
Corporate and other debt securities	1,083	174	191	351	37	19	1,855
Total debt securities	34,174	7,345	368	481	144	19	42,531
Treasury bills and other bills	14	853	8	–	–	–	875
Total held as available-for-sale financial assets	34,188	8,198	376	481	144	19	43,406
At 31 December 2012							
Debt securities							
Government securities	18,227	7,328	–	–	–	–	25,555
Other public sector securities	–	75	71	42	–	–	188
Bank and building society certificates of deposit							
Asset-backed securities:	976	212	50	120	166	–	1,524
Mortgage-backed securities	336	241	116	–	67	–	760
Other asset-backed securities	1,312	453	166	120	233	–	2,284
Corporate and other debt securities	293	281	567	600	85	22	1,848
Total debt securities	19,832	8,137	804	762	318	22	29,875
Treasury bills and other bills	866	–	16	89	–	–	971
Total held as available-for-sale financial assets	20,698	8,137	820	851	318	22	30,846

54 Financial risk management (continued)

	AAA £m	AA £m	A £m	BBB £m	Rated BB or lower £m	Not rated £m	Total £m
The Bank							
At 31 December 2013							
Debt securities							
Government securities	**31,594**	**6,565**	**–**	**–**	**–**	**–**	**38,159**
Bank and building society certificates of deposit	**–**	**151**	**45**	**–**	**–**	**–**	**196**
Asset-backed securities:							
Mortgage-backed securities	**123**	**62**	**25**	**105**	**51**	**–**	**366**
Other asset-backed securities	**38**	**115**	**1**	**–**	**25**	**–**	**179**
	161	**177**	**26**	**105**	**76**	**–**	**545**
Corporate and other debt securities	**194**	**174**	**–**	**32**	**–**	**1**	**401**
Total debt securities	**31,949**	**7,067**	**71**	**137**	**76**	**1**	**39,301**
Treasury bills and other bills	**15**	**–**	**8**	**–**	**–**	**–**	**23**
	31,964	**7,067**	**79**	**137**	**76**	**1**	**39,324**
Due from fellow Group undertakings:							
Corporate and other debt securities							**1,875**
Total held as available-for-sale financial assets							**41,199**
At 31 December 2012							
Debt securities							
Government securities	18,089	7,329	–	–	–	–	25,418
Bank and building society certificates of deposit	–	75	46	38	–	–	159
Asset-backed securities:							
Mortgage-backed securities	155	119	40	85	57	–	456
Other asset-backed securities	35	53	–	–	–	–	88
	190	172	40	85	57	–	544
Corporate and other debt securities	21	70	–	–	–	–	91
Total debt securities	18,300	7,646	86	123	57	–	26,212
Treasury bills and other bills	15	–	16	85	–	–	116
	18,315	7,646	102	208	57	–	26,328
Due from fellow Group undertakings:							
Corporate and other debt securities							4,717
Total held as available-for-sale financial assets							31,045

54 Financial risk management (continued)

Debt securities, treasury and other bills held at fair value through profit or loss

An analysis of trading and other financial assets at fair value through profit or loss is included in note 16. The credit quality of debt securities, treasury and other bills held at fair value through profit or loss is set out below.

The Group	AAA £m	AA £m	A £m	BBB £m	Rated BB or lower £m	Not rated £m	Total £m
At 31 December 2013							
Trading assets							
Government securities	**3,985**	**274**	**–**	**–**	**–**	**–**	**4,259**
Other public sector securities	**14**	**–**	**–**	**–**	**–**	**–**	**14**
Bank and building society certificates of deposit	**–**	**787**	**704**	**–**	**–**	**–**	**1,491**
Asset-backed securities:							
Mortgage-backed securities	**–**	**–**	**–**	**–**	**5**	**–**	**5**
Other asset-backed securities	**87**	**31**	**23**	**17**	**13**	**–**	**171**
	87	**31**	**23**	**17**	**18**	**–**	**176**
Corporate and other debt securities	**489**	**167**	**843**	**386**	**29**	**14**	**1,928**
Total debt securities held as trading assets	**4,575**	**1,259**	**1,570**	**403**	**47**	**14**	**7,868**
Treasury bills and other bills	**6**	**55**	**–**	**–**	**–**	**–**	**61**
Total held as trading assets	**4,581**	**1,314**	**1,570**	**403**	**47**	**14**	**7,929**
Other assets held at fair value through profit or loss							
Government securities	**5,572**	**10,284**	**382**	**177**	**1**	**14**	**16,430**
Other public sector securities	**1,962**	**195**	**26**	**–**	**–**	**–**	**2,183**
Bank and building society certificates of deposit	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Asset-backed securities:							
Mortgage-backed securities	**99**	**176**	**331**	**187**	**–**	**–**	**793**
Other asset-backed securities	**240**	**187**	**225**	**103**	**1**	**–**	**756**
	339	**363**	**556**	**290**	**1**	**–**	**1,549**
Corporate and other debt securities	**383**	**2,620**	**7,462**	**5,886**	**617**	**1,724**	**18,692**
Total debt securities held at fair value through profit or loss	**8,256**	**13,462**	**8,426**	**6,353**	**619**	**1,738**	**38,854**
Treasury bills and other bills	**54**	**–**	**–**	**–**	**–**	**–**	**54**
Total other assets held at fair value through profit or loss	**8,310**	**13,462**	**8,426**	**6,353**	**619**	**1,738**	**38,908**
	12,891	**14,776**	**9,996**	**6,756**	**666**	**1,752**	**46,837**
Due from fellow Group undertakings:							
Corporate and other debt securities							**46**
Total held at fair value through profit or loss							**46,883**
At 31 December 2012							
Trading assets							
Government securities	3,688	277	–	–	–	–	3,965
Bank and building society certificates of deposit	–	2,182	907	77	–	–	3,166
Asset-backed securities:							
Mortgage-backed securities	42	10	78	–	–	–	130
Other asset-backed securities	2	14	4	1	–	–	21
	44	24	82	1	–	–	151
Corporate and other debt securities	398	148	330	278	30	1	1,185
Total debt securities held as trading assets	4,130	2,631	1,319	356	30	1	8,467
Treasury bills and other bills	370	4	–	–	–	–	374
Total held as trading assets	4,500	2,635	1,319	356	30	1	8,841
Other assets held at fair value through profit or loss							
Government securities	15,213	1,588	204	362	1	12	17,380
Other public sector securities	694	205	131	6	–	20	1,056
Bank and building society certificates of deposit	–	94	134	–	–	–	228
Asset-backed securities:							
Mortgage-backed securities	236	95	309	125	22	8	795
Other asset-backed securities	251	394	797	386	22	47	1,897
	487	489	1,106	511	44	55	2,692
Corporate and other debt securities	3,198	2,837	8,020	7,647	2,866	1,819	26,387
Total debt securities held at fair value through profit or loss	19,592	5,213	9,595	8,526	2,911	1,906	47,743
Treasury bills and other bills	56	–	–	–	–	–	56
Total other assets held at fair value through profit or loss	19,648	5,213	9,595	8,526	2,911	1,906	47,799
	24,148	7,848	10,914	8,882	2,941	1,907	56,640
Due from fellow Group undertakings:							
Corporate and other debt securities							182
Total held at fair value through profit or loss							56,822

54 Financial risk management (continued)

Credit risk in respect of trading and other financial assets at fair value through profit or loss here within the Group's unit-linked funds is borne by the policyholders and credit risk in respect of with-profits funds is largely borne by the policyholders. Consequently, the Group has no significant exposure to credit risk for such assets which back those contract liabilities.

	AAA £m	AA £m	A £m	BBB £m	Rated BB or lower £m	Not rated £m	Total £m
The Bank							
At 31 December 2013							
Trading assets							
Government securities	**3,981**	**163**	**–**	**–**	**–**	**–**	**4,144**
Bank and building society certificate of deposits	**–**	**32**	**–**	**–**	**–**	**–**	**32**
Asset-backed securities:							
Mortgage backed securities	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other asset backed securities	**86**	**32**	**23**	**17**	**13**	**–**	**171**
	86	**32**	**23**	**17**	**13**	**–**	**171**
Corporate and other debt securities	**247**	**67**	**668**	**386**	**29**	**14**	**1,411**
Total debt securities held as trading assets	**4,314**	**294**	**691**	**403**	**42**	**14**	**5,758**
Treasury bills and other bills	**–**	**54**	**–**	**–**	**–**	**–**	**54**
Total held as trading assets	**4,314**	**348**	**691**	**403**	**42**	**14**	**5,812**
Other assets held at fair value through profit or loss							
Government securities	**4,520**	**–**	**–**	**–**	**–**	**–**	**4,520**
Corporate and other debt securities	**–**	**–**	**–**	**52**	**9**	**–**	**61**
Total other assets held at fair value through profit or loss	**4,520**	**–**	**–**	**52**	**9**	**–**	**4,581**
	8,834	**348**	**691**	**455**	**51**	**14**	**10,393**
Due from fellow Group undertakings:							
Mortgage-backed securities							**7**
Corporate and other debt securities							**85**
Total held at fair value through profit or loss							**10,485**
At 31 December 2012							
Trading assets							
Government securities	3,504	277	–	–	–	–	3,781
Bank and building society certificates of deposit	–	545	304	77	–	–	926
Corporate and other debt securities							
Asset backed securities:	42	10	78	–	–	–	130
Mortgage backed securities	2	14	–	1	–	–	17
Other asset backed securities	44	24	78	1	–	–	147
	64	59	331	278	30	1	763
Total debt securities	3,612	905	713	356	30	1	5,617
Treasury bills and other bills	85	4	–	–	–	–	89
Total held as trading assets	3,697	909	713	356	30	1	5,706
Other assets held at fair value through profit or loss							
Corporate and other debt securities	–	–	267	20	99	2	388
Total other assets held at fair value through profit or loss	–	–	267	20	99	2	388
	3,697	909	980	376	129	3	6,094
Due from fellow Group undertakings:							
Corporate and other debt securities							143
Total held at fair value through profit or loss							6,237

54 Financial risk management (continued)

Derivative financial instruments

An analysis of derivative assets is given in note 17. The Group reduces exposure to credit risk by using master netting agreements and by obtaining collateral in the form of cash or highly liquid securities. In respect of the Group's maximum credit risk relating to derivative assets of £12,434 million for the Group and £18,200 million for the Bank (2012: £16,978 million for the Group and £15,062 million for the Bank), cash collateral of £3,188 million for the Group and £1,864 million for the Bank (2012: £5,429 million for the Group and £2,758 million for the Bank) was held and a further £2,372 million for the Group and £2,111 million for the Bank was due from OECD banks (2012: £1,387 million for the Group and £10 million for the Bank).

	AAA £m	AA £m	A £m	BBB £m	Rated BB or lower £m	Not rated £m	Total £m
The Group							
At 31 December 2013							
Trading and other	**298**	**4,719**	**13,300**	**4,209**	**2,554**	**46**	**25,126**
Hedging	**–**	**2,936**	**3,687**	**127**	**32**	**5**	**6,787**
Total derivative financial instruments	**298**	**7,655**	**16,987**	**4,336**	**2,586**	**51**	**31,913**
At 31 December 2012							
Trading and other	226	13,507	18,137	5,046	6,439	210	43,565
Hedging	–	6,038	4,596	111	824	2	11,571
Total derivative financial instruments	226	19,545	22,733	5,157	7,263	212	55,136
The Bank							
At 31 December 2013							
Trading and other	**124**	**3,923**	**8,509**	**3,271**	**848**	**32**	**16,707**
Hedging	**–**	**2,215**	**694**	**–**	**24**	**–**	**2,933**
	124	**6,138**	**9,203**	**3,271**	**872**	**32**	**19,640**
Due from fellow Group undertakings							**10,752**
Total derivative financial instruments							**30,392**
At 31 December 2012							
Trading and other	74	7,353	9,165	3,367	2,600	110	22,669
Hedging	–	1,112	595	29	112	–	1,848
	74	8,465	9,760	3,396	2,712	110	24,517
Due from fellow Group undertakings							7,730
Total derivative financial instruments							32,247

Assets arising from reinsurance contracts held

Of the assets arising from reinsurance contracts held at 31 December 2013 of £732 million (2012: £2,320 million), £383 million (2012: £764 million) were due from insurers with a credit rating of AA or above.

Financial guarantees and irrevocable loan commitments

Financial guarantees represent undertakings that the Group will meet a customer's obligation to third parties if the customer fails to do so. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. The Group is theoretically exposed to loss in an amount equal to the total guarantees or unused commitments, however, the likely amount of loss is expected to be significantly less; most commitments to extend credit are contingent upon customers maintaining specific credit standards.

54 Financial risk management (continued)

C. Collateral held as security for financial assets

The Group holds collateral against loans and receivables and irrevocable loan commitments; qualitative and, where appropriate, quantitative information is provided in respect of this collateral below. Collateral held as security for trading and other financial assets at fair value through profit or loss and for derivative assets is also shown below.

Loans and receivables

The Group holds collateral in respect of loans and advances to banks and customers as set out below. The Group does not hold collateral against debt securities, comprising asset-backed securities and corporate and other debt securities, which are classified as loans and receivables.

Loans and advances to banks

The Group may require collateral before entering into a credit commitment with another bank, depending on the type of financial product and the counterparty involved, and netting arrangements are obtained whenever possible and to the extent that such agreements are legally enforceable. Collateral is held as part of reverse repurchase or securities borrowing transactions.

There were reverse repurchase agreements which are accounted for as collateralised loans within loans and advances to banks with a carrying value of £183 million for the Group and £183 million for the Bank (2012: £662 million for the Group and Bank), against which the Group held collateral with a fair value of £183 million for the Group and £183 million for the Bank (2012: £662 million for the Group and Bank), all of which the Group is able to repledge.

These transactions were generally conducted under terms that are usual and customary for standard secured lending activities.

Loans and advances to customers

The Group holds collateral against loans and advances to customers in the form of mortgages over residential and commercial real estate, charges over business assets such as premises, inventory and accounts receivable, charges over financial instruments such as debt securities and equities, and guarantees received from third parties.

Retail lending

Mortgages

An analysis by loan-to-value ratio of the Group's residential mortgage lending is provided below. The value of collateral used in determining the loan-to-value ratios has been estimated based upon the last actual valuation, adjusted to take into account subsequent movements in house prices, after making allowance for indexation error and dilapidations.

The Group

	Neither past due nor impaired £m	**Past due but not impaired £m**	**Impaired £m**	**Gross £m**
31 December 2013				
Less than 70 per cent	**161,105**	**4,294**	**1,743**	**167,142**
70 per cent to 80 per cent	**64,954**	**2,296**	**970**	**68,220**
80 per cent to 90 per cent	**46,581**	**2,224**	**1,080**	**49,885**
90 per cent to 100 per cent	**24,592**	**1,720**	**1,027**	**27,339**
Greater than 100 per cent	**21,436**	**1,795**	**2,046**	**25,277**
Total	**318,668**	**12,329**	**6,866**	**337,863**

	Neither past due nor impaired £m	Past due but not impaired £m	Impaired £m	Gross £m
31 December 2012				
Less than 70 per cent	131,277	3,283	1,470	136,030
70 per cent to 80 per cent	61,677	1,962	846	64,485
80 per cent to 90 per cent	52,651	2,314	1,114	56,079
90 per cent to 100 per cent	36,428	2,092	1,133	39,653
Greater than 100 per cent	37,580	3,229	3,569	44,378
Total	319,613	12,880	8,132	340,625

54 Financial risk management (continued)

The Bank

	Neither past due nor impaired £m	Past due but not impaired £m	Impaired £m	Gross £m
31 December 2013				
Less than 70 per cent	**41,434**	**893**	**243**	**42,570**
70 per cent to 80 per cent	**11,957**	**309**	**112**	**12,378**
80 per cent to 90 per cent	**8,872**	**330**	**121**	**9,323**
90 per cent to 100 per cent	**5,037**	**257**	**133**	**5,427**
Greater than 100 per cent	**2,900**	**198**	**176**	**3,274**
Total	**70,200**	**1,987**	**785**	**72,972**

	Neither past due nor impaired £m	Past due but not impaired £m	Impaired £m	Gross £m
31 December 2012				
Less than 70 per cent	43,724	706	282	44,712
70 per cent to 80 per cent	15,322	314	114	15,750
80 per cent to 90 per cent	12,052	335	136	12,523
90 per cent to 100 per cent	8,470	330	144	8,944
Greater than 100 per cent	6,987	432	334	7,753
Total	86,555	2,117	1,010	89,682

Other
No collateral is held in respect of retail credit cards, or overdrafts, or unsecured personal loans. For non-mortgage retail lending to small businesses, collateral will often include second charges over residential property and the assignment of life cover.

The majority of non-mortgage retail lending is unsecured. At 31 December 2013, impaired non-mortgage lending amounted to £1,696 million, net of an impairment allowance of £1,044 million (2012: £2,328 million, net of an impairment allowance of £1,326 million). The fair value of the collateral held in respect of this lending was £144 million (2012: £48 million). In determining the fair value of collateral, no specific amounts have been attributed to the costs of realisation and the value of collateral for each loan has been limited to the principal amount of the outstanding advance in order to eliminate the effects of any over-collateralisation and to provide a clearer representation of the Group's exposure.

Unimpaired non-mortgage retail lending amounted to £36,081 million (2012: £42,145 million). Lending decisions are predominantly based on an obligor's ability to repay from normal business operations rather than reliance on the disposal of any security provided. Collateral values are rigorously assessed at the time of loan origination and are monitored throughout the credit lifecycle in accordance with business unit credit policy.

The Group credit risk disclosures for unimpaired non-mortgage retail lending report assets gross of collateral and therefore disclose the maximum loss exposure. The Group believes that this approach is appropriate. The value of collateral is reassessed if there is observable evidence of distress of the borrower. Unimpaired non-mortgage retail lending, including any associated collateral, is managed on a customer-by-customer basis rather than a portfolio basis. No aggregated collateral information for the entire unimpaired non-mortgage retail lending portfolio is provided to key management personnel.

Wholesale lending
Reverse repurchase transactions
There were reverse repurchase agreements which are accounted for as collateralised loans with a carrying value of £120 million for the Group and £120 million for the Bank (2012: £5,087 million for the Group and £5,087 million for the Bank), against which the Group held collateral with a fair value of £112 million for the Group and £112 million for the Bank (2012: £4,916 million for the Group and £4,916 million for the Bank), all of which the Group is able to repledge. Included in these amounts are collateral balances in the form of cash provided in respect of reverse repurchase agreements amounting to £49 million for the Group and £nil for the Bank (2012: £2 million for the Group and £nil for the Bank). These transactions were generally conducted under terms that are usual and customary for standard secured lending activities.

Impaired secured lending
The value of collateral is re-evaluated and its legal soundness re-assessed if there is observable evidence of distress of the borrower; this evaluation is used to determine potential loss allowances and management's strategy to try to either repair the business or recover the debt.

54 Financial risk management (continued)

At 31 December 2013, impaired secured wholesale lending amounted to £9,845 million, net of an impairment allowance of £11,063 million (2012: £17,257 million, net of an impairment allowance of £15,193 million). The fair value of the collateral held in respect of impaired secured wholesale lending was £6,915 million (2012: £9,414 million) for the Group. In determining the fair value of collateral, no specific amounts have been attributed to the costs of realisation. For the purposes of determining the total collateral held by the Group in respect of impaired secured wholesale lending, the value of collateral for each loan has been limited to the principal amount of the outstanding advance in order to eliminate the effects of any over-collateralisation and to provide a clearer representation of the Group's exposure.

Impaired secured wholesale lending and associated collateral relates to lending to property companies and to customers in the financial, business and other services; transport, distribution and hotels; and construction industries.

Unimpaired secured lending
Unimpaired secured wholesale lending amounted to £69,108 million (2012: £74,485 million). Wholesale lending decisions are predominantly based on an obligor's ability to repay from normal business operations rather than reliance on the disposal of any security provided. Collateral values are rigorously assessed at the time of loan origination. The types of collateral taken and the frequency with which collateral is required at origination is dependent upon the size and structure of the borrower. For exposures to corporate customers and other large institutions, the Group will often require the collateral to include a first charge over land and buildings owned and occupied by the business, a mortgage debenture over the company's undertaking and one or more of its assets, and keyman insurance. The Group maintains policies setting out acceptable collateral, maximum loan-to-value ratios and other criteria to be considered when reviewing a loan application. The decision as to whether or not collateral is required will be based upon the nature of the transaction and the credit worthiness of the customer. Other than for project finance, object finance and income producing real estate where charges over the subject assets are a basic requirement, the provision of collateral will not determine the outcome of a credit application. The fundamental business proposition must evidence the ability of the business to generate funds from normal business sources to repay debt.

The extent to which collateral values are actively managed will depend on the credit quality and other circumstances of the obligor. Although lending decisions are predominantly based on expected cash flows, any collateral provided may impact the pricing and other terms of a loan or facility granted; this will have a financial impact on the amount of net interest income recognised and on internal loss-given-default estimates that contribute to the determination of asset quality.

For unimpaired secured wholesale lending, the Group reports assets gross of collateral and therefore discloses the maximum loss exposure. The Group believes that this approach is appropriate as collateral values at origination and during a period of good performance may not be representative of the value of collateral if the obligor enters a distressed state.

Unimpaired secured wholesale lending is predominantly managed on a cash flow basis. On occasion, it may include an assessment of underlying collateral, although, for impaired lending, this will not always involve assessing it on a fair value basis. No aggregated collateral information for the entire unimpaired secured wholesale lending portfolio is provided to key management personnel.

Trading and other financial assets at fair value through profit or loss (excluding equity shares)
In respect of trading and other financial assets at fair value through profit or loss, the fair value of collateral accepted under reverse repurchase transactions which are accounted for as collateralised loans that the Group is permitted by contract or custom to sell or repledge was £32,434 million for the Group and £28,509 million for the Bank (2012: £19,629 million for the Group and £2,629 million for the Bank). Of this, £8,195 million for the Group and £17,030 million for the Bank (2012: £15,640 million for the Group and £1,325 million for the Bank) was sold or repledged.

In addition, securities held as collateral in the form of stock borrowed amounted to £46,552 million for the Group and £29,853 million for the Bank (2012: £38,040 million for the Group and £30,855 million for the Bank). Of this amount, £45,277 million for the Group and £1,325 million for the Bank (2012: £36,549 million for the Group and £11,093 million for the Bank) had been resold or repledged as collateral for the Group's own transactions.

These transactions were generally conducted under terms that are usual and customary for standard secured lending activities.

Derivative assets, after offsetting of amounts under master netting arrangements
The Group reduces exposure to credit risk by using master netting agreements and by obtaining collateral in the form of cash or highly liquid securities. In respect of the net derivative assets after offsetting of amounts under master netting arrangements of £12,434 million for the Group and £18,200 million for the Bank (2012: £16,978 million for the Group and £15,062 million for the Bank), cash collateral of £3,188 million for the Group and £1,864 million for the Bank (2012: £5,429 million for the Group and £2,758 million for the Bank) was held.

These transactions were generally conducted under terms that are usual and customary for standard secured lending activities.

Irrevocable loan commitments and other credit-related contingencies
The Group pledges assets primarily for repurchase agreements and securities lending transactions where are generally conducted under terms that are usual and customary for standard securitised borrowing contracts.

At 31 December 2013, there were irrevocable loan commitments and other credit-related contingencies of £59,172 million for the Group and £42,798 million for the Bank (2012: £55,629 million for the Group and £40,830 million for the Bank). Collateral is held as security, in the event that lending is drawn down, on £19,123 million for the Group and £16,929 million for the Bank (2012: £17,697 million for the Group and £14,192 million for the Bank) of these balances.

Lending decisions in respect of irrevocable loan commitments are based on the obligor's ability to repay from normal business operations rather than reliance on the disposal of any security provided. For wholesale commitments, it is the Group's practice to request collateral whose value is commensurate with the nature of the commitments. For retail mortgage commitments, the majority are for mortgages with a loan-to-value ratio of less than 100 per cent. Aggregated collateral information covering the entire balance of irrevocable loan commitments over which security will be taken is not provided to key management personnel.

54 Financial risk management (continued)

D. Collateral pledged as security

Repo and stock lending transactions

The Group pledges assets primarily for repurchase agreements and securities lending transactions which are generally conducted under terms that are usual and customary for standard securitised borrowing contracts.

The fair value of collateral pledged in respect of repurchase transactions, accounted for as secured borrowings, where the secured party is permitted by contract or custom to repledge was £37,999 million for the Group and £35,907 million for the Bank (2012: £48,077 million for the Group and £28,593 million for the Bank). In addition, the following financial assets on the balance sheet have been pledged as collateral as part of securities lending transactions:

Assets pledged

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Trading and other financial assets at fair value through profit or loss	**10,388**	10,000	**665**	635
Loans and advances to customers	**14,927**	11,603	**–**	–
Debt securities classified as loans and receivables	**89**	154	**78**	177
Available-for-sale financial assets	**2,311**	4,251	**9,564**	16,321
	27,715	26,008	**10,307**	17,133

In addition to the assets detailed above, the Group also holds assets that are encumbered through the Group's asset-backed conduits and its securitisation and covered bond programmes. Further details of these assets are provided in notes 20 and 21.

E. Collateral repossessed

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	**2012 £m**
Residential property	**897**	936	**109**	125
Other	**5**	6	**–**	–
	902	942	**109**	125

In respect of retail portfolios, the Group does not take physical possession of properties or other assets held as collateral and uses external agents to realise the value as soon as practicable, generally at auction, to settle indebtedness. Any surplus funds are returned to the borrower or are otherwise dealt with in accordance with appropriate insolvency regulations. In certain circumstances the Group takes physical possession of assets held as collateral against wholesale lending. In such cases, the assets are carried on the Group's balance sheet and are classified according to the Group's accounting policies.

(2) Market risk

Interest rate risk

In the Group's retail banking business interest rate risk arises from the different repricing characteristics of the assets and liabilities. Liabilities are either insensitive to interest rate movements, for example interest free or very low interest customer deposits, or are sensitive to interest rate changes but bear rates which may be varied at the Group's discretion and that for competitive reasons generally reflect changes in the Bank of England's base rate. There is a relatively small volume of deposits whose rate is contractually fixed for their term to maturity.

Many banking assets are sensitive to interest rate movements; there is a large volume of managed rate assets such as variable rate mortgages which may be considered as a natural offset to the interest rate risk arising from the managed rate liabilities. However a significant proportion of the Group's lending assets, for example many personal loans and mortgages, bear interest rates which are contractually fixed for periods of up to five years or longer.

The Group and the Bank establish two types of hedge accounting relationships for interest rate risk: fair value hedges and cash flow hedges. The Group and the Bank are exposed to fair value interest rate risk on its fixed rate customer loans, its fixed rate customer deposits and the majority of its subordinated debt, and to cash flow interest rate risk on its variable rate loans and deposits together with its floating rate subordinated debt.

At 31 December 2013 the aggregate notional principal of interest rate swaps designated as fair value hedges was £154,657 million (2012: £136,375 million) for the Group and £152,177 million (2012: £93,989 million) for the Bank with a net fair value asset of £3,596 million (2012: asset of £4,314 million) for the Group and a net fair value asset of £750 million (2012: liability of £9 million) for the Bank (note 17). The losses recognised on the hedging instruments were £933 million (2012: £572 million) for the Group and gains of £625 million (2012: £529 million) for the Bank. The gains on the hedged items attributable to the hedged risk were £872 million (2012: £560 million) for the Group and losses of £647 million (2012: £549 million) for the Bank.

In addition the Group has a small number of cash flow hedges which are primarily used to hedge the variability in the cost of funding within the wholesale business. Note 17 shows when the hedged cash flows are expected to occur and when they will affect income for the designated cash flow hedges. The notional principal of the interest rate swaps designated as cash flow hedges at 31 December 2013 was £559,690 million (2012: £86,190 million) for the Group and £nil (2012: £78,763 million) for the Bank with a net fair value liability of £1,361 million (2012: asset of £200 million) for the Group and a net fair value liability of £nil million (2012: £53 million) for the Bank (note 17). In 2013, ineffectiveness recognised in the income statement that arises from cash flow hedges was a loss of £83 million (2012: gain of £6 million) for the Group and a gain of £nil million (2012: gain of £4 million) for the Bank.

Currency risk

Foreign exchange exposures comprise those originating in treasury trading activities and structural foreign exchange exposures, which arise from investment in the Group's overseas operations.

The corporate and retail businesses incur foreign exchange risk in the course of providing services to their customers. All non-structural foreign exchange exposures in the non-trading book are transferred to the trading area where they are monitored and controlled. These risks reside in the authorised trading centres who are allocated exposure limits. The limits are monitored daily by the local centres and reported to the central market risk function in London.

54 Financial risk management (continued)

Risk arises from the Group's investments in its overseas operations. The Group's structural foreign currency exposure is represented by the net asset value of the foreign currency equity and subordinated debt investments in its subsidiaries and branches. Gains or losses on structural foreign currency exposures are taken to reserves.

The Group hedges part of the currency translation risk of the net investment in certain foreign operations using currency borrowings. The Bank does not hedge its exposure. At 31 December 2013 the aggregate principal of the Group's currency borrowings was £1,695 million (2012: £2,489 million). In 2013, an ineffectiveness gain of £16 million before tax and £12 million after tax (2012: ineffectiveness loss of £1 million before tax and after tax) was recognised in the income statement arising from net investment hedges.

The Group's main overseas operations are in the Americas, Asia, Australasia and Europe. Details of the Group's structural foreign currency exposures, after net investment hedges, are as follows:

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Functional currency of Group operations				
Euro:				
Gross exposure	**567**	919	**7**	(96)
Net investment hedge	**(464)**	(842)	**–**	–
	103	77	**7**	(96)
US dollar:				
Gross exposure	**379**	316	**41**	48
Net investment hedge	**(341)**	(542)	**–**	–
	38	(226)	**41**	48
Swiss franc:				
Gross exposure	**(7)**	6	**(7)**	(13)
Net investment hedge	**–**	(9)	**–**	–
	(7)	(3)	**(7)**	(13)
Australian dollar:				
Gross exposure	**853**	1,104	**(42)**	(29)
Net investment hedge	**(866)**	(1,077)	**–**	–
	(13)	27	**(42)**	(29)
Japanese yen:				
Gross exposure	**(1)**	19	**(1)**	19
Net investment hedge	**(1)**	(19)	**–**	–
	(2)	–	**(1)**	19
Other non-sterling	**106**	106	**118**	231
Total structural foreign currency exposures, after net investment hedges	**225**	(19)	**116**	160

54 Financial risk management (continued)

(3) Liquidity risk

Liquidity risk is defined as the risk that the Group has insufficient financial resources to meet its commitments as they fall due, or can only secure them at excessive cost. The Group carries out monthly stress testing of its liquidity position against a range of scenarios, including those prescribed by the PRA. The Group's liquidity risk appetite is also calibrated against a number of stressed liquidity metrics.

The tables below analyse financial instrument liabilities of the Group and the Bank, excluding those arising from insurance and participating investment contracts, on an undiscounted future cash flow basis according to contractual maturity, into relevant maturity groupings based on the remaining period at the balance sheet date; balances with no fixed maturity are included in the over 5 years category. Certain balances, included in the table below on the basis of their residual maturity, are repayable on demand upon payment of a penalty.

	Up to 1 month £m	1-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
The Group						
At 31 December 2013						
Deposits from banks	**9,944**	**636**	**1,254**	**1,710**	**3,371**	**16,915**
Customer deposits	**323,338**	**15,576**	**38,689**	**42,611**	**34,510**	**454,724**
Trading and other financial liabilities at fair value through profit or loss	**18,811**	**9,906**	**4,416**	**7,382**	**3,616**	**44,131**
Debt securities in issue	**7,417**	**5,069**	**15,775**	**40,366**	**24,514**	**93,141**
Liabilities arising from non-participating investment contracts	**25,870**	**–**	**–**	**–**	**–**	**25,870**
Subordinated liabilities	**618**	**290**	**3,441**	**12,307**	**19,539**	**36,195**
Total non-derivative financial liabilities	**385,998**	**31,477**	**63,575**	**104,376**	**85,550**	**670,976**
Derivative financial liabilities:	**–**	**–**	**–**	**–**	**–**	**–**
Gross settled derivatives – outflows	**4,880**	**81,612**	**35,369**	**56,857**	**33,767**	**212,485**
Gross settled derivatives – inflows	**(4,115)**	**(79,256)**	**(34,321)**	**(55,396)**	**(32,625)**	**(205,713)**
Gross settled derivatives – net flows	**765**	**2,356**	**1,048**	**1,461**	**1,142**	**6,772**
Net settled derivative liabilities	**21,730**	**179**	**438**	**1,202**	**541**	**24,090**
Total derivative financial liabilities	**22,495**	**2,535**	**1,486**	**2,663**	**1,683**	**30,862**
At 31 December 2012						
Deposits from banks	13,757	3,556	11,187	8,566	1,381	38,447
Customer deposits	332,383	15,059	39,315	51,189	3,055	441,001
Trading and other financial liabilities at fair value through profit or loss	11,621	4,720	10,454	6,931	3,765	37,491
Debt securities in issue	14,200	10,890	16,192	65,091	27,451	133,824
Liabilities arising from non-participating investment contracts	27,205	–	–	–	27,167	54,372
Subordinated liabilities	20	1,911	2,863	18,118	31,481	54,393
Total non-derivative financial liabilities	399,186	36,136	80,011	149,895	94,300	759,528
Derivative financial liabilities:						
Gross settled derivatives – outflows	2,331	3,243	7,097	51,424	33,678	97,773
Gross settled derivatives – inflows	(2,026)	(2,790)	(6,853)	(50,384)	(32,145)	(94,198)
Gross settled derivatives – net flows	305	453	244	1,040	1,533	3,575
Net settled derivative liabilities	39,177	224	1,088	3,189	1,252	44,930
Total derivative financial liabilities	39,482	677	1,332	4,229	2,785	48,505

The Group's financial guarantee contracts are accounted for as financial instruments and measured at fair value on the balance sheet. The majority of the Group's financial guarantee contracts are callable on demand, were the guaranteed party to fail to meet its obligations. It is, however, expected that most guarantees will expire unused. The contractual nominal amounts of these guarantees totalled £8,591 million at 31 December 2013 (2012: £9,520 million) with £4,233 million expiring within one year; £837 million between one and three years; £2,039 million between three and five years; and £1,482 million over five years (2012: £4,865 million expiring within one year; £1,302 million between one and three years; £1,729 million between three and five years; and £1,624 million over five years).

The majority of the Group's non-participating investment contract liabilities are unit-linked. These unit-linked products are invested in accordance with unit fund mandates. Clauses are included in policyholder contracts to permit the deferral of sales, where necessary, so that linked assets can be realised without being a forced seller.

54 Financial risk management (continued)

The principal amount for undated subordinated liabilities with no redemption option is included within the over 5 years column; interest of approximately £85 million (2012: £45 million) per annum for the Group and £22 million (2012: £1 million) for the Bank which is payable in respect of those instruments for as long as they remain in issue is not included beyond 5 years.

	Up to 1 month £m	1-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
The Bank						
At 31 December 2013						
Deposits from banks	**7,732**	**612**	**1,121**	**783**	**399**	**10,647**
Customer deposits	**171,719**	**7,944**	**9,896**	**7,609**	**495**	**197,663**
Trading and other financial liabilities at fair value through profit or loss	**18,076**	**3,907**	**8,612**	**8,764**	**3,747**	**43,106**
Debt securities in issue	**1,893**	**2,808**	**9,362**	**23,243**	**16,818**	**54,124**
Subordinated liabilities	**43**	**163**	**2,474**	**7,803**	**19,909**	**30,392**
Total non-derivative financial liabilities	**199,463**	**15,434**	**31,465**	**48,202**	**41,368**	**335,932**
Gross settled derivatives – outflows	**1,234**	**80,325**	**26,239**	**40,169**	**19,236**	**167,203**
Gross settled derivatives – inflows	**(835)**	**(78,238)**	**(25,161)**	**(38,974)**	**(18,884)**	**(162,092)**
Gross settled derivatives – net flows	**399**	**2,087**	**1,078**	**1,195**	**352**	**5,111**
Net settled derivative liabilities	**15,133**	**90**	**147**	**511**	**321**	**16,202**
Total derivative financial liabilities	**15,532**	**2,177**	**1,225**	**1,706**	**673**	**21,313**

	Up to 1 month £m	1-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
At 31 December 2012						
Deposits from banks	58,497	13,946	45,992	89,550	7,232	215,217
Customer deposits	178,523	7,761	16,071	13,942	17,430	233,727
Trading and other financial liabilities at fair value through profit or loss	894	190	894	6,585	3,757	12,320
Debt securities in issue	5,414	7,805	7,248	29,013	22,554	72,034
Subordinated liabilities	–	1,593	2,539	13,242	23,885	41,259
Total non-derivative financial liabilities	243,328	31,295	72,744	152,332	74,858	574,557
Gross settled derivatives – outflows	2,588	1,601	5,850	39,477	23,558	73,074
Gross settled derivatives – inflows	(2,398)	(1,132)	(5,686)	(39,280)	(22,797)	(71,293)
Gross settled derivatives – net flows	190	469	164	197	761	1,781
Net settled derivative liabilities	26,699	45	246	854	547	28,391
Total derivative financial liabilities	26,889	514	410	1,051	1,308	30,172

Liabilities of the Group arising from insurance and participating investment contracts are analysed on a behavioural basis, as permitted by IFRS 4, as follows:

	Up to 1 month £m	1-2 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
At 31 December 2013	**1,088**	**1,391**	**5,231**	**21,468**	**53,623**	**82,801**
At 31 December 2012	25,968	920	3,015	12,635	40,430	82,968

For insurance and participating investment contracts which are neither unit-linked nor in the Group's with-profit funds, in particular annuity liabilities, the aim is to invest in assets such that the cash flows on investments match those on the projected future liabilities.

54 Financial risk management (continued)

The following tables set out the amounts and residual maturities of off balance sheet contingent liabilities and commitments.

	Within 1 year £m	1-3 years £m	3-5 years £m	Over 5 years £m	Total £m
The Group					
31 December 2013					
Acceptances and endorsements	**134**	**15**	**13**	**42**	**204**
Other contingent liabilities	**1,573**	**377**	**118**	**608**	**2,676**
Total contingent liabilities	**1,707**	**392**	**131**	**650**	**2,880**
Lending commitments	**70,378**	**14,886**	**17,064**	**2,849**	**105,177**
Other commitments	**494**	**–**	**–**	**–**	**494**
Total commitments	**70,872**	**14,886**	**17,064**	**2,849**	**105,671**
Total contingents and commitments	**72,579**	**15,278**	**17,195**	**3,499**	**108,551**
31 December 2012					
Acceptances and endorsements	73	–	33	1	107
Other contingent liabilities	1,236	662	144	747	2,789
Total contingent liabilities	1,309	662	177	748	2,896
Lending commitments	65,739	14,493	17,486	3,676	101,394
Other commitments	557	–	–	–	557
Total commitments	66,296	14,493	17,486	3,676	101,951
Total contingents and commitments	67,605	15,155	17,663	4,424	104,847

	Within 1 year £m	1-3 years £m	3-5 years £m	Over 5 years £m	Total £m
The Bank					
31 December 2013					
Acceptances and endorsements	**124**	**–**	**–**	**–**	**124**
Other contingent liabilities	**1,278**	**362**	**90**	**603**	**2,333**
Total contingent liabilities	**1,402**	**362**	**90**	**603**	**2,457**
Lending commitments	**37,014**	**13,553**	**15,553**	**1,308**	**67,428**
Other commitments	**491**	**–**	**–**	**–**	**491**
Total commitments	**37,505**	**13,553**	**15,553**	**1,308**	**67,919**
Total contingents and commitments	**38,907**	**13,915**	**15,643**	**1,911**	**70,376**
31 December 2012					
Acceptances and endorsements	70	–	33	1	104
Other contingent liabilities	890	515	53	741	2,199
Total contingent liabilities	960	515	86	742	2,303
Lending commitments	42,151	13,191	15,081	1,725	72,148
Other commitments	552	–	–	–	552
Total commitments	42,703	13,191	15,081	1,725	72,700
Total contingents and commitments	43,663	13,706	15,167	2,467	75,003

(4) Insurance risk

Insurance risk is the risk of reductions in earnings capital and/or value, through financial or reputational loss, due to fluctuations in the timing, frequency and severity of insured/underwritten events and to fluctuations in the timing and amount of claim settlements. This includes fluctuations in profits due to customer behaviour.

The Group's appetite for solvency and earnings in insurance entities is reviewed and approved annually by the Board. Insurance risks are measured using a variety of techniques including stress and scenario testing; and where appropriate, stochastic modelling. Ongoing monitoring is in place to track the progression of insurance risks. This normally involves monitoring relevant experiences against expectations, as well as evaluating the effectiveness of controls put in place to manage insurance risk.

55 Capital

Capital is actively managed at an appropriate level of frequency and regulatory ratios are a key factor in the Group's budgeting and planning processes with updates of expected ratios reviewed regularly during the year by the Lloyds Banking Group Asset and Liability Committee. Capital raised takes account of expected growth and currency of risk assets. Capital policies and procedures are subject to independent oversight.

The Group's regulatory capital is divided into tiers depending on level of subordination and ability to absorb losses. Core tier 1 capital as defined in the FSA letter to the British Bankers' Association in May 2009, comprises mainly shareholders' equity and non-controlling interests, after deducting goodwill, other intangible assets and 50 per cent of the net excess of expected loss over accounting provisions and certain securitisation positions. Accounting equity is adjusted in accordance with PRA requirements, particularly in respect of pensions and available-for-sale assets. Tier 1 capital, as defined by the European Community Banking Consolidation Directive as implemented in the UK by the PRA's General Prudential Sourcebook (GENPRU), is core tier 1 capital plus tier 1 capital securities less 50 per cent of material holdings in financial companies. Tier 2 capital, defined by GENPRU, comprises qualifying subordinated debt and some additional provisions and reserves after deducting 50 per cent of the excess of expected loss over accounting provisions, and certain securitisation positions and material holdings in financial companies. In 2013 the transitional provision which allowed the deduction of unconsolidated investments as supervisory deductions from total capital expired, resulting in these investments now being deducted from tier 1 (50 per cent of the total) and tier 2 capital (also 50 per cent). Total capital is the sum of tier 1 and tier 2 capital after deducting supervisory deductions which include connected lending of a capital nature.

The Group's capital resources are summarised as follows:

	2013 £m	2012 £m
Tier 1 capital	**44,779**	49,076
Tier 2 capital	**17,156**	23,246
	61,935	72,322
Supervisory deductions	**(3,275)**	(21,192)
Total capital	**58,660**	51,130

The minimum total capital required under Pillar 1 of the Basel II framework is the Capital Resources Requirement (CRR) calculated as 8 per cent of risk weighted assets. In addition to the minimum requirements for total capital, the PRA has made statements to explain it also operates a framework of targets and expected buffers for core tier 1 and tier 1 capital.

In order to address the requirements of Pillar 2 of the Basel II framework, the PRA currently sets additional minimum requirements through the issuance of Individual Capital Guidance (ICG) for each UK bank calibrated by reference to the CRR. A key input into the PRA's ICG setting process is each bank's Internal Capital Adequacy Assessment Process. The Group has been given an ICG by the PRA. The PRA has made it clear, however, that ICG remains a confidential matter between each bank and the PRA.

The Group maintains its own buffer to ensure that the regulatory minimum requirements and regulatory targets and buffers are met at all times.

The Basel III reforms for an enhanced global capital accord were introduced in the EU through the implementation of the new Capital Requirements Directive and Regulation (CRDIV), published via the Official Journal of the European Union in June 2013. These rules, as implemented in the UK via Prudential Regulatory Authority (PRA) policy statement PS7/13, apply to reporting from 1 January 2014 and as such all future reporting will be in accordance with these rules, subject to transitional phasing permitted by PS7/13.

A number of final draft CRD IV implementing and regulatory technical standards have been issued by the European Banking Authority (EBA) with a number of other draft standards currently being taken through respective consultation processes. The Group continues to monitor their development very closely and to analyse their potential impact whilst ensuring that the Group continues to have a strong loss absorption capacity exceeding regulatory requirements as currently formulated.

During the year, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject.

56 Cash flow statements

a Change in operating assets

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Change in loans and receivables	**28,041**	50,773	**14,757**	6,147
Changes in amounts due from fellow Lloyds Banking Group undertakings	**3,429**	(283)	**(18,348)**	(18,251)
Change in derivative financial instruments, trading and other financial assets at fair value through profit or loss	**(6,855)**	125	**(30,588)**	3,400
Change in other operating assets	**(4,477)**	(3,455)	**70**	(6)
Change in operating assets	**20,138**	47,160	**(34,109)**	(8,710)

b Change in operating liabilities

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Change in deposits from banks	**(25,529)**	(1,325)	**(20,275)**	(6,058)
Change in customer deposits	**16,747**	13,467	**1,659**	3,944
Changes in amounts due to fellow Lloyds Banking Group undertakings	**(1,153)**	(596)	**14,822**	66,912
Change in debt securities in issue	**(29,016)**	(66,965)	**(7,523)**	(40,088)
Change in derivative financial instruments, trading and other financial liabilities at fair value through profit or loss	**(6,290)**	1,280	**32,846**	(4,462)
Change in investment contract liabilities	**3,171**	7,421	**–**	–
Change in other operating liabilities	**(3,513)**	3	**(416)**	(57)
Change in operating liabilities	**(45,583)**	(46,715)	**21,113**	20,191

56 Cash flow statements (continued)

c Non-cash and other items

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Depreciation and amortisation	**1,940**	2,126	**439**	455
Provisions for impairment of disposal groups	**382**	–	**–**	–
Revaluation of investment properties	**(143)**	264	**–**	–
Allowance for loan losses	**2,726**	5,121	**649**	1,592
Write-off of allowance for loan losses	**(5,858)**	(7,922)	**(1,427)**	(1,816)
Impairment of available-for-sale financial assets	**18**	42	**–**	–
Change in insurance contract liabilities	**5,309**	3,934	**–**	–
Customer goodwill payments provision	**–**	–	**–**	–
Payment protection insurance provision	**3,050**	3,575	**2,169**	2,602
German insurance business litigation provision	**75**	150	**–**	–
Other provision movements	**332**	379	**222**	263
Net charge in respect of defined benefit schemes	**503**	110	**197**	146
Impact of consolidation and deconsolidation of OEICs[1]	**6,303**	(829)	**–**	–
Unwind of discount on impairment allowances	**(351)**	(374)	**(130)**	(67)
Foreign exchange element on balance sheet[2]	**614**	586	**440**	(166)
Liability management (gains) losses within other income[3]	**80**	–	**–**	–
Interest expense on subordinated liabilities	**2,463**	3,189	**1,376**	2,292
(Profit) loss on disposal of businesses	**(209)**	7	**296**	–
Other non-cash items	**(1,656)**	(3,455)	**(553)**	(2,805)
Total non-cash items	**15,578**	6,903	**3,678**	2,496
Contributions to defined benefit schemes	**(811)**	(672)	**(505)**	(170)
Payments in respect of payment protection insurance provision	**(2,674)**	(3,299)	**(2,037)**	(2,192)
Other	**(334)**	12	**(174)**	–
Total other items	**(3,819)**	(3,959)	**(2,716)**	(2,362)
Non-cash and other items	**11,759**	2,944	**962**	134

[1] These OEICs (Open-ended investment companies) are mutual funds which are consolidated if the Group manages the funds and also has a majority beneficial interest. The population of OEICs to be consolidated varies at each reporting date as external investors acquire and divest holdings in the various funds. The consolidation of these funds is effected by the inclusion of the fund investments and a matching liability to the unit holders; and changes in funds consolidated represent a non-cash movement on the balance sheet.

[2] When considering the movement on each line of the balance sheet, the impact of foreign exchange rate movements is removed in order to show the underlying cash impact.

[3] A number of capital transactions entered into by the Group in 2013 and 2012 involved the exchange of existing securities for new issues and as a result there was no related cash flow.

56 Cash flow statements (continued)

d Analysis of cash and cash equivalents as shown in the balance sheet

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Cash and balances with central banks	**49,915**	80,298	**42,283**	74,078
Less: mandatory reserve deposits[1]	**(937)**	(580)	**(498)**	(307)
	48,978	79,718	**41,785**	73,771
Loans and advances to banks	**25,365**	32,757	**3,095**	4,888
Less: amounts with a maturity of three months or more	**(7,546)**	(11,417)	**(389)**	(3,551)
	17,819	21,340	**2,706**	1,337
Total cash and cash equivalents	**66,797**	101,058	**44,491**	75,108

[1]Mandatory reserve deposits are held with local central banks in accordance with statutory requirements; these deposits are not available to finance the Group's day-to-day operations.

Included within cash and cash equivalents of the Group at 31 December 2013 is £14,058 million (2012: £17,889 million) held within the Group's life funds, which is not immediately available for use in the business.

e Acquisition of group undertakings and businesses

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Additional capital injections to subsidiaries	**–**	–	**(621)**	(37)
Acquisition of subsidiaries	**–**	–	**(773)**	–
Acquisition of and additional investment in associates and joint ventures	**(6)**	(11)	**–**	–
Net cash outflow	**(6)**	(11)	**(1,394)**	(37)

56 Cash flow statements (continued)

f Disposal of group undertakings and businesses

	The Group		The Bank	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Trading and other financial assets at fair value through profit or loss	**35,159**	–	**–**	–
Loans and advances to banks	**1,701**	16	**926**	–
Loans and advances to customers	**2,612**	15	**434**	–
Investment properties	**582**	–	**–**	–
Value of in-force business	**831**	–	**–**	–
Other intangible assets	**251**	–	**–**	–
Tangible fixed assets	**67**	–	**–**	–
	41,203	31	**1,360**	–
Customer deposits	**(1,923)**	–	**(1,443)**	–
Debt securities in issue	**(264)**	–	**–**	–
Liabilities arising from insurance contracts and participating investment contracts	**(451)**	–	**–**	–
Liabilities arising from non-participating investment contracts	**(29,953)**	–	**–**	–
Minority interests	**(357)**	(38)	**–**	–
Other net assets (liabilities)	**(6,160)**	51	**52**	–
	(39,108)	13	**(1,391)**	–
Net assets (liabilities) disposed of	**2,095**	44	**(31)**	–
Investment in subsidiary disposed of	**–**	–	**423**	362
Non-cash consideration received	**(59)**	–	**(59)**	–
Profit (loss) on sale of businesses	**362**	(7)	**(296)**	–
Cash and cash equivalents disposed of	**(1,702)**	–	**(46)**	–
Net cash inflow from disposals	**696**	37	**(9)**	362

57 Restatement of prior period information

As explained in note 1, the Group has adopted IFRS 10 *Consolidated Financial Statements* and Amendments to IAS 19 *Employee Benefits* (IAS 19R) on 1 January 2013.

The Group has restated information for the preceding comparative periods.

The following tables summarise the adjustments arising on the adoption of IAS 19R and IFRS 10 to the Group's:

- income statement, statement of comprehensive income and statement of cash flows for the year ended 31 December 2012; and
- balance sheets at 31 December 2012 and 1 January 2012.

And to the Bank's:

- statement of comprehensive income and statement of cash flows for the year ended 31 December 2012; and
- balance sheets at 31 December 2012 and 1 January 2012.

Consolidated income statement – year ended 31 December 2012

	As previously reported £m	IFRS 10 £m	IAS 19 Revised £m	Restated £m
Interest and similar income	23,932	13	–	23,945
Interest and similar expense	(15,177)	(1,370)	–	(16,547)
Net interest income	8,755	(1,357)	–	7,398
Fee and commission income	4,732	(81)	–	4,651
Fee and commission expense	(1,438)	(6)	–	(1,444)
Net fee and commission income	3,294	(87)	–	3,207
Net trading income	13,817	1,451	–	15,268
Insurance premium income	8,284	–	–	8,284
Other operating income	4,645	–	–	4,645
Other income	30,040	1,364	–	31,404
Total income	38,795	7	–	38,802
Insurance claims	(18,396)	–	–	(18,396)
Total income, net of insurance claims	20,399	7	–	20,406
Regulatory provisions	(4,175)	–	–	(4,175)
Other operating expenses	(11,549)	(1)	(42)	(11,592)
Total operating expenses	(15,724)	(1)	(42)	(15,767)
Trading surplus	4,675	6	(42)	4,639
Impairment	(5,149)	–	–	(5,149)
(Loss) profit before tax	(474)	6	(42)	(510)
Taxation	(713)	(6)	(2)	(721)
Loss for the year	(1,187)	–	(44)	(1,231)
Profit attributable to non-controlling interests	84	–	–	84
Loss attributable to equity shareholders	(1,271)	–	(44)	(1,315)
Loss for the year	(1,187)	–	(44)	(1,231)

57 Restatement of prior period information (continued)

Consolidated statement of comprehensive income – year ended 31 December 2012

	As previously reported £m	IFRS 10 £m	IAS 19 Revised £m	Restated £m
Loss for the year	(1,187)	–	(44)	(1,231)
Other comprehensive income				
Items that will not subsequently be reclassified to profit or loss:				
Post-retirement defined benefit scheme remeasurements:				
Remeasurements before taxation	–	–	(2,136)	(2,136)
Taxation	–	–	491	491
	–	–	(1,645)	(1,645)
Items that may subsequently be reclassified to profit or loss:				
Movements in revaluation reserve in respect of available-for-sale financial assets:				
Adjustments on transfers from held-to-maturity portfolio	1,168	–	–	1,168
Change in fair value	900	–	–	900
Income statement transfers in respect of disposals	(3,547)	–	–	(3,547)
Income statement transfers in respect of impairment	42	–	–	42
Other income statement transfers	169	–	–	169
Taxation	339	–	–	339
	(929)	–	–	(929)
Movements in cash flow hedging reserve:				
Effective portion of changes in fair value	100	–	–	100
Net income statement transfers	(92)	–	–	(92)
Taxation	6	–	–	6
	14	–	–	14
Currency translation differences (tax: nil)	(14)	–	–	(14)
Other comprehensive income for the year, net of tax	(929)	–	(1,645)	(2,574)
Total comprehensive income for the year	(2,116)	–	(1,689)	(3,805)
Total comprehensive income attributable to non-controlling interests	82	–	–	82
Total comprehensive income attributable to equity shareholders	(2,198)	–	(1,689)	(3,887)
Total comprehensive income for the year	(2,116)	–	(1,689)	(3,805)

Notes to the accounts

57 Restatement of prior period information (continued)

Consolidated cash flow statement – year ended 31 December 2012

	As previously reported £m	IFRS 10 £m	IAS 19 Revised £m	Restated £m
(Loss) profit before tax	(474)	6	(42)	(510)
Adjustments for:				
Change in operating assets	47,688	(528)	–	47,160
Change in operating liabilities	(47,243)	528	–	(46,715)
Non-cash and other items	2,908	(6)	42	2,944
Tax paid	(370)	–	–	(370)
Net cash provided by operating activities	2,509	–	–	2,509
Cash flows from investing activities				
Purchase of financial assets	(22,050)	–	–	(22,050)
Proceeds from sale and maturity of financial assets	38,228	–	–	38,228
Purchase of fixed assets	(3,003)	–	–	(3,003)
Proceeds from sale of fixed assets	2,595	–	–	2,595
Acquisition of businesses, net of cash acquired	(11)	–	–	(11)
Disposal of businesses, net of cash disposed	37	–	–	37
Net cash provided by investing activities	15,796	–	–	15,796
Cash flows from financing activities				
Dividends paid to non-controlling interests	(56)	–	–	(56)
Interest paid on subordinated liabilities	(2,231)	–	–	(2,231)
Repayment of subordinated liabilities	(864)	–	–	(864)
Change in non-controlling interests	23	–	–	23
Net cash used in financing activities	(3,128)	–	–	(3,128)
Effects of exchange rate changes on cash and cash equivalents	(8)	–	–	(8)
Change in cash and cash equivalents	15,169	–	–	15,169
Cash and cash equivalents at beginning of year	85,889	–	–	85,889
Cash and cash equivalents at end of year	101,058	–	–	101,058

57 Restatement of prior period information (continued)

Consolidated balance sheet at 31 December 2012

	As previously reported £m	IFRS 10 £m	IAS 19 Revised £m	Restated £m
Assets				
Cash and balances at central banks	80,298	–	–	80,298
Items in course of collection from banks	1,256	–	–	1,256
Trading and other financial assets at fair value through profit or loss	154,344	6,630	–	160,974
Derivative financial instruments	55,129	7	–	55,136
Loans and receivables:				
Loans and advances to banks	29,417	3,340	–	32,757
Loans and advances to customers	517,225	–	–	517,225
Debt securities	5,273	–	–	5,273
Due from fellow Lloyds Banking Group undertakings	18,882	–	–	18,882
	570,797	3,340	–	574,137
Available-for-sale financial assets	31,374	–	–	31,374
Investment properties	5,405	–	–	5,405
Goodwill	2,016	–	–	2,016
Value of in-force business	6,800	–	–	6,800
Other intangible assets	2,792	–	–	2,792
Tangible fixed assets	7,342	–	–	7,342
Current tax recoverable	751	–	–	751
Deferred tax assets	4,301	–	628	4,929
Retirement benefit assets	1,867	–	(1,126)	741
Other assets	18,322	190	–	18,512
Total assets	942,794	10,167	(498)	952,463

57 Restatement of prior period information (continued)

Consolidated balance sheet at 31 December 2012 (continued)

	As previously reported £m	IFRS 10 £m	IAS 19 Revised £m	Restated £m
Equity and liabilities				
Liabilities				
Deposits from banks	38,405	–	–	38,405
Customer deposits	426,912	–	–	426,912
Due to fellow Lloyds Banking group undertakings	9,950	–	–	9,950
Items in course of transmission to banks	996	–	–	996
Trading and other financial liabilities at fair value through profit or loss	35,972	(2,580)	–	33,392
Derivative financial instruments	48,937	11	–	48,948
Notes in circulation	1,198	–	–	1,198
Debt securities in issue	116,817	(116)	–	116,701
Liabilities arising from insurance contracts and participating investment contracts	82,968	–	–	82,968
Liabilities arising from non-participating investment contracts	54,372	–	–	54,372
Unallocated surplus within insurance businesses	267	–	–	267
Other liabilities	34,598	12,852	–	47,450
Retirement benefit obligations	300	–	1,605	1,905
Current tax liabilities	138	–	–	138
Deferred tax liabilities	327	–	–	327
Other provisions	3,961	–	–	3,961
Subordinated liabilities	37,590	–	–	37,590
Total liabilities	893,708	10,167	1,605	905,480
Equity				
Share capital	1,574	–	–	1,574
Share premium account	35,533	–	–	35,533
Other reserves	6,573	–	–	6,573
Retained profits	4,721	–	(2,103)	2,618
Shareholders' equity	48,401	–	(2,103)	46,298
Non-controlling interests	685	–	–	685
Total equity	49,086	–	(2,103)	46,983
Total equity and liabilities	942,794	10,167	(498)	952,463

57 Restatement of prior period information (continued)

Consolidated balance sheet at 1 January 2012 (continued)

	As previously reported £ million	IFRS 10 £ million	IAS 19 Revised £ million	Restated £ million
Assets				
Cash and balances at central banks	60,722	–	–	60,722
Items in course of collection from banks	1,408	–	–	1,408
Trading and other financial assets at fair value through profit or loss	139,243	9,104	–	148,347
Derivative financial instruments	64,842	60	–	64,902
Loans and receivables:				
Loans and advances to banks	32,606	271	–	32,877
Loans and advances to customers	565,638	–	–	565,638
Debt securities	12,470	–	–	12,470
Due from fellow Lloyds Banking Group undertaking	18,599	–	–	18,599
	629,313	271	–	629,584
Available-for-sale financial assets	37,952	–	–	37,952
Held-to-maturity investments	8,098	–	–	8,098
Investment properties	6,122	–	–	6,122
Goodwill	2,016	–	–	2,016
Value of in-force business	6,638	–	–	6,638
Other intangible assets	3,196	–	–	3,196
Tangible fixed assets	7,673	–	–	7,673
Current tax recoverable	428	–	–	428
Deferred tax assets	4,565	–	139	4,704
Retirement benefit assets	1,338	–	(76)	1,262
Other assets	14,812	204	–	15,016
Total assets	988,366	9,639	63	998,068

57 Restatement of prior period information (continued)

Consolidated balance sheet at 1 January 2012 (continued)

	As previously reported £ million	IFRS 10 £ million	IAS 19 Revised £ million	Restated £ million
Equity and liabilities				
Liabilities				
Deposits from banks	39,810	–	–	39,810
Customer deposits	413,831	–	–	413,831
Due to fellow Lloyds Banking Group undertakings	10,546	–	–	10,546
Items in course of transmission to banks	844	–	–	844
Trading and other financial liabilities at fair value through profit or loss	24,955	(2,598)	–	22,357
Derivative financial instruments	58,701	53	–	58,754
Notes in circulation	1,145	–	–	1,145
Debt securities in issue	184,504	(95)	–	184,409
Liabilities arising from insurance contracts and participating investment contracts	79,001	–	–	79,001
Liabilities arising from non-participating investment contracts	49,636	–	–	49,636
Unallocated surplus within insurance businesses	300	–	–	300
Other liabilities	32,525	12,279	–	44,804
Retirement benefit obligations	381	–	477	858
Current tax liabilities	104	–	–	104
Deferred tax liabilities	314	–	–	314
Other provisions	3,166	–	–	3,166
Subordinated liabilities	37,330	–	–	37,330
Total liabilities	937,093	9,639	477	947,209
Equity				
Share capital	1,574	–	–	1,574
Share premium account	35,533	–	–	35,533
Other reserves	7,500	–	–	7,500
Retained profits	5,992	–	(414)	5,578
Shareholders' equity	50,599	–	(414)	50,185
Non-controlling interests	674	–	–	674
Total equity	51,273	–	(414)	50,859
Total equity and liabilities	988,366	9,639	63	998,068

57 Restatement of prior period information (continued)

Bank statement of comprehensive income – year ended 31 December 2012

	As previously reported £m	IAS 19 Revised £m	Restated £m
Loss for the year	(2,150)	(37)	(2,187)
Other comprehensive income			
Items that will not subsequently be reclassified to profit or loss:			
Post-retirement defined benefit scheme remeasurements:			
Remeasurements before taxation	–	(934)	(934)
Taxation	–	215	215
	–	(719)	(719)
Items that may subsequently be reclassified to profit or loss:			
Movements in revaluation reserve in respect of available-for-sale financial assets:			
Adjustments on transfers from held-to-maturity portfolio	1,168	–	1,168
Change in fair value	155	–	155
Income statement transfers in respect of disposals	(3,118)	–	(3,118)
Other income statement transfers	169	–	169
Taxation	366	–	366
	(1,260)	–	(1,260)
Movements in cash flow hedging reserve:			
Effective portion of changes in fair value	(5)	–	(5)
Net income statement transfers	–	–	–
Taxation	1	–	1
	(4)	–	(4)
Currency translation differences (tax: nil)	(21)	–	(21)
Other comprehensive income for the year, net of tax	(1,285)	(719)	(2,004)
Total comprehensive income for the year	(3,435)	(756)	(4,191)

57 Restatement of prior period information (continued)

Bank cash flow statement – year ended 31 December 2012

	As previously reported £m	IAS 19 Revised £m	Restated £m
(Loss) profit before tax	(2,703)	(28)	(2,731)
Adjustments for:			
Change in operating assets	(8,710)	–	(8,710)
Change in operating liabilities	20,191	–	20,191
Non-cash and other items	106	28	134
Tax paid	(26)	–	(26)
Net cash provided by operating activities	8,858	–	8,858
Cash flows from investing activities			
Purchase of financial assets	(18,825)	–	(18,825)
Proceeds from sale and maturity of financial assets	28,490	–	28,490
Purchase of fixed assets	(1,042)	–	(1,042)
Proceeds from sale of fixed assets	15	–	15
Additional capital injections to subsidiaries	(37)	–	(37)
Disposal of businesses, net of cash disposed	362	–	362
Net cash provided by investing activities	8,963	–	8,963
Cash flows from financing activities			
Interest paid on subordinated liabilities	(1,442)	–	(1,442)
Repayment of subordinated liabilities	(215)	–	(215)
Net cash used in financing activities	(1,657)	–	(1,657)
Effects of exchange rate changes on cash and cash equivalents	(5)	–	(5)
Change in cash and cash equivalents	16,159	–	16,159
Cash and cash equivalents at beginning of year	58,949	–	58,949
Cash and cash equivalents at end of year	75,108	–	75,108

57 Restatement of prior period information (continued)

Bank balance sheet at 31 December 2012

	As previously reported £m	IAS 19 Revised £m	Restated £m
Assets			
Cash and balances at central banks	74,078	–	74,078
Items in course of collection from banks	806	–	806
Trading and other financial assets at fair value through profit or loss	6,462	–	6,462
Derivative financial instruments	32,247	–	32,247
Loans and receivables:			
Loans and advances to banks	4,888	–	4,888
Loans and advances to customers	179,283	–	179,283
Debt securities	454	–	454
Due from fellow Lloyds Banking Group undertakings	244,629	–	244,629
	429,254	–	429,254
Available-for-sale financial assets	31,092	–	31,092
Other intangible assets	411	–	411
Tangible fixed assets	2,186	–	2,186
Current tax recoverable	1,102	–	1,102
Deferred tax assets	3,796	392	4,188
Retirement benefit assets	738	(735)	3
Investment in subsidiary undertakings	39,958	–	39,958
Other assets	1,547	–	1,547
Total assets	623,677	(343)	623,334

57 Restatement of prior period information (continued)

Bank balance sheet at 31 December 2012 (continued)

	As previously reported £m	IAS 19 Revised £m	Restated £m
Equity and liabilities			
Liabilities			
Deposits from banks	29,675	–	29,675
Customer deposits	187,620	–	187,620
Due to fellow Lloyds Banking Group undertakings	229,203	–	229,203
Items in course of transmission to banks	445	–	445
Trading and other financial liabilities at fair value through profit or loss	10,841	–	10,841
Derivative financial instruments	30,616	–	30,616
Debt securities in issue	61,494	–	61,494
Other liabilities	4,524	–	4,524
Retirement benefit obligations	150	971	1,121
Current tax liabilities	10	–	10
Deferred tax liabilities	–	–	–
Other provisions	2,371	–	2,371
Subordinated liabilities	26,249	–	26,249
Total liabilities	583,198	971	584,169
Equity			
Share capital	1,574	–	1,574
Share premium account	35,533	–	35,533
Other reserves	874	–	874
Retained profits	2,498	(1,314)	1,184
Shareholders' equity	40,479	(1,314)	39,165
Total equity and liabilities	623,677	(343)	623,334

57 Restatement of prior period information (continued)

Bank balance sheet at 1 January 2012

	As previously reported £ million	IAS 19 Revised £ million	Restated £ million
Assets			
Cash and balances at central banks	57,500	–	57,500
Items in course of collection from banks	898	–	898
Trading and other financial assets at fair value through profit or loss	4,665	–	4,665
Derivative financial instruments	37,517	–	37,517
Loans and receivables:			
Loans and advances to banks	5,327	–	5,327
Loans and advances to customers	185,304	–	185,304
Debt securities	633	–	633
Due from fellow Lloyds Banking Group undertakings	226,378	–	226,378
	417,642	–	417,642
Available-for-sale financial assets	31,351	–	31,351
Held-to-maturity investments	8,098	–	8,098
Other intangible assets	329	–	329
Tangible fixed assets	1,731	–	1,731
Current tax recoverable	830	–	830
Deferred tax assets	3,127	186	3,313
Retirement benefit assets	736	(470)	266
Investment in subsidiary undertakings	40,289	–	40,289
Other assets	1,263	–	1,263
Total assets	605,976	(284)	605,692

57 Restatement of prior period information (continued)

Bank balance sheet at 1 January 2012

	As previously reported £ million	IAS 19 Revised £ million	Restated £ million
Equity and liabilities			
Liabilities			
Deposits from banks	35,808	–	35,808
Customer deposits	184,046	–	184,046
Due to fellow Lloyds Banking Group undertakings	162,291	–	162,291
Items in course of transmission to banks	487	–	487
Trading and other financial liabilities at fair value through profit or loss	10,905	–	10,905
Derivative financial instruments	35,031	–	35,031
Debt securities in issue	102,237	–	102,237
Other liabilities	4,364	–	4,364
Retirement benefit obligations	199	274	473
Current tax liabilities	24	–	24
Deferred tax liabilities	1	–	1
Other provisions	1,624	–	1,624
Subordinated liabilities	25,045	–	25,045
Total liabilities	562,062	274	562,336
Equity			
Share capital	1,574	–	1,574
Share premium account	35,533	–	35,533
Other reserves	2,159	–	2,159
Retained profits	4,648	(558)	4,090
Shareholders' equity	43,914	(558)	43,356
Total equity and liabilities	605,976	(284)	605,692

58 Future accounting developments

The following pronouncements may have a significant effect on the Group's financial statements but are not applicable for the year ending 31 December 2013 and have not been applied in preparing these financial statements. Save as disclosed below, the full impact of these accounting changes is being assessed by the Group.

Pronouncement	Nature of change	IASB effective date
Amendment to IAS 32 *Financial Instruments: Presentation – 'Offsetting Financial Assets and Financial Liabilities'*	Inserts application guidance to address inconsistencies identified in applying the offsetting criteria used in the standard. Some gross settlement systems may qualify for offsetting where they exhibit certain characteristics akin to net settlement. This amendment is not expected to have a significant impact on the Group.	Annual periods beginning on or after 1 January 2014.
Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – 'Novation of Derivatives and Continuation of Hedge Accounting'*	Provides relief from discontinuing hedge accounting in circumstances where a derivative designated as a hedging instrument is novated to a central counterparty as a consequence or introduction of laws or regulations. These amendments are not expected to have a significant impact on the Group	Annual periods beginning on or after 1 January 2014.
IFRIC 21 *Levies*[1]	Clarifies that the obligating event that gives rise to a liability to pay a government levy is the activity that triggers the payment of the levy as set out in the relevant legislation. An entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period.	Annual periods beginning on or after 1 January 2014.
IFRS 9 *Financial Instruments*[1,2]	Replaces those parts of IAS 39 *Financial Instruments: Recognition and Measurement* relating to the classification, measurement and derecognition of financial assets and liabilities. IFRS 9 requires financial assets to be classified into two measurement categories, fair value and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments and eliminates the available-for-sale financial asset and held-to-maturity investment categories in IAS 39. The requirements for derecognition are broadly unchanged from IAS 39. The standard also retains most of the IAS 39 requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value change attributable to the entity's own credit risk is recorded in other comprehensive income. The hedge accounting requirements are more closely aligned with risk management practices and follow a more principle-based approach.	Date yet to be determined.

[1]As at 6 March 2014, these pronouncements are awaiting EU endorsement.

[2]IFRS 9 is the standard which will replace IAS 39. Further changes to IFRS 9 are expected dealing with impairment of financial assets measured at amortised cost, which will be based on expected rather than incurred credit losses, and limited amendments to classification and measurement which include the introduction of a third measurement category, fair value through other comprehensive income. Until the standard is complete, it is not possible to determine the overall impact of the standard on the financial statements.

59 Approval of the financial statements and other information

The financial statements were approved by the directors of Lloyds Bank plc on 6 March 2014.

Lloyds Bank plc and its subsidiaries form a leading UK-based financial services group, whose businesses provide a wide range of banking and financial services in the UK and in certain locations overseas.

Lloyds Bank plc's immediate parent undertaking and ultimate parent undertaking and controlling party is Lloyds Banking Group plc which is incorporated in Scotland. Copies of the consolidated annual report and accounts of Lloyds Banking Group plc may be obtained from Lloyds Banking Group's head office at 25 Gresham Street, London EC2V 7HN or downloaded via www.lloydsbankinggroup.com.