Lloyds Bank plc

Report and Accounts
2015

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

During the year ended 31 December 2015, the Group recorded a profit before tax of £1,372 million compared with a profit before tax in 2014 of £2,289 million. The result in 2015 included provisions in respect of redress to customers relating to both past sales of Payment Protection Insurance and other matters of £4,837 million compared to a charge of £3,125 million in the year ended 31 December 2014; 2014 also included a past service pension credit of £822 million which was not repeated in 2015. Excluding these items from both years, profit before tax was £1,617 million, or 35 per cent, higher at £6,209 million in the year ended 31 December 2015 compared to £4,592 million in the previous year, reflecting a significant reduction in expenditure in relation to the Group's Simplification programme and lower impairment charges.

The comparison of results for 2015 to 2014 is also impacted by the sale of TSB Banking Group plc (TSB), which ceased to be consolidated in March 2015, with the sale of the Group's remaining holding becoming unconditional on 30 June 2015. The Group recognised a net loss of £660 million in 2015, relating to both the disposal of its shareholding and commitments under agreements entered into with TSB (see also note 55 to the accounts).

Total income decreased by £7,575 million, or 25 per cent, to £22,587 million in 2015 compared with £30,162 million in 2014, comprising an £8,112 million decrease in other income partly offset by an increase in net interest income.

Net interest income was £10,751 million in 2015; an increase of £537 million, or 5 per cent compared to £10,214 million in 2014. There was a positive impact of £358 million in 2015 from a decrease in the amounts payable to unit holders in those Open-Ended Investment Companies (OEICs) included in the consolidated results of the Group; the change in population of consolidated OEICs in 2015 compared to 2014 caused an increase of £27 million in this interest expense. After adjusting for this, net interest income was £179 million, or 2 per cent, higher at £10,995 million in 2015 compared to £10,816 million in 2014 reflecting an improvement in margin in the Group's banking operations, driven by a combination of lower deposit and wholesale funding costs, partly offset by continued pressure on asset prices. Average interest-earning assets fell as a result of the sale of TSB and the continued run down of the portfolio of assets which are outside of the Group's risk appetite.

Other income was £8,112 million, or 41 per cent, lower at £11,836 million in 2015 compared to £19,948 million in 2014. Fee and commission income was £414 million, or 11 per cent, lower at £3,252 million compared to £3,666 million in 2014. Fee and commission expense increased by £40 million, or 3 per cent, to £1,442 million compared with £1,402 million in 2014. The decrease in net fee and commission income largely reflects the disposals of TSB and Scottish Widows Investment Partnership. Net trading income decreased by £5,562 million, or 58 per cent, to £3,946 million in 2015 compared to £9,508 million in 2014; this decrease reflected a reduction of £6,146 million in gains on policyholder investments held within the insurance business as a result of market conditions over 2015 relative to those in 2014. The reduction in trading income within the insurance business was partly offset by an increase of £584 million in the Group's other operations. Insurance premium income was £2,333 million, or 33 per cent, lower at £4,792 million in 2015 compared with £7,125 million in 2014; there was a decrease of £2,334 million in life insurance premiums and a £1 million increase in general insurance premiums. Premium income in 2015 has been reduced by a charge of £1,959 million relating to the recapture by a third party insurer of a portfolio of policies previously reassured with the Group; excluding this item life insurance premium income was £375 million, or 6 per cent, lower at £5,880 million in 2015 compared to £6,255 million in 2014. Other operating income was £237 million higher at £1,288 million in 2015 compared to £1,051 million in 2014, in part reflecting a reduction in the losses arising from the movement in the value of in-force insurance business.

Insurance claims expense was £7,764 million, or 58 per cent, lower at £5,729 million in 2015 compared to £13,493 million in 2014. The insurance claims expense in respect of life and pensions business was £7,804 million, or 59 per cent, lower at £5,359 million in 2015 compared to £13,163 million in 2014; this decrease was matched by a similar decline in net trading income, reflecting the relative performance of policyholder investments. Insurance claims in respect of general insurance business were £40 million or 12 per cent, higher at £370 million in 2015 compared to £330 million in 2014.

Operating expenses increased by £1,468 million, or 11 per cent to £15,096 million in 2015 compared with £13,628 million in 2014; the main reasons for the increase being the £1,712 million increase in charges for redress payments to customers in respect of PPI and other conduct related matters from £3,125 million in 2014 to £4,837 million in 2015, a charge of £665 million in 2015 in relation to the disposal of TSB and a net past service pension credit of £822 million in 2014 which was not repeated in 2015. Excluding these items from both years, operating expenses were £1,731 million, or 15 per cent, lower at £9,594 million in 2015 compared to £11,325 million in 2014. On this basis staff costs were £890 million, or 16 per cent, lower at £4,677 million in 2015 compared with £5,567 million in 2014; annual pay rises being more than offset by the impact of headcount reductions resulting from business disposals and the Group's rationalisation programmes and a reduction in severance costs as this phase of the Simplification programme draws to a close. Premises and equipment costs were £176 million or 20 per cent, lower at £715 million in 2015 compared with £891 million in 2014. Other expenses, excluding the charges in respect of customer redress provisions and the charge relating to the TSB disposal, were £842 million, or 29 per cent, lower at £2,090 million in 2015 compared with £2,932 million in 2014 as a result of lower levels of technology spend, advertising and professional fees, in particular relating to Simplification and the costs of TSB separation in 2014. Depreciation and amortisation costs were £177 million, or 9 per cent, higher at £2,112 million in 2015 compared to £1,935 million in 2014.

Impairment losses decreased by £362 million, or 48 per cent, to £390 million in 2015 compared with £752 million in 2014. Impairment losses in respect of loans and advances to customers were £292 million, or 40 per cent, lower at £443 million in 2015 compared with £735 million in 2014. The overall performance of the portfolio reflects a significant reduction in lending which is outside of the Group's risk appetite and improvements in all divisions. The net charge has also benefited from significant provision releases but at lower levels than seen in 2014. There was a credit of £55 million in respect of undrawn commitments in 2015, compared to a charge of £10 million in 2014, a result of improvements in credit quality in a number of corporate relationships.

In 2015, the Group recorded a tax charge of £613 million compared to a tax charge of £422 million in 2014, an effective tax rate of 44.6 per cent, which was higher than the standard UK corporation tax rate of 20.25 per cent; principally as a result of the disallowance of a substantial proportion of the Group's charge in respect of PPI and other conduct risk issues. The tax charge of £422 million in 2014 arose on a profit before tax of £2,289 million; this tax charge reflected tax exempt gains on the sale of businesses.

On the balance sheet, total assets were £48,544 million, or 6 per cent, lower at £817,904 million at 31 December 2015 compared to £866,448 million at 31 December 2014, largely due to the disposal of TSB. Loans and advances to customers were £27,529 million, or 6 per cent, lower at £455,175 million at

31 December 2015 compared to £482,704 million at 31 December 2014, with £21,643 million of the reduction being due to the sale of TSB, the continued reduction in the portfolio of assets which are outside of the Group's risk appetite and a £5,148 million reduction in reverse repurchase agreement balances have more than offset growth in the UK consumer finance business. An increase of £7,925 million in cash and balances at central banks has been more than offset by an £11,371 million reduction in trading and other financial assets at fair value through profit or loss and a £6,561 million reduction in derivative assets. Total liabilities were £45,907 million, or 6 per cent, lower at £770,551 million at 31 December 2015 compared to £816,458 million at 31 December 2014, again largely due to the sale of TSB. Customer deposits were £28,741 million, or 6 per cent, lower at £418,326 million at 31 December 2015 compared to £447,067 million at 31 December 2014 with £24,625 million of the reduction being due to the sale of TSB. Decreases of £10,239 million in trading and other financial liabilities at fair value through profit or loss and £11,095 million in insurance and investment contract liabilities have been partly offset by increases of £6,038 million in deposits by banks and £6,384 million in debt securities in issue as the Group took advantage of favourable funding opportunities. Total equity was £2,637 million, or 5 per cent, lower at £47,353 million at 31 December 2015 compared to £49,990 million at 31 December 2014; this reflected the fact that retained profit for the year has been more than offset by negative reserve movements in respect of available-for-sale revaluation and cash flow hedging reserves, dividends paid and the adjustment to non-controlling interests on the deconsolidation of TSB.

The Group has maintained its capital position, with a common equity tier 1 (CET1) ratio of 15.2 per cent, (31 December 2014: 15.1 per cent) as the impact of the lower capital base (as a result of reduced levels of equity) has been offset by a reduction in risk-weighted assets. Risk-weighted assets reduced by £17,026 million, or 7 per cent, to £224,020 million, at 31 December 2015 compared to £241,046 million at 31 December 2014, primarily driven by the sale of TSB, reductions in the portfolio of assets which are outside of the Group's risk appetite and continued improvements in credit quality partly offset by targeted lending growth.

Future developments

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

Capital position at 31 December 2015

The Group's capital position applying CRD IV transitional rules as at 31 December 2015 is set out in the following section.

Table 1.1: Capital resources (audited)

Capital resources	2015 £m	2014[1] £m
Common equity tier 1		
Shareholders' equity per balance sheet	**46,962**	48,777
Adjustment to retained earnings for foreseeable dividends	**(1,427)**	(540)
Deconsolidation of insurance entities	**(1,199)**	(624)
Regulatory filters:		
Adjustment for own credit	**67**	158
Cash flow hedging reserve	**(915)**	(1,357)
Other adjustments	**(433)**	164
	43,055	46,578
Less: deductions from common equity tier 1		
Goodwill and other intangible assets	**(1,719)**	(1,875)
Excess of expected losses over impairment provisions and value adjustments	**(270)**	(565)
Removal of defined benefit pension surplus	**(721)**	(909)
Securitisation deductions	**(169)**	(211)
Significant investments	**(2,224)**	(2,021)
Deferred tax assets	**(3,911)**	(4,533)
Common equity tier 1 capital	**34,041**	36,464
Additional tier 1		
Additional tier 1 instruments	**4,761**	5,442
Less: deductions from tier 1		
Significant investments	**(1,177)**	(859)
Total tier 1 capital	**37,625**	41,047
Tier 2		
Tier 2 instruments	**13,562**	16,156
Eligible provisions	**221**	333
Less: deductions from tier 2		
Significant investments	**(1,756)**	(1,288)
Total tier 2 capital	**12,027**	15,201
Total capital resources	**49,652**	56,248

[1]Other comprehensive income related to the Group's Insurance defined benefit pension scheme has been reclassified from common equity tier 1 other adjustments to deconsolidation of insurance entities.

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

	2015 £m	2014 £m
Risk-weighted assets	**224,020**	241,046
Common equity tier 1 capital ratio	**15.2%**	15.1%
Tier 1 capital ratio	**16.8%**	17.0%
Total capital ratio	**22.2%**	23.3%

As at 31 December 2015, the Group's common equity tier 1 capital ratio had increased to 15.2 per cent from a common equity tier 1 capital ratio of 15.1 per cent at 31 December 2014. The tier 1 capital ratio decreased to 16.8 per cent from 17.0 per cent at 31 December 2014 and the total capital ratio decreased to 22.2 per cent compared with 23.3 per cent at 31 December 2014. Risk-weighted assets reduced by £17.0 billion to £224.0 billion at 31 December 2015 compared with £241.0 billion at 31 December 2014, reflecting the sale of TSB, reduction in the portfolio of assets which are outside of the Group's risk appetite and continued improvement in credit quality partly offset by targeted lending growth.

Principal risks and uncertainties
The most significant risks faced by the Group which could impact the success of delivering against the Group's long-term strategic objectives together with key mitigating actions are outlined below.

Credit risk
Principal risks
The risk that customers to whom we have lent money or other counterparties with whom we have contracted, fail to meet their financial obligations, resulting in loss to the Group.

Adverse changes in the economic and market environment we operate in or the credit quality and/or behaviour of our customers and counterparties could reduce the value of our assets and potentially 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 risk.

Robust risk assessment and credit sanctioning, with clearly defined levels of authority to ensure we lend appropriately and responsibly.

Extensive and thorough credit processes and controls to ensure effective risk identification, management and oversight.

Effective, well-established governance process supported by independent credit risk assurance.

Early identification of signs of stress leading to prompt action in engaging the customer.

Regulatory and legal risk
Principal risks
The risks of changing legislation, regulation, policies and voluntary codes of practice and their interpretation in the markets in which we operate can have a significant impact on the Group's operations, business prospects, structure, costs and/or capital requirements and ability to enforce contractual obligations.

Mitigating actions
The Lloyds Banking Group Legal, Regulatory and Mandatory Change Committee ensures we develop plans for delivery of all legal and regulatory changes and tracks their progress. Lloyds Banking Group, Groupwide projects implemented to address significant impacts.

Continued investment in people, processes, training and IT to assess impact and help meet our legal and regulatory commitments.

Engage with regulatory authorities and relevant industry bodies on forthcoming regulatory changes, market reviews and Competition and Markets Authority investigations.

Conduct risk
Principal risks
Conduct risk can arise from a number of areas including selling products to customers which do not meet their needs; failing to deal with customers' complaints effectively; not meeting customers' 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, review processes and outcome testing supported by conduct management information.

Clear customer accountabilities for colleagues, with rewards driven by customer-centric metrics.

Learning from past mistakes through root-cause analysis of crystallised issues.

Operational risk
Principal risks
We face significant operational risks which may result in financial loss, disruption or damage to our reputation. These include the availability, resilience and security of our core IT systems and the potential for failings in our customer processes.

Mitigating actions
Continual review of our IT environment to ensure that systems and processes can effectively support the delivery of services to customers.

Addressing the observations and associated resilience risks raised in the Independent IT Resilience Review (2013) of Lloyds Banking Group, with independent verification of progress on an annual basis.

Investing in enhanced cyber controls to protect against external threats to the confidentiality or integrity of electronic data, or the availability of systems. Responding to findings from third party industry testing.

People risk
Principal risks
Key people risks include the risk that we fail to lead responsibly in an increasing competitive marketplace, particularly with the introduction of the Senior Managers' and Certification Regime (SM&CR) in 2016. This may dissuade capable individuals from taking up senior positions within the industry.

Mitigating actions
Focused action on strategy to attract, retain and develop high calibre people.

Maintain compliance with legal and regulatory requirements relating to the SM&CR, embedding compliant and appropriate colleague behaviours.

Continued focus on the Group's culture, delivering initiatives which reinforce behaviours to generate the best long-term outcomes for customers and colleagues.

Maintain organisational people capability and capacity levels in response to increasing volumes of organisational and external market changes.

Insurance risk

Principal risks

Key insurance risks within the Insurance business are longevity, persistency and property insurance. Longevity risk is expected to increase with the 2015 entry into the bulk annuity market. Longevity is also the key insurance risk in the Group's Defined Benefit Pension Schemes.

Mitigating actions

Insurance processes on underwriting, claims management, pricing and product design seek to control exposure to these risks. A team of longevity and bulk pricing experts has been built to support the new bulk annuity proposition.

The merits of longevity risk transfer and hedging solutions are regularly reviewed for both the Insurance business and the Group's Defined Benefit Pension Schemes.

Property insurance exposure to accumulations of risk and possible catastrophes is mitigated by a broad reinsurance programme.

Capital risk

Principal risks

The risk that we have a sub-optimal amount or quality of capital or that capital is inefficiently deployed across the Group.

Mitigating actions

A comprehensive capital management framework that sets and monitors capital risk appetite using a number of key metrics.

Close monitoring of capital and leverage ratios to ensure we meet current and future regulatory requirements.

Comprehensive stress testing analysis to evidence sufficient levels of capital adequacy under various adverse scenarios.

Accumulation of retained profits and managing dividend policy appropriately.

Funding and liquidity risk

Principal risks

The risk that we have insufficient financial resources to meet our commitments as they fall due, or can only secure them at excessive cost.

Mitigating actions

Holding a large portfolio of unencumbered LCR eligible liquid assets to meet cash and collateral outflows and regulatory requirements and maintaining a further large pool of secondary assets that can be used to access central bank liquidity facilities.

Undertaking daily monitoring against a number of market and Lloyds Banking Group specific early warning indicators and regular stress tests.

Maintaining a contingency funding plan detailing management actions and strategies available in stressed conditions.

Governance risk

Principal risks

Against a background of increased regulatory focus on governance and risk management, the most significant challenges arise from the SM&CR in force from March 2016 and the requirement to improve the resolvability of the Group and to ring-fence core UK financial services and activities from January 2019.

Mitigating actions

Our response to the SM&CR is managed through a programme with work streams addressing each of the major components.

A programme is in place to address the requirements of ring-fencing and resolution and we are in close and regular contact with regulators to develop plans for our anticipated operating and legal structures.

Our aim is to ensure that evolving risk and governance arrangements continue to be appropriate across the range of business in the Group in order to comply with regulatory objectives.

Market risk

Principal risks

The risk that the Group's capital or earnings profile is affected by adverse market rates, in particular interest rates and credit spreads in the Banking business, equity and credit spreads in Insurance business and the Group's Defined Benefit Pension Schemes.

Mitigating actions

Structural hedge programmes have been implemented to manage liability margins and margin compression, and the Group's exposure to Bank Base Rate.

Equity and credit spread risks are inherent within Insurance products and are closely monitored to ensure they remain within risk appetite. Where appropriate, asset liability matching is undertaken to mitigate risk.

The allocation to credit assets has been increased and equity holdings reduced within the Group's Defined Benefit Pension Schemes. A hedging programme is also in place to minimise exposure to nominal rates/inflation.

Stress and scenario testing of the Group's risk exposures.

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 49 on page 89. The Group's approach to risk management including risk policies, risk appetite, measurement bases and sensitivities, in particular for credit risk, market risk and liquidity risk, is aligned to those of Lloyds Banking Group plc, the Bank's ultimate parent. Further information can be found in the Lloyds Banking Group plc annual report.

The 2015 Strategic Report has been approved by the Board of Directors.

On behalf of the Board

Lord Blackwell
Lloyds Bank plc
16 March 2016

Directors' report

Results

The consolidated income statement on page 14 shows a statutory profit before tax for the year ended 31 December 2015 of £1,372 million (year ended 31 December 2014: £2,289 million).

Dividends

During the year the Bank paid an interim dividend of £540 million (2014: nil). The Directors have not recommended a final dividend for the year ended 31 December 2015 (2014: £540 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 the principal risks and uncertainties and capital position set out in the strategic report on pages 2 to 6 and additionally have considered projections for the Group's capital and funding position. Accordingly, the Directors conclude that it is appropriate to continue to adopt the going concern basis in preparing the accounts over the next 12 months.

Directors

The names of the current Directors are shown on page 10. Changes to the composition of the Board since 1 January 2015 up to the date of this report are shown in the table below:

	Joined the Board	Retired from the Board
Carolyn Fairbairn		31 October 2015
Deborah McWhinney	1 December 2015	
Stuart Sinclair	4 January 2016	

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' indemnities

The Directors of the Bank, including the former Director who retired during the year, 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 Director appointed in 2015. Revisions are being made to the existing Deeds of Indemnity to take account of the Senior Managers and Certification Regime. Deeds for existing Directors are available for inspection at the Bank's registered office.

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 Group'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 Lloyds Banking Group's Pension Schemes.

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.

Conflicts of interest

All Directors of the Bank and its subsidiaries must avoid any situation which might give rise to a conflict between their personal interests and those of the Group. Prior to appointment, potential conflicts of interest are disclosed and assessed to ensure that there are no matters which would prevent that person from taking on the role.

Directors are responsible for notifying the Chairman and Company Secretary as soon as they become aware of actual or potential conflict situations. In addition, conflicts are monitored as follows:

- the Directors are required to complete a conflicts questionnaire on appointment and annually thereafter;
- changes to the commitments of all Directors are reported to the Nomination & Governance Committee and the Board; and
- a register of potential conflicts and time commitments is regularly reviewed and authorised by the Board to ensure the authorisation status remains appropriate.

If any potential conflict arises, the articles of association permit the Board to authorise the conflict, subject to such conditions or limitations as the Board may determine.

Stuart Sinclair is a Non-Executive Director of Provident Financial Plc, a supplier of personal credit products to the non-standard lending market, and Senior Independent Director at both QBE Insurance (Europe) Limited, a general insurance and reinsurance company, and Swinton Group Limited, an insurance broker for home and motor insurance. The Board has recognised that potential conflicts may arise in relation to his position at QBE Insurance and in relation to Swinton Group. The Board has authorised the potential conflicts and requires Mr Sinclair to recuse himself from discussions, should the need arise. Prior to Carolyn Fairbairn's retirement from the Board, she was also a Non-Executive Director of the Competition and Markets Authority (CMA). During the period she served on the Board, she recused herself from all discussions at the CMA on their investigation into banking competition.

Branches, future developments and financial risk management objectives and policies

The Bank provides a wide range of banking and financial services through branches and offices in the UK and overseas. Information regarding future developments and financial risk management objectives and policies of the Group in relation to the use of financial instruments that would otherwise be required to be disclosed in the directors' report, and which is incorporated into this report by reference, can be found in the strategic report.

Share capital

Information about share capital is shown in note 41 on page 78. This information is incorporated into this report by reference.

The Bank did not repurchase any of its shares during the year (2014: 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 manage the business of the Bank under the powers set out in the Companies Act 2006 and the Bank's articles of association, these powers include those in relation to the issue or buy back of the Bank's shares.

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.

Employees
The Bank, as part of Lloyds Banking Group, provides colleagues with information on the Group's performance and matters that concern their role, for example changes in the economic or regulatory environment, management changes and reward and remuneration. Colleagues are regularly consulted and share their views twice a year through our 'best bank for customers' and 'building the best team' colleague surveys. The results of these surveys were shared across the organisation, with over 4,000 line managers holding survey results conversations with their teams to agree actions to deliver our vision of becoming the best bank for customers. Colleagues are offered share schemes as part of wider incentive arrangements, and to encourage their financial involvement.

In building a culture in which colleagues are empowered, inspired and incentivised to do the right thing for customers, the Group assesses progress, along with colleagues' pride in the Group through the 'best bank for customers' and 'building the best team' surveys. In 2015, 85 per cent of colleagues responded to the latter. A new statement was included in 2015, 'I understand how my team is supporting the Group's purpose to Helping Britain Prosper' where 81 per cent of colleagues agreed. This regular dialogue with colleagues provides rich data and a clear picture of how they are feeling.

The Group recognises that everyone is different, and values the unique differences that each colleague brings to work every day. Together, colleagues make Lloyds Banking Group stronger, and the best bank for customers. The Group is working hard to build an inclusive bank that reflects the diversity of modern Britain. All line managers completed inclusion and diversity capability training in 2015 and an additional 200 colleagues were trained to deliver disability awareness sessions with customers. A 2015 'Words Count' campaign encouraged all colleagues to challenge non-inclusive language and behaviours, and over 20,000 colleagues are members of the Group's four diversity networks, which are open to everyone. The Group retained its leading position as the top private sector company for LGBT people in the Stonewall Top 100 and was named in The Times Top 50 Employers for Women. In addition we retained our Gold Standard in the Business Disability Forum Benchmark in recognition of the work done through the Group Disability Programme.

The Group aims to appoint the best person available into any role and to attract talented people from diverse backgrounds. The Group encourages and gives full and fair consideration to job applications from people with a disability and are unbiased in the way it assesses, selects, appoints, trains and promotes people. The Group encourages job applications from those with a disability and continue to run a work experience programme with Remploy to support people with disabilities wanting to enter the workplace. All colleagues, including disabled colleagues, are provided with training and development opportunities so that they can carry out their role to the best of their ability. All line managers completed inclusion and diversity capability training in 2015, and an additional 200 Group colleagues were trained to deliver disability awareness sessions with customers. Lloyds Banking Group's award-winning workplace adjustment programme, which provides physical and non-physical adjustments to all colleagues including disabled colleagues, carried out more than 6,300 adjustments in 2015, bringing the total to 28,000 since the programme started in 2002. Lloyds Banking Group retained its Gold Standard in the Business Disability Forum Benchmark with a score of 98. The Disability Standard establishes what best practice is across the business in terms of disability performance and recognises the adjustments the Group has made for employees, candidates and customers as part of the Lloyds Banking Group Disability Programme.

Significant contracts
Details of related party transactions are set out in note 47 on pages 83 to 86.

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, who are in office and whose names are shown on page 10 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 and the profit or loss of the Bank and 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 strategic report.

Directors' 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 2016 annual general meeting to re-appoint PricewaterhouseCoopers LLP as auditor. The Bank's Audit Committee is satisfied that the external auditor remains independent and effective.

On behalf of the Board

Malcolm Wood
Company Secretary
16 March 2016

Lloyds Bank plc
Registered in England & Wales
Company Number 2065

Directors

Lord Blackwell *Chairman*

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

George Culmer *Executive Director and Chief Financial Officer*

Juan Colombás *Executive Director and Chief Risk Officer*

Alan Dickinson

Anita Frew

Simon Henry

Dyfrig John CBE

Nick Luff

Deborah McWhinney

Nick Prettejohn

Stuart Sinclair

Anthony Watson CBE

Sara Weller

Forward looking statements

This Annual Report contains certain forward looking statements with respect to the business, strategy and plans of the 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 the Lloyds Bank Group's 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 Lloyds Bank Group's future financial position including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), expenditures or any other financial items or ratios; litigation, regulatory and governmental investigations; the Lloyds Bank Group's future financial performance; the level and extent of future impairments and write-downs; statements of plans, objectives or goals of the Lloyds Bank Group or its management including in respect of statements about the future business and economic environments in the 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 Lloyds Bank Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments; fluctuations in exchange rates, stock markets and currencies; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Lloyds Bank Group's or Lloyds Banking Group plc's credit ratings; the ability to derive cost savings; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability, the potential for one or more countries to exit the Eurozone or European Union (EU) (including the UK as a result of a referendum on its EU membership) and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes and risks to cyber security; natural, pandemic and other disasters, adverse weather and similar contingencies outside the Lloyds Bank Group's or Lloyds Banking Group plc's control; inadequate or failed internal or external processes or systems; acts of war, other acts of hostility, terrorist acts and responses to those acts, geopolitical, pandemic or other such events; changes in laws, regulations, accounting standards or taxation, including as a result of further Scottish devolution; changes to regulatory capital or liquidity requirements and similar contingencies outside the Lloyds Bank Group's or Lloyds Banking Group plc's control; the policies, decisions and actions of governmental or regulatory authorities or courts in the UK, the EU, the US or elsewhere including the implementation and interpretation of key legislation and regulation; the ability to attract and retain senior management and other employees; requirements or limitations on Lloyds Banking Group plc and the Lloyds Bank Group as a result of HM Treasury's investment in Lloyds Banking Group plc; actions or omissions by the Lloyds Bank Group's directors, management or employees including industrial action; changes to the Lloyds Bank Group's post-retirement defined benefit scheme obligations; the provision of banking operations services to TSB Banking Group plc; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; the value and effectiveness of any credit protection purchased by the Lloyds Bank Group; 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 exposure to regulatory or competition scrutiny, legal, regulatory or competition proceedings, investigations or complaints. Please refer to the latest Annual Report on Form 20-F filed by Lloyds Banking Group plc 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 the 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

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 2015 and of the Group's profit and the Group's and the 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.

What we have audited

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

- the Balance sheets as at 31 December 2015;
- the Consolidated income statement and Statements of comprehensive income for the year then ended;
- the Cash flow statements for the year then ended;
- the Statements of changes in equity for the year then ended; and
- the notes to the accounts, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union and, as regards the Bank financial statements, 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.

Opinions on other 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 Group or Bank, or returns adequate for our audit have not been received from branches not visited by us; or
- the Group's or Bank's 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 to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 8, the directors are responsible for the preparation of the 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 financial statements in accordance with applicable law and International Standards On Auditing (UK & Ireland) ("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 Group's and 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.

What an audit of financial statements involves

We conducted our audit in accordance with 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 the 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

Independent auditors' report

In addition, we read all the financial and non-financial information in the Report & Accounts 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.

Philip Rivett (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

16 March 2016

(a) The maintenance and integrity of the Lloyds Banking Group plc website is the responsibility of the 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 2015

	Note	2015 £ million	2014 £ million
Interest and similar income		**17,753**	19,411
Interest and similar expense		**(7,002)**	(9,197)
Net interest income	5	**10,751**	10,214
Fee and commission income		**3,252**	3,666
Fee and commission expense		**(1,442)**	(1,402)
Net fee and commission income	6	**1,810**	2,264
Net trading income	7	**3,946**	9,508
Insurance premium income	8	**4,792**	7,125
Other operating income	9	**1,288**	1,051
Other income		**11,836**	19,948
Total income		**22,587**	30,162
Insurance claims	10	**(5,729)**	(13,493)
Total income, net of insurance claims		**16,858**	16,669
Regulatory provisions		**(4,837)**	(3,125)
Other operating expenses		**(10,259)**	(10,503)
Total operating expenses	11	**(15,096)**	(13,628)
Trading surplus		**1,762**	3,041
Impairment	12	**(390)**	(752)
Profit before tax		**1,372**	2,289
Taxation	13	**(613)**	(422)
Profit for the year		**759**	1,867
Profit attributable to non-controlling interests		**96**	87
Profit attributable to equity shareholders		**663**	1,780
Profit for the year		**759**	1,867

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

Statements of comprehensive income

for the year ended 31 December 2015

The Group	2015 £ million	2014 £ million
Profit for the year	**759**	1,867
Other comprehensive income		
Items that will not subsequently be reclassified to profit or loss:		
Post-retirement defined benefit scheme remeasurements:		
Remeasurements before taxation	**(274)**	674
Taxation	**59**	(135)
	(215)	539
Items that may subsequently be reclassified to profit or loss:		
Movements in revaluation reserve in respect of available-for-sale financial assets:		
Change in fair value	**(313)**	676
Income statement transfers in respect of disposals	**(51)**	(131)
Income statement transfers in respect of impairment	**4**	2
Taxation	**(9)**	(10)
	(369)	537
Movements in cash flow hedging reserve:		
Effective portion of changes in fair value taken to other comprehensive income	**524**	3,896
Net income statement transfers	**(983)**	(1,165)
Taxation	**17**	(547)
	(442)	2,184
Currency translation differences, (tax: nil)	**(44)**	(2)
Other comprehensive income for the year, net of tax	**(1,070)**	3,258
Total comprehensive income for the year	**(311)**	5,125
Total comprehensive income attributable to non-controlling interests	**96**	87
Total comprehensive income attributable to equity shareholders	**(407)**	5,038
Total comprehensive income for the year	**(311)**	5,125

The Bank	2015 £ million	2014[1] £ million
Profit for the year	**10,911**	2,325
Other comprehensive income:		
Items that will not subsequently be reclassified to profit or loss:		
Post-retirement defined benefit scheme remeasurements:		
Remeasurements before taxation	**31**	309
Taxation	**(1)**	(62)
	30	247
Items that may subsequently be reclassified to profit or loss:		
Movements in revaluation reserve in respect of available-for-sale financial assets:		
Change in fair value	**(300)**	364
Income statement transfers in respect of disposals	**(14)**	11
Income statement transfers in respect of impairment	**1**	1
Taxation	**(17)**	(14)
	(330)	362
Movements in cash flow hedging reserve:		
Effective portion of changes in fair value taken to other comprehensive income	**294**	1,799
Net income statement transfers	**(421)**	(227)
Taxation	**(76)**	(315)
	(203)	1,257
Currency translation differences (tax: nil)	**(13)**	3
Other comprehensive income for the year, net of tax	**(516)**	1,869
Total comprehensive income for the year	**10,395**	4,194

[1]Restated – see note 1.

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

Balance sheets

at 31 December 2015

		The Group		The Bank	
	Note	**2015 £ million**	2014 £ million	**2015 £ million**	2014[1] £ million
Assets					
Cash and balances at central banks		**58,417**	50,492	**55,919**	40,965
Items in the course of collection from banks		**697**	1,173	**518**	802
Trading and other financial assets at fair value through profit or loss	14	**141,149**	152,520	**52,064**	66,321
Derivative financial instruments	15	**28,922**	35,483	**30,992**	40,150
Loans and receivables:					
Loans and advances to banks	16	**25,117**	26,155	**2,625**	4,591
Loans and advances to customers	17	**455,175**	482,704	**158,117**	165,967
Debt securities		**4,191**	1,213	**2,865**	–
Due from fellow Lloyds Banking Group undertakings		**11,045**	11,482	**132,199**	130,018
		495,528	521,554	**295,806**	300,576
Available-for-sale financial assets	21	**33,032**	56,493	**32,476**	51,412
Held-to-maturity investments	22	**19,808**	–	**19,808**	–
Goodwill	23	**2,016**	2,016	**–**	–
Value of in-force business	24	**4,596**	4,864	**–**	–
Other intangible assets	25	**1,838**	2,070	**720**	647
Property, plant and equipment	26	**12,979**	12,544	**3,522**	3,089
Current tax recoverable		**44**	157	**250**	951
Deferred tax assets	38	**4,018**	4,190	**3,490**	3,691
Investment in subsidiary undertakings	27	**–**	–	**39,241**	38,818
Retirement benefit assets	37	**901**	1,147	**402**	351
Other assets	28	**13,959**	21,745	**916**	2,451
Total assets		**817,904**	866,448	**536,124**	550,224

[1] Restated – see note 1.

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

Balance sheets

at 31 December 2015

		The Group		The Bank	
Equity and liabilities	Note	**2015 £ million**	2014 £ million	**2015 £ million**	2014[1] £ million
Liabilities					
Deposits from banks	29	**16,925**	10,887	**13,614**	8,206
Customer deposits	30	**418,326**	447,067	**205,717**	194,699
Due to fellow Lloyds Banking Group undertakings		**5,926**	5,288	**70,656**	91,882
Items in course of transmission to banks		**717**	979	**326**	560
Trading and other financial liabilities at fair value through profit or loss	31	**51,863**	62,102	**56,332**	73,227
Derivative financial instruments	15	**26,347**	33,293	**31,040**	41,320
Notes in circulation		**1,112**	1,129	**–**	–
Debt securities in issue	32	**82,056**	75,672	**78,430**	66,062
Liabilities arising from insurance contracts and participating investment contracts	33	**80,317**	86,941	**–**	–
Liabilities arising from non-participating investment contracts	35	**22,777**	27,248	**–**	–
Other liabilities	36	**30,197**	29,103	**2,988**	4,358
Retirement benefit obligations	37	**365**	453	**148**	190
Current tax liabilities		**298**	69	**–**	5
Deferred tax liabilities	38	**33**	54	**–**	–
Other provisions	39	**5,687**	4,200	**3,421**	2,795
Subordinated liabilities	40	**27,605**	31,973	**19,124**	21,590
Total liabilities		**770,551**	816,458	**481,796**	504,894
Equity					
Share capital	41	**1,574**	1,574	**1,574**	1,574
Share premium account	42	**35,533**	35,533	**35,533**	35,533
Other reserves	43	**5,987**	6,842	**575**	1,121
Retained profits	44	**3,868**	4,828	**16,646**	7,102
Shareholders' equity		**46,962**	48,777	**54,328**	45,330
Non-controlling interests		**391**	1,213	**–**	–
Total equity		**47,353**	49,990	**54,328**	45,330
Total equity and liabilities		**817,904**	866,448	**536,124**	550,224

[1]Restated – see note 1.

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

The directors approved the financial statements on 16 March 2016.

Lord Blackwell
Chairman

António Horta-Osório
Chief Executive

George Culmer
Chief Financial Officer

Statements of changes in equity

for the year ended 31 December 2015

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 2014	37,107	4,123	2,509	43,739	347	44,086
Comprehensive income						
Profit for the year	–	–	1,780	1,780	87	1,867
Other comprehensive income						
Post-retirement defined benefit scheme remeasurements, net of taxation	–	–	539	539	–	539
Movements in revaluation reserve in respect of available-for-sale financial assets, net of tax	–	537	–	537	–	537
Movements in cash flow hedging reserve, net of tax	–	2,184	–	2,184	–	2,184
Currency translation differences (tax: nil)	–	(2)	–	(2)	–	(2)
Total other comprehensive income	–	2,719	539	3,258	–	3,258
Total comprehensive income	–	2,719	2,319	5,038	87	5,125
Transactions with owners						
Dividends	–	–	–	–	(27)	(27)
Value of employee services	–	–	2	2	–	2
Capital contribution received	–	–	367	367	–	367
Return of capital contributions	–	–	(198)	(198)	–	(198)
Adjustment on sale of non-controlling interest in TSB Banking Group plc (TSB)	–	–	(171)	(171)	805	634
Other changes in non-controlling interests	–	–	–	–	1	1
Total transactions with owners	–	–	–	–	779	779
Balance at 31 December 2014	37,107	6,842	4,828	48,777	1,213	49,990
Comprehensive income						
Profit for the year	–	–	**663**	**663**	**96**	**759**
Other comprehensive income						
Post-retirement defined benefit scheme remeasurements, net of taxation	–	–	**(215)**	**(215)**	–	**(215)**
Movements in revaluation reserve in respect of available-for-sale financial assets, (tax: nil)	–	**(369)**	–	**(369)**	–	**(369)**
Movements in cash flow hedging reserve, net of tax	–	**(442)**	–	**(442)**	–	**(442)**
Currency translation differences (tax: nil)	–	**(44)**	–	**(44)**	–	**(44)**
Total other comprehensive income	–	**(855)**	**(215)**	**(1,070)**	–	**(1,070)**
Total comprehensive income	–	**(855)**	**448**	**(407)**	**96**	**(311)**
Transactions with owners						
Dividends	**–**	**–**	**(1,080)**	**(1,080)**	**(52)**	**(1,132)**
Value of employee services	–	–	**1**	**1**	–	**1**
Capital contribution received	–	–	**271**	**271**	–	**271**
Return of capital contributions	–	–	**(600)**	**(600)**	–	**(600)**
Adjustment on sale of interest in TSB Banking Group plc (TSB, note 55)	–	–	–	–	**(825)**	**(825)**
Other changes in non-controlling interests	–	–	–	–	**(41)**	**(41)**
Total transactions with owners	–	–	**(1,408)**	**(1,408)**	**(918)**	**(2,326)**
Balance at 31 December 2015	**37,107**	**5,987**	**3,868**	**46,962**	**391**	**47,353**

Further details of movements in the Group's share capital and reserves are provided in notes 41, 42, 43 and 44.

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

Statements of changes in equity

for the year ended 31 December 2015

The Bank	Attributable to equity shareholders: Share capital and premium £ million	Attributable to equity shareholders: Other reserves £ million	Attributable to equity shareholders: Retained profits £ million	Total £ million
Balance at 1 January 2014[1]	37,107	(501)	4,218	40,824
Comprehensive income				
Profit for the year[1]	–	–	2,325	2,325
Other comprehensive income				
Post-retirement defined benefit scheme remeasurements, net of taxation	–	–	247	247
Movements in revaluation reserve in respect of available-for-sale financial assets, net of tax	–	362	–	362
Movements in cash flow hedging reserve, net of tax	–	1,257	–	1,257
Currency translation differences (tax: nil)	–	3	–	3
Total other comprehensive income	–	1,622	247	1,869
Total comprehensive income	–	1,622	2,572	4,194
Transactions with owners				
Capital contributions received	–	–	510	510
Return of capital contributions	–	–	(198)	(198)
Total transactions with owners	–	–	312	312
Balance at 31 December 2014[1]	37,107	1,121	7,102	45,330
Comprehensive income				
Profit for the year	–	–	**10,911**	**10,911**
Other comprehensive income				
Post-retirement defined benefit scheme remeasurements, net of taxation	–	**–**	**30**	**30**
Movements in revaluation reserve in respect of available-for-sale financial assets, net of tax	–	**(330)**	–	**(330)**
Movements in cash flow hedging reserve, net of tax	–	**(203)**	–	**(203)**
Currency translation differences (tax: nil)	–	**(13)**	–	**(13)**
Total other comprehensive income	–	**(546)**	**30**	**(516)**
Total comprehensive income	–	**(546)**	**10,941**	**10,395**
Transactions with owners				
Dividends	–	–	**(1,080)**	**(1,080)**
Capital contribution received	–	–	**283**	**283**
Return of capital contributions	–	–	**(600)**	**(600)**
Total transactions with owners	–	–	**(1,397)**	**(1,397)**
Balance at 31 December 2015	**37,107**	**575**	**16,646**	**54,328**

[1]Restated – see note 1.

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

Cash flow statements

for the year ended 31 December 2015

		The Group		The Bank	
	Note	**2015 £ million**	2014 £ million	**2015 £ million**	2014[1] £ million
Profit before tax		**1,372**	2,289	**10,968**	2,468
Adjustments for:					
Change in operating assets	54(a)	**34,961**	2,639	**28,521**	89,437
Change in operating liabilities	54(b)	**(10,990)**	8,369	**(21,446)**	(88,625)
Non-cash and other items	54(c)	**(7,049)**	(2,632)	**(10,687)**	(2,028)
Tax received (paid)		**(100)**	(140)	**768**	726
Net cash provided by (used in) operating activities		**18,194**	10,525	**8,124**	1,978
Cash flows from investing activities					
Purchase of other equity instruments issued by subsidiaries		**–**	–	**(1,500)**	–
Purchase of financial assets		**(19,354)**	(11,533)	**(7,903)**	(6,052)
Proceeds from sale and maturity of financial assets		**22,000**	4,668	**7,055**	1,626
Purchase of fixed assets		**(3,417)**	(3,442)	**(1,279)**	(1,182)
Proceeds from sale of fixed assets		**1,537**	2,043	**61**	100
Additional capital injections to subsidiaries	54(e)	**–**	–	**(64)**	(750)
Dividends received from subsidiaries		**–**	–	**12,820**	2,873
Capital repayment by subsidiaries		**–**	–	**–**	1,930
Acquisition of businesses, net of cash acquired	54(e)	**(5)**	(1)	**–**	–
Disposal of businesses, net of cash disposed	54(f)	**(4,071)**	543	**850**	728
Net cash used in investing activities		**(3,310)**	(7,722)	**10,040**	(727)
Cash flows from financing activities					
Dividends paid to ordinary shareholders		**(1,080)**	–	**(1,080)**	–
Dividends paid to non-controlling interests		**(52)**	(27)	**–**	–
Return of capital contribution		**(600)**	(198)	**(600)**	(198)
Interest paid on subordinated liabilities		**(2,307)**	(2,488)	**(1,755)**	(1,832)
Proceeds from issue of subordinated liabilities		**–**	–		–
Repayment of subordinated liabilities		**(4,002)**	(2,369)	**(1,851)**	(1,380)
Borrowings from parent company		**1,157**	–	**1,157**	–
Repayments to parent company		**(1,155)**	–	**(1,155)**	–
Sale of non-controlling interest in TSB (note 55)		**–**	634	**–**	634
Other changes in non-controlling interests		**(41)**	1	**–**	–
Net cash provided by financing activities		**(8,080)**	(4,447)	**(5,284)**	(2,776)
Effect of exchange rate changes on cash and cash equivalents		**2**	(6)	**–**	6
Change in cash and cash equivalents		**6,806**	(1,650)	**12,880**	(1,519)
Cash and cash equivalents at beginning of year		**65,147**	66,797	**42,972**	44,491
Cash and cash equivalents at end of year	54(d)	**71,953**	65,147	**55,852**	42,972

[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 IFRS Interpretations Committee (IFRS IC) 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.

During 2015, government debt securities with a carrying value of £19,938 million, previously classified as available-for-sale, were reclassified to held-to-maturity. Unrealised gains on the transferred securities of £194 million previously taken to equity continue to be held in the available-for-sale revaluation reserve and are being amortised to the income statement over the remaining lives of the securities using the effective interest method or until the assets become impaired.

Details of those IFRS pronouncements which will be relevant to the Group but which were not effective at 31 December 2015 and which have not been applied in preparing these financial statements are given in note 56.

During 2015, the Bank identified an error in its accounting for an intra-group hedging transaction and has applied the correcting entries retrospectively. The effect on the Bank has been to decrease total assets by £314 million (from £636,116 million to £635,802 million) and decrease retained earnings by £314 million (from £4,532 million to £4,218 million) at 1 January 2014; decrease profit after tax by £176 million for the year ended 31 December 2014; and reduce an intra-Lloyds Banking Group receivable by £618 million, increase current tax recoverable by £33 million and increase deferred tax assets by £95 million at 31 December 2014. There is no impact on the consolidated Lloyds Bank Group.

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. Details of the Group's subsidiaries and related undertakings are given on pages 137 to 150.

(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 although in certain circumstances a holding of less than one half of the voting rights may still result in the ability of the Group to exercise control. 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.

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 2q(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 joint arrangements over which the Group has joint control with other parties and has rights to the net assets of the arrangements. 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 but is not control or joint control of those policies and is generally 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 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.

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, using the effective interest method, except for those classified at fair value through profit or loss. 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 n below); those relating to leases are set out in j(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 (i.e. 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 49(3) (Financial instruments: Financial assets and liabilities carried at fair value) 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 classified 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.

(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 49(3) (Financial instruments: Financial assets and liabilities carried at fair value) 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, 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. Cash collateral on exchange-traded derivative transactions is presented gross unless the collateral cash flows are always settled net with the derivative cash flows. 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 commercial lending portfolios. 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 Consumer Finance 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 commercial 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 could 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, 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 about economic and credit conditions (including unemployment rates and borrowers' behaviour) 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 commercial 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 commercial 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 Property, plant and equipment
Property, plant and equipment (other than investment property) is 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.

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.

2 Accounting policies (continued)

j 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.

k 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. In assessing whether a surplus is recoverable, the Group considers its current right to obtain a refund or a reduction in future contributions and does not anticipate any future acts by other parties that could change the amount of the surplus that may ultimately be recovered.

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 (l) below.

l 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 with a corresponding increase in equity. 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.

m 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.

n 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 Prudential Regulation 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.

o 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 or liquidation 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 or liquidation.

p 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.

q 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.

r 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.

s 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 Group's 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 the Group's accounting policies and the key sources of estimation uncertainty in these financial statements, which together are deemed critical to the Group's results and financial position, are as follows.

Allowance for impairment losses on loans and receivables
At 31 December 2015 the Group's gross loans and receivables totalled £498,658 million (2014: £528,094 million) against which impairment allowances of £3,130 million (2014: £6,540 million) had been made and the Bank's gross loans and receivables totalled £297,029 million (2014: £302,207 million) against which impairment allowances of £1,223 million (2014: £1,631 million) had been made (see note 20). The Group's accounting policy for losses arising on financial assets classified as loans and receivables is described in note 2(H)(1); 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. In determining the required level of impairment provisions, the Group uses the output from various statistical models. Management judgement is required to assess the robustness of the outputs from these models and, where necessary, make appropriate adjustments. Impairment allowances are made up of two components, those determined individually and those determined collectively.

Individual impairment allowances are generally established against the Group's commercial 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. 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 2015, the impairment charge would increase by approximately £228 million in respect of UK mortgages.

In addition, a collective unidentified impairment 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. Management use a significant level of judgement when determining the collective unidentified impairment provision, including the assessment of the level of overall risk existing within particular sectors and the impact of the low interest rate environment on loss emergence periods. In the Commercial Banking division, an increase of one month in the loss emergence period in respect of the loan portfolio assessed for collective unidentified impairment provisions would result in an increase in the collective unidentified impairment provision of approximately £36 million (at 31 December 2014, a one month increase in the loss emergence period would have increased the collective unidentified impairment provision by an estimated £53 million).

Payment protection insurance and other regulatory provisions
At 31 December 2015, the Group carried provisions of £4,463 million (2014: £3,378 million) against the cost of making redress payments to customers and the related administration costs in connection with historical regulatory breaches, principally the mis-selling of payment protection insurance (2015: £3,458 million; 2014: £2,549 million). The Group's accounting policy in respect of these provisions is set out in note 2(P).

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 scope of reviews required by regulators, the number of future complaints, the extent to which they will be upheld, the average cost of redress and the impact of legal decisions that may be relevant to claims received. 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 39 contains more detail on the nature of the assumptions that have been made and key sensitivities.

Defined benefit pension scheme obligations
The net asset recognised in the balance sheet at 31 December 2015 in respect of the Group's defined benefit pension scheme obligations was £736 million (comprising an asset of £901 million and a liability of £165 million) (2014: a net asset of £890 million comprising an asset of £1,147 million and a liability of £257 million). The net asset recognised in the balance sheet at 31 December 2015 in respect of the Bank's defined benefit pension scheme obligations was £363 million (comprising an asset of £402 million and a liability of £39 million) (2014: a net asset of £268 million comprising an asset of £351 million and a liability of £83 million).The Group's accounting policy for its defined benefit pension scheme obligations is set out in note 2(K).

The value of the Group's 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 discount rate is required to be set with reference to market yields at the end of the reporting period on high quality corporate bonds with the currency and term of the corporate bonds consistent with the defined benefit pension schemes' obligations. The average duration of the schemes' obligations is approximately 20 years. The market for bonds with a 20 year duration is illiquid and, as a result, significant management judgement is required to determine an appropriate yield curve on which to base the discount rate. The cost of the benefits payable by the schemes will also depend upon the longevity of the members. Following the completion of the latest triennial funding valuations, the Group has updated its demographic assumptions for both current mortality expectations and the rate of future mortality improvement. However, given the advances in medical science in recent years, it is uncertain whether this rate of improvement will be sustained going forward and, as a result, actual experience may differ from current expectations. 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 is set out in note 37.

Fair value of financial instruments
At 31 December 2015, the carrying value of the Group's financial instrument assets held at fair value was £203,103 million (2014: £244,496 million), and its financial instrument liabilities held at fair value was £78,258 million (2014: £95,446 million). Included within these balances are derivative assets of £28,922 million (2014: £35,483 million) and derivative liabilities of £26,347 million (2014: £33,293 million). At 31 December 2015, the carrying value of the Bank's financial instrument assets held at fair value was £115,532 million (2014: £157,883 million), and its financial instrument liabilities held at fair value was £87,403 million (2014: £114,577 million). Included within these balances are derivative assets of £30,992 million (2014: £40,150 million) and derivative liabilities of £31,040 million (2014: £41,320 million). The Group's accounting policy for its financial instruments is set out in note 2(E) and 2(F).

In accordance with IFRS 13 Fair Value Measurement, the Group categorises 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. In addition, in line with market practice, the Group applies credit, debit and funding valuation adjustments in determining the fair value of its uncollateralised derivative positions. A description of these adjustments is set out in note 49. 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 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. Further details of the Group's 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 49.

3 Critical accounting estimates and judgements (continued)

Recoverability of deferred tax assets
At 31 December 2015 the Group carried deferred tax assets on its balance sheet of £4,018 million (2014: £4,190 million) and deferred tax liabilities of £33 million (2014: £54 million) (note 38). At 31 December 2015 the Bank carried deferred tax assets on its balance sheet of £3,490 million (2014: £3,691 million) and deferred tax liabilities of £nil (2014: £nil) This presentation takes into account the ability of the Group to net deferred tax assets and liabilities only where there is a legally enforceable right of offset. Note 38 presents the Group's deferred tax assets and liabilities by type. The largest category of deferred tax asset relates to tax losses carried forward.

The recoverability of the Group's 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 expectations as to the level of future taxable profits take into account the Group's 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 expected future economic outlook, as well as the risks associated with future regulatory change.

The Group's total deferred tax asset includes £4,890 million (2014: £5,758 million), and the Bank's total deferred asset includes £3,192 million (2014: £3,397 million), 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 the Bank.

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. Following the enactment of the Finance Act 2015, there is now a restriction imposed on the amount of banks' profits that can be offset by certain carried forward tax losses for the purposes of calculating corporation tax liabilities. The losses are expected to be fully utilised by 2025.

As disclosed in note 38, deferred tax assets totalling £1,109 million (2014: £921 million) for the Group and £97 million (2014: £78 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.

Valuation of assets and liabilities arising from insurance business
At 31 December 2015, the Group recognised a value of in-force business asset of £4,219 million (2014: £4,446 million) and an acquired value of in-force business asset of £377 million (2014: £418 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 24. 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 2015 are set out in note 24.

At 31 December 2015, the Group carried total liabilities arising from insurance contracts and participating investment contracts of £103,094 million (2014: £114,189 million). The methodology used to value these liabilities is described in note 33. 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 33.

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 34.

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. GEC considers interest income and expense on a net basis and consequently the total interest income and expense for all reportable segments is presented net. The segments are differentiated by the type of products provided, by whether the customers are individuals or corporate entities.

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 segmental results and comparatives are presented on an underlying basis, the basis reviewed by the chief operating decision maker. The effects of asset sales, volatile items, liability management, simplification costs, TSB build and dual running costs, regulatory provisions, certain past service pension credits or charges, the amortisation of purchased intangible assets and the unwind of acquisition-related fair value adjustments are excluded in arriving at underlying profit.

Following the disposal of TSB in 2015, the Group's activities are organised into four financial reporting segments: Retail; Commercial Banking; Consumer Finance and Insurance. The results of TSB up to the point of disposal are included in Other.

Retail offers a broad range of financial service products, including current accounts, savings, personal loans and mortgages, to UK retail customers, incorporating wealth and small business customers. It is also a distributor of insurance, protection and credit cards and a range of long-term savings and investment products.

Commercial Banking is client led, focusing on SME, Mid Markets, Global Corporates and Financial Institution clients providing products across Lending, Global Transaction Banking, Financial Markets and Debt Capital Markets and private equity financing through Lloyds Development Capital.

Consumer Finance comprises the Group's consumer and corporate Credit Card businesses, along with the Black Horse motor financing and Lex Autolease car leasing businesses in Asset Finance. The Group's European deposits, German lending and Dutch retail mortgage businesses are managed within Asset Finance.

4 Segmental analysis (continued)

Insurance is a core part of Lloyds Banking Group and is focused on five key markets: Corporate Pensions, Protection, Retirement, Bulk Annuities and Home Insurance, to enable customers to protect themselves today and prepare for a secure financial future.

Other includes certain assets previously reported as outside of the Group's risk appetite and the results and gains on sale relating to businesses disposed in 2013 and 2014. Other also includes income and expenditure not recharged to divisions, including the costs of certain central and head office functions and 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.

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.

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 derivative 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, which is managed centrally and reported within Other.

Year ended 31 December 2015	**Retail £m**	**Commercial Banking £m**	**Consumer Finance £m**	**Insurance £m**	**Other £m**	**Underlying basis total £m**
Net interest income	7,397	2,510	1,287	(163)	451	11,482
Other income (net of insurance claims)	1,122	2,066	1,358	1,827	(218)	6,155
Total underlying income, net of insurance claims	8,519	4,576	2,645	1,664	233	17,637
Total costs	(4,573)	(2,167)	(1,488)	(702)	(145)	(9,075)
Impairment	(432)	22	(152)	–	(6)	(568)
TSB	–	–	–	–	118	118
Underlying profit	3,514	2,431	1,005	962	200	8,112
External income	9,391	3,616	2,946	2,065	(381)	17,637
Inter-segment income	(872)	960	(301)	(401)	614	–
Segment income	8,519	4,576	2,645	1,664	233	17,637
Segment external assets	316,343	178,189	28,694	143,217	140,245	806,688
Segment customer deposits	279,559	126,158	11,082	–	1,527	418,326
Segment external liabilities	284,882	220,182	15,437	137,233	101,974	759,708
Other segment items reflected in income statement above:						
Depreciation and amortisation	409	203	838	124	538	2,112
(Decrease) increase in value of in-force business	–	–	–	(162)	–	(162)
Defined benefit scheme charges	124	30	9	11	141	315
Other segment items:						
Additions to fixed assets	385	146	1,752	344	790	3,417
Investments in joint ventures and associates at end of year	7	–	–	–	40	47

4 Segmental analysis (continued)

Year ended 31 December 2014	Retail £m	Commercial Banking £m	Consumer Finance £m	Insurance £m	Other £m	Underlying basis total £m
Net interest income	7,079	2,480	1,290	(131)	257	10,975
Other income (net of insurance claims)	1,212	1,956	1,364	1,725	210	6,467
Total underlying income, net of insurance claims	8,291	4,436	2,654	1,594	467	17,442
Total costs	(4,464)	(2,147)	(1,429)	(672)	(330)	(9,042)
Impairment	(599)	(83)	(215)	–	(205)	(1,102)
TSB	–	–	–	–	458	458
Underlying profit	3,228	2,206	1,010	922	390	7,756
External income	9,034	3,800	2,803	1,206	599	17,442
Inter-segment income	(743)	636	(149)	388	(132)	–
Segment income	8,291	4,436	2,654	1,594	467	17,442
Segment external assets	317,246	241,754	25,646	150,615	119,635	854,896
Segment customer deposits	285,539	119,882	14,955	–	26,691	447,067
Segment external liabilities	295,880	231,400	18,581	144,921	114,211	804,993
Other segment items reflected in income statement above:						
Depreciation and amortisation	353	153	773	127	189	1,595
(Decrease) increase in value of in-force business	–	–	–	(428)	–	(428)
Defined benefit scheme charges	121	37	9	9	168	344
Other segment items:						
Additions to fixed assets	419	242	1,633	449	699	3,442
Investments in joint ventures and associates at end of year	12	–	–	–	62	74

4 Segmental analysis (continued)

Reconciliation of underlying basis to statutory results

Year ended 31 December 2015	**Lloyds Bank Group statutory £m**	**Impact of other entities in the Lloyds Banking Group[1] £m**	**Removal of: Asset sales and other items[2] £m**	**Simplification £m**	**TSB[4] £m**	**Insurance gross up £m**	**PPI and other conduct provisions[3] £m**	**Underlying basis £m**
Net interest income	**10,751**	**567**	**318**	**–**	**(192)**	**38**	**–**	**11,482**
Other income, net of insurance claims	**6,107**	**(4)**	**214**	**–**	**(36)**	**(126)**	**–**	**6,155**
Total income, net of insurance claims	**16,858**	**563**	**532**	**–**	**(228)**	**(88)**	**–**	**17,637**
Operating expenses	**(15,096)**	**(291)**	**381**	**170**	**836**	**88**	**4,837**	**(9,075)**
Impairment	**(390)**	**–**	**(197)**	**–**	**19**	**–**	**–**	**(568)**
TSB	**–**	**–**	**–**	**–**	**118**	**–**	**–**	**118**
Profit	**1,372**	**272**	**716**	**170**	**745**	**–**	**4,837**	**8,112**

[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 £54 million), volatile items (loss of £208 million), liability management (loss of £28 million), the fair value unwind (loss of £192 million) and the amortisation of purchased intangibles (£342 million).

[3]Comprises the payment protection insurance provision (£4,000 million) and other regulatory provisions (£837 million).

[4]Comprises the underlying results of TSB, dual running and build costs and the charge related to the disposal of TSB.

Year ended 31 December 2014	Lloyds Bank Group statutory £m	Impact of other entities in the Lloyds Banking Group[1] £m	Removal of: Asset sales and other items[2] £m	Simplification £m	TSB[4] £m	Insurance gross up £m	PPI and other conduct provisions[3] £m	Underlying basis £m
Net interest income	10,214	446	619	–	(786)	482	–	10,975
Other income, net of insurance claims	6,455	(716)	1,460	22	(140)	(614)	–	6,467
Total income, net of insurance claims	16,669	(270)	2,079	22	(926)	(132)	–	17,442
Operating expenses	(13,628)	(257)	(286)	944	928	132	3,125	(9,042)
Impairment	(752)	–	(448)	–	98	–	–	(1,102)
TSB	–	–	–	–	458	–	–	458
Profit	2,289	(527)	1,345	966	558	–	3,125	7,756

[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 £138 million), volatile items (gain of £58 million), liability management (loss of £1,386 million), the past service pension credit of £710 million (which represents the curtailment credit of £843 million following the Group's decision to reduce the cap on pensionable pay partly offset by the cost of other changes to the pay, benefits and reward offered to employees), the fair value unwind (loss of £529 million) and the amortisation of purchased intangibles (£336 million).

[3]Comprises the payment protection insurance provision (£2,200 million) and other regulatory provisions (£925 million).

[4]Comprises the underlying results of TSB, dual running and build costs.

Following the 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			
	2015 %	2014 %	**2015 £m**	2014 £m
Interest and similar income:				
Loans and advances to customers	**3.45**	3.45	**16,394**	18,006
Loans and advances to banks	**0.42**	0.52	**397**	406
Debt securities held as loans and receivables	**1.87**	2.57	**40**	42
Interest receivable on loans and receivables	**2.95**	3.07	**16,831**	18,454
Available-for-sale financial assets	**1.77**	1.90	**725**	957
Held-to-maturity investments	**1.49**	–	**197**	–
Total interest and similar income	**2.84**	2.98	**17,753**	19,411
Interest and similar expense:				
Deposits from banks, excluding liabilities under sale and repurchase agreements	**0.41**	0.74	**(43)**	(86)
Customer deposits, excluding liabilities under sale and repurchase agreements	**0.91**	1.19	**(3,526)**	(5,066)
Debt securities in issue	**0.65**	0.58	**(560)**	(509)
Subordinated liabilities	**8.89**	9.20	**(2,593)**	(2,879)
Liabilities under sale and repurchase agreements	**0.57**	2.61	**(34)**	(55)
Interest payable on liabilities held at amortised cost	**1.30**	1.54	**(6,756)**	(8,595)
Amounts payable to unitholders in consolidated open-ended investment vehicles	**1.17**	3.23	**(246)**	(602)
Total interest and similar expense	**1.30**	1.59	**(7,002)**	(9,197)
Net interest income			**10,751**	10,214

Included within interest and similar income is £248 million (2014: £407 million) in respect of impaired financial assets. Net interest income also includes a credit of £983 million (2014: credit of £1,165 million) transferred from the cash flow hedging reserve (see note 43).

6 Net fee and commission income

	2015 £m	2014 £m
Fee and commission income:		
Current accounts	**804**	918
Credit and debit card fees	**918**	1,050
Other	**1,530**	1,698
Total fee and commission income	**3,252**	3,666
Fee and commission expense	**(1,442)**	(1,402)
Net fee and commission income	**1,810**	2,264

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

	2015 £m	2014 £m
Foreign exchange translation (losses) gains	**(130)**	(153)
Gains on foreign exchange trading transactions	**335**	344
Total foreign exchange	**205**	191
Investment property gains (note 26)	**416**	513
Securities and other gains (see below)	**3,325**	8,804
Net trading income	**3,946**	9,508

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:

	2015 £m	2014 £m
Net income (expense) arising on assets held at fair value through profit or loss:		
Debt securities, loans and advances	**456**	4,817
Equity shares	**2,386**	3,815
Total net income arising on assets held at fair value through profit or loss	**2,842**	8,632
Net expense arising on liabilities held at fair value through profit or loss – debt securities in issue	**14**	(75)
Total net gains arising on assets and liabilities held at fair value through profit or loss	**2,856**	8,557
Net gains on financial instruments held for trading	**469**	247
Securities and other gains	**3,325**	8,804

8 Insurance premium income

	2015 £m	2014 £m
Life insurance		
Gross premiums:		
Life and pensions	**3,613**	6,070
Annuities	**430**	327
Other	**–**	–
	4,043	6,397
Ceded reinsurance premiums	**(122)**	(142)
Net earned premiums	**3,921**	6,255
Non-life insurance		
Net earned premiums	**871**	870
Total net earned premiums	**4,792**	7,125

Premium income in 2015 has been reduced by a charge of £1,959 million relating to the recapture by a third party insurer of a portfolio of policies previously reassured with the Group.

9 Other operating income

	2015 £m	2014 £m
Operating lease rental income	**1,165**	1,126
Rental income from investment properties (note 26)	**268**	269
Gains less losses on disposal of available-for-sale financial assets (note 43)	**51**	131
Movement in value of in-force business (note 24)	**(162)**	(428)
Liability management	**(28)**	(24)
Share of results of joint ventures and associates	**(3)**	32
Other income	**(3)**	(55)
Total other operating income	**1,288**	1,051

Liability management

Losses of £28 million (2014: losses of £24 million) arose on transactions undertaken as part of the Group's management of wholesale funding and capital.

10 Insurance claims

Insurance claims comprise:

	2015 £m	2014 £m
Life insurance and participating investment contracts		
Claims and surrenders	**(7,983)**	(7,506)
Change in insurance and participating investment contracts (note 33)	**2,898**	(4,392)
Change in non-participating investment contracts	**(438)**	(1,448)
	(5,523)	(13,346)
Reinsurers' share	**101**	109
	(5,422)	(13,237)
Change in unallocated surplus	**63**	74
Total life insurance and participating investment contracts	**(5,359)**	(13,163)
Non-life insurance		
Total non-life insurance claims, net of reinsurance	**(370)**	(330)
Total insurance claims	**(5,729)**	(13,493)
Life insurance and participating investment contracts gross claims and surrenders can also be analysed as follows:		
Deaths	**(631)**	(549)
Maturities	**(1,348)**	(1,656)
Surrenders	**(4,811)**	(4,102)
Annuities	**(902)**	(884)
Other	**(291)**	(315)
Total life insurance gross claims and surrenders	**(7,983)**	(7,506)

11 Operating expenses

	2015 £m	2014 £m
Staff costs:		
Salaries	**2,808**	3,178
Performance-based compensation	**409**	390
Social security costs	**349**	398
Pensions and other post-retirement benefit schemes (note 37):		
Past service credit[1]	**–**	(822)
Other	**548**	596
	548	(226)
Restructuring costs	**104**	264
Other staff costs	**459**	741
	4,677	4,745
Premises and equipment:		
Rent and rates	**368**	424
Repairs and maintenance	**173**	221
Other	**174**	246
	715	891
Other expenses:		
Communications and data processing	**893**	1,118
Advertising and promotion	**253**	336
Professional fees	**261**	480
TSB disposal (note 55)	**665**	–
Other	**683**	998
	2,755	2,932
Depreciation and amortisation:		
Depreciation of property, plant and equipment (note 26)	**1,534**	1,391
Amortisation of acquired value of in-force non-participating investment contracts (note 24)	**41**	43
Amortisation of other intangible assets (note 25)	**537**	501
	2,112	1,935
Total operating expenses, excluding payment protection insurance provision	**10,259**	10,503
Regulatory provisions		
Payment protection insurance provision (note 39)	**4,000**	2,200
Other regulatory provisions (note 39)	**837**	925
	4,837	3,125
Total operating expenses	**15,096**	13,628

[1]On 11 March 2014 the Group announced a change to its defined benefit pension schemes, revising the existing cap on the increases in pensionable pay used in calculating the pension benefit, from 2 per cent to nil with effect from 2 April 2014. The effect of this change was to reduce the Group's retirement benefit obligations recognised on the balance sheet by £843 million with a corresponding curtailment gain recognised in the income statement. This has been partly offset by a charge of £21 million following changes to pension arrangements for staff within the TSB business.

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

	2015	2014
UK	**84,922**	94,241
Overseas	**781**	847
Total	**85,703**	95,088

11 Operating expenses (continued)

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

	2015 £m	2014 £m
Fees payable for the audit of the Bank's current year annual report	**2.8**	2.8
Fees payable for other services:		
Audit of the Bank's subsidiaries pursuant to legislation	**11.3**	11.9
Other services supplied pursuant to legislation	**1.6**	1.6
Other services – audit-related fees	**0.6**	0.3
Taxation compliance services	**0.2**	0.1
All other taxation advisory services	**–**	–
Services relating to corporate finance transactions	**–**	–
All other services	**0.2**	–
Total fees payable to the Bank's auditors	**16.7**	16.7

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

	2015 £m	2014 £m
Audits of the Group pension schemes	**0.3**	0.3
Audits of unconsolidated Open Ended Investment Companies managed by the Group	**0.4**	0.4
Reviews of the financial position of corporate and other borrowers	**0.1**	0.1
Acquisition due diligence and other work performed in respect of potential venture capital investments	**–**	–

12 Impairment

	2015 £m	2014 £m
Impairment losses on loans and receivables:		
Loans and advances to customers	**443**	735
Debt securities classified as loans and receivables	**(2)**	2
Total impairment losses on loans and receivables (note 20)	**441**	737
Impairment of available-for-sale financial assets	**4**	5
Other credit risk provisions	**(55)**	10
Total impairment charged to the income statement	**390**	752

13 Taxation

a Analysis of tax charge for the year

	2015 £m	2014 £m
UK corporation tax:		
Current tax on profit for the year	**(391)**	(260)
Adjustments in respect of prior years	**(74)**	125
	(465)	(135)
Foreign tax:		
Current tax on profit for the year	**(24)**	(39)
Adjustments in respect of prior years	**27**	3
	3	(36)
Current tax charge	**(462)**	(171)
Deferred tax (note 38):		
Origination and reversal of temporary differences	**(165)**	(43)
Reduction in UK corporation tax rate and related impacts	**(31)**	(26)
Adjustments in respect of prior years	**45**	(182)
	(151)	(251)
Tax charge	**(613)**	(422)

The charge for tax on the profit for 2015 is based on a UK corporation tax rate of 20.25 per cent (2014: 21.5 per cent).

The above income tax charge is made up as follows:

	2015 £m	2014 £m
Tax charge attributable to policyholders	**3**	(18)
Shareholder tax charge	**(616)**	(404)
Tax charge	**(613)**	(422)

13 Taxation (continued)

b Factors affecting the tax charge for the year

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

	2015 £m	2014 £m
Profit before tax	**1,372**	2,289
Tax charge thereon at UK corporation tax rate of 20.25 per cent (2014: 21.5 per cent)	**(278)**	(492)
Factors affecting charge:		
UK corporation tax rate change and related impacts	**(31)**	(26)
Disallowed items[1]	**(569)**	(149)
Non-taxable items	**159**	151
Overseas tax rate differences	**(5)**	(24)
Gains exempted or covered by capital losses	**67**	181
Policyholder tax	**3**	(14)
Tax losses not previously recognised	**42**	–
Adjustments in respect of previous years	**(2)**	(54)
Effect of profit in joint ventures and associates	**(1)**	7
Other items	**2**	(2)
Tax charge on profit on ordinary activities	**(613)**	(422)

[1]The Finance (No. 2) Act 2015 introduced restrictions on the tax deductibility of provisions for conduct charges arising on or after 8 July 2015. This has resulted in an additional income statement tax charge of £459 million.

The Finance (No. 2) Act 2015 (the Act) was substantively enacted on 26 October 2015. The Act reduced the main rate of corporation tax to 19 per cent from 1 April 2017 and 18 per cent from 1 April 2020; however from 1 January 2016 banking profits will be subject to an additional surcharge of 8 per cent. The change in the main rate of corporation tax from 20 per cent to 18 per cent, and the additional surcharge of 8 per cent, have resulted in a movement in the Group's net deferred tax asset at 31 December 2015 of £132 million, comprising the £31 million charge included in the income statement and a £101 million charge included in equity.

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

	The Group		The Bank	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Trading assets	**42,670**	48,504	**47,400**	59,580
Other financial assets at fair value through profit or loss	**98,479**	104,016	**4,664**	6,741
Total	**141,149**	152,520	**52,064**	66,321

These assets are comprised as follows:

	The Group				The Bank			
	2015		2014		**2015**		2014	
	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	**30,109**	**–**	28,513	–	**34,830**	**–**	39,802	–
Loans and advances to banks	**3,065**	**–**	8,212	–	**3,065**	**–**	8,011	–
Debt securities:								
Government securities	**8,269**	**13,848**	7,976	17,497	**8,269**	**4,664**	7,931	6,662
Other public sector securities	**–**	**2,039**	–	2,170	**–**	**–**	–	–
Bank and building society certificates of deposit	**–**	**135**	554	–	**–**	**–**	554	–
Asset-backed securities:								
Mortgage-backed securities	**516**	**842**	187	847	**516**	**–**	187	–
Other asset-backed securities	**85**	**762**	129	721	**85**	**–**	129	–
Corporate and other debt securities	**621**	**19,704**	1,496	20,605	**635**	**–**	1,529	79
	9,491	**37,330**	10,342	41,840	**9,505**	**4,664**	10,330	6,741
Equity shares	**5**	**61,075**	–	62,154	**–**	**–**	–	–
Treasury bills and other bills	**–**	**74**	1,437	22	**–**	**–**	1,437	–
Total	**42,670**	**98,479**	48,504	104,016	**47,400**	**4,664**	59,580	6,741

At 31 December 2015 £92,525 million (2014: £98,906 million) of trading and other financial assets at fair value through profit or loss of the Group and £12,593 million (2014: £15,851 million) of the Bank had a contractual residual maturity of greater than one year.

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

(i) financial assets backing insurance contracts and investment contracts of £91,096 million (2014: £94,857 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 £13,282 million (2014: £27,255 million) see note 19;

(ii) private equity investments of £2,415 million (2014: £2,350 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.

For amounts included above which are subject to repurchase and reverse repurchase agreements see note 52.

15 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 52; and
- 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 49.

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, £455 million (2014: £611 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.

15 Derivative financial instruments (continued)

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

The Group	2015 Contract/ notional amount £m	2015 Fair value assets £m	2015 Fair value liabilities £m	2014 Contract/ notional amount £m	2014 Fair value assets £m	2014 Fair value liabilities £m
Trading						
Exchange rate contracts:						
Spot, forwards and futures	39,817	852	774	36,894	941	801
Currency swaps	293,536	5,585	4,323	301,451	4,849	4,706
Options purchased	20,352	751	–	49,085	1,244	–
Options written	22,708	–	984	49,784	–	1,443
	376,413	7,188	6,081	437,214	7,034	6,950
Interest rate contracts:						
Interest rate swaps	2,316,071	14,442	13,083	3,999,343	18,668	16,578
Forward rate agreements	1,159,099	6	57	1,791,219	9	56
Options purchased	55,962	3,003	–	58,600	3,755	–
Options written	52,202	–	3,116	54,031	–	3,725
Futures	105,475	7	8	134,117	9	24
	3,688,809	17,458	16,264	6,037,310	22,441	20,383
Credit derivatives	4,566	295	407	18,063	279	1,066
Equity and other contracts	14,174	1,295	1,145	14,842	1,430	1,181
Total derivative assets/liabilities held for trading	4,083,962	26,236	23,897	6,507,429	31,184	29,580
Hedging						
Derivatives designated as fair value hedges:						
Cross currency swaps	2,649	52	107	7,281	113	131
Interest rate swaps (including swap options)	121,331	1,572	737	115,905	2,408	928
Options purchased	–	–	–	553	17	–
Derivatives designated as cash flow hedges:						
Cross currency swaps	11,228	243	72	11,720	155	113
Interest rate swaps	460,829	816	1,534	518,746	1,606	2,536
Futures	150,085	3	–	151,102	–	5
Total derivative assets/liabilities held for hedging	746,122	2,686	2,450	805,307	4,299	3,713
Total recognised derivative assets/liabilities	4,830,084	28,922	26,347	7,312,736	35,483	33,293

The principal amount of the contract does not represent the Group's real exposure to credit risk which is limited to the current cost of replacing contracts with a positive value to the Group should the counterparty default. To reduce credit risk the Group uses a variety of credit enhancement techniques such as netting and collateralisation, where security is provided against the exposure. Further details are provided in note 52 Credit risk.

15 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.

2015	**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	**363**	**298**	**499**	**500**	**376**	**1,876**	**137**	**75**	**4,124**
Forecast payable cash flows	**(1,235)**	**(758)**	**(714)**	**(667)**	**(440)**	**(1,116)**	**(532)**	**(145)**	**(5,607)**
Hedged forecast cash flows affect profit or loss:									
Forecast receivable cash flows	**381**	**439**	**515**	**453**	**345**	**1,777**	**136**	**78**	**4,124**
Forecast payable cash flows	**(1,261)**	**(741)**	**(715)**	**(671)**	**(440)**	**(1,115)**	**(523)**	**(141)**	**(5,607)**

2014	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	250	458	680	845	745	1,928	112	111	5,129
Forecast payable cash flows	(130)	(136)	(53)	(58)	(57)	(346)	(459)	(104)	(1,343)
Hedged forecast cash flows affect profit or loss:									
Forecast receivable cash flows	391	536	769	830	646	1,736	114	107	5,129
Forecast payable cash flows	(174)	(105)	(54)	(57)	(63)	(358)	(433)	(99)	(1,343)

There were no transactions for which cash flow hedge accounting had to be ceased in 2015 or 2014 as a result of the highly probable cash flows no longer being expected to occur.

At 31 December 2015 £24,406 million of total recognised derivative assets of the Group and £21,824 million of total recognised derivative liabilities of the Group (2014: £29,935 million of assets and £27,656 million of liabilities) had a contractual residual maturity of greater than one year.

15 Derivative financial instruments (continued)

The Bank	2015 Contract/notional amount £m	2015 Fair value assets £m	2015 Fair value liabilities £m	2014 Contract/notional amount £m	2014 Fair value assets £m	2014 Fair value liabilities £m
Trading						
Exchange rate contracts:						
Spot, forwards and futures	34,851	877	639	27,104	885	700
Currency swaps	318,189	6,082	5,139	316,921	4,972	5,174
Options purchased	20,257	746	–	48,976	1,241	–
Options written	22,577	–	979	49,613	–	1,440
	395,874	7,705	6,757	442,614	7,098	7,314
Interest rate contracts:						
Interest rate swaps	2,829,018	18,703	17,668	4,834,436	27,713	25,588
Forward rate agreements	1,198,211	20	68	1,812,978	13	61
Options purchased	54,872	2,681	–	56,676	3,215	–
Options written	51,795	–	2,850	56,215	–	3,651
Futures	147,036	1	6	75,817	2	6
	4,280,932	21,405	20,592	6,836,122	30,943	29,306
Credit derivatives	4,365	306	408	17,961	281	1,079
Equity and other contracts	6,788	770	750	7,917	809	795
Total derivative assets/liabilities held for trading	4,687,959	30,186	28,507	7,304,614	39,131	38,494
Hedging						
Derivatives designated as fair value hedges:						
Cross currency swaps	2,443	38	100	6,406	61	123
Interest rate swaps (including swap options)	129,062	693	2,400	119,951	843	2,630
Options purchased	–	–	–	553	17	–
Options written	–	–	–	–	–	–
Derivatives designated as cash flow hedges:						
Interest rate swaps	164,826	72	33	52,396	98	69
Futures	77,400	3	–	125,806	–	4
Total derivative assets/liabilities held for hedging	373,731	806	2,533	305,112	1,019	2,826
Total recognised derivative assets/liabilities	5,061,690	30,992	31,040	7,609,726	40,150	41,320

15 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.

2015	**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	**73**	**340**	**427**	**461**	**402**	**1,684**	**163**	**20**	**3,570**
Forecast payable cash flows	**(69)**	**(80)**	**(34)**	**(34)**	**(16)**	**(7)**	**–**	**(51)**	**(291)**
Hedged forecast cash flows affect profit or loss:									
Forecast receivable cash flows	**202**	**394**	**463**	**461**	**369**	**1,516**	**148**	**17**	**3,570**
Forecast payable cash flows	**(87)**	**(65)**	**(35)**	**(32)**	**(15)**	**(6)**	**–**	**(51)**	**(291)**

2014	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	192	321	476	571	564	1,567	104	12	3,807
Forecast payable cash flows	(119)	(105)	–	–	–	–	(67)	(82)	(373)
Hedged forecast cash flows affect profit or loss:									
Forecast receivable cash flows	323	388	529	570	553	1,351	82	11	3,807
Forecast payable cash flows	(152)	(72)	–	–	–	–	(68)	(81)	(373)

There were no transactions for which cash flow hedge accounting had to be ceased in 2015 or 2014 as a result of the highly probable cash flows no longer being expected to occur.

At 31 December 2015 £26,366 million of total recognised derivative assets of the Bank and £25,983 million of total recognised derivative liabilities of the Bank (2014: £36,643 million of assets and £35,338 million of liabilities) had a contractual residual maturity of greater than one year.

16 Loans and advances to banks

	The Group		The Bank	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Lending to banks	**2,273**	2,902	**1,006**	2,745
Money market placements with banks	**22,844**	23,253	**1,619**	1,846
Total loans and advances to banks before allowance for impairment losses	**25,117**	26,155	**2,625**	4,591
Allowance for impairment losses	**–**	–	**–**	–
Total loans and advances to banks	**25,117**	26,155	**2,625**	4,591

At 31 December 2015 £4,472 million (2014: £4,969 million) of loans and advances to banks of the Group and £2,002 million (2014: £1,935 million) of the Bank had a contractual residual maturity of greater than one year.

For amounts included above which are subject to reverse repurchase agreements see note 52.

17 Loans and advances to customers

	The Group		The Bank	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Agriculture, forestry and fishing	**6,924**	6,586	**2,936**	2,790
Energy and water supply	**3,247**	3,853	**2,966**	3,465
Manufacturing	**5,953**	6,000	**5,211**	5,275
Construction	**4,952**	6,425	**3,256**	4,160
Transport, distribution and hotels	**13,526**	15,112	**9,942**	10,226
Postal and telecommunications	**2,563**	2,624	**2,343**	2,184
Property companies	**32,228**	36,682	**21,866**	21,891
Financial, business and other services	**43,072**	44,979	**29,958**	32,742
Personal:				
Mortgages	**312,877**	333,318	**61,636**	67,834
Other	**20,579**	23,123	**10,194**	10,777
Lease financing	**2,751**	3,013	**435**	215
Hire purchase	**9,536**	7,403	**8,597**	6,039
Total loans and advances to customers before allowance for impairment losses	**458,208**	489,118	**159,340**	167,598
Allowance for impairment losses (note 20)	**(3,033)**	(6,414)	**(1,223)**	(1,631)
Total loans and advances to customers	**455,175**	482,704	**158,117**	165,967

At 31 December 2015 £397,831 million (2014: £419,193 million) of loans and advances to customers of the Group and £123,855 million (2014: £126,653 million) of the Bank had a contractual residual maturity of greater than one year.

For amounts included above which are subject to reverse repurchase agreements see note 52.

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

	The Group		The Bank	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Gross investment in finance leases, receivable:				
Not later than 1 year	**497**	573	**73**	33
Later than 1 year and not later than 5 years	**1,225**	1,214	**274**	116
Later than 5 years	**2,407**	3,136	**158**	161
	4,129	4,923	**505**	310
Unearned future finance income on finance leases	**(1,316)**	(1,837)	**(60)**	(87)
Rentals received in advance	**(62)**	(73)	**(10)**	(8)
Net investment in finance leases	**2,751**	3,013	**435**	215

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

	The Group		The Bank	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Not later than 1 year	**319**	339	**85**	28
Later than 1 year and not later than 5 years	**859**	763	**265**	103
Later than 5 years	**1,573**	1,911	**85**	84
Net investment in finance leases	**2,751**	3,013	**435**	215

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 2015 and 2014 no contingent rentals in respect of finance leases were recognised in the income statement. There was no allowance for uncollectable finance lease receivables included in the allowance for impairment losses for the Group (2014: £1 million).

18 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. As the structured entities 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 structured entities 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.

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.

The Group's principal securitisation and covered bonds programmes, together with the balances of the advances 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 32.

	2015		2014	
	Loans and advances securitised £m	**Notes in issue £m**	Loans and advances securitised £m	Notes in issue £m
Securitisation programmes[1]				
UK residential mortgages	**39,154**	**20,931**	50,250	28,392
Commercial loans	**9,345**	**8,720**	13,372	12,533
Credit card receivables	**7,305**	**5,277**	6,762	4,278
Dutch residential mortgages	**1,981**	**2,044**	3,866	4,004
Personal loans	**–**	**–**	1,318	751
PPP/PFI and project finance loans	**305**	**94**	402	99
	58,090	**37,066**	75,970	50,057
Less held by the Group		**(29,303)**		(38,149)
Total securitisation programmes (note 32)		**7,763**		11,908
Covered bond programmes				
Residential mortgage-backed	**43,323**	**29,697**	47,795	31,730
Social housing loan-backed	**2,544**	**1,700**	2,826	1,800
	45,867	**31,397**	50,621	33,530
Less held by the Group		**(4,197)**		(6,339)
Total covered bond programmes (note 32)		**27,200**		27,191
Total securitisation and covered bond programmes		**34,963**		39,099

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

Cash deposits of £8,383 million (2014: £11,251 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 2015 these obligations had not been triggered and the maximum exposure under these facilities was £381 million (2014: £392 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 2015 (2014: none). Such repurchases are made in order to ensure that the expected maturity dates of the notes issued from these programmes are met.

19 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 18 for securitisations and covered bond vehicles, note 37 for structured entities associated with the Group's pension schemes, and below in part (A) and (B). Details of the Group's interests in unconsolidated structured entities are included below in part (C).

(A) Asset-backed conduits
In addition to the structured entities discussed in note 18, which are used for securitisation and covered bond programmes, the Group sponsors an active asset-backed conduit, Cancara, which invests in debt securities and client receivables. The total consolidated exposure of Cancara at 31 December 2015 was £7,295 million (2014: £5,245 million), comprising £6,440 million of loans and advances (2014: £4,605 million) and £855 million of asset-backed securities (2014: £640 million).

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 2015 and 2014 these obligations had not been triggered.

In addition, the Group sponsors a further asset-backed conduit, which is being run down. This asset-backed conduit has no commercial paper in issue and no external liquidity providers.

The external assets in all of the Group's conduits are consolidated in the Group's financial statements.

(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 2015, the total carrying value of these consolidated collective investment vehicle assets and liabilities held by the Group was £67,122 million (2014: £66,070 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; the Group has not previously provided such support and has no current intentions to provide such support.

(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 Open-Ended Investment Companies, and limited partnerships with a total carrying value of £13,282 million at 31 December 2015 (2014: £27,255 million), included within financial assets designated at fair value through profit and loss (see note 14). These investments include both those entities managed by third parties and those managed by the Group. At 31 December 2015, the total asset value of these unconsolidated structured entities, including the portion in which the Group has no interest, was £603 billion (2014: £620 billion).

The Group's maximum exposure to loss is equal to the carrying value of the investment. However, the Group's investments in these entities 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 entities and has no current intention of providing any financial or other support. There were no transfers from/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 sponsors 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 these entities, including those in which the Group held no ownership interest at 31 December 2015, are reported in note 6.

20 Allowance for impairment losses on loans and receivables

The Group	2015 Loans and advances to customers £m	2015 Debt securities £m	2015 Total £m	2014 Loans and advances to customers £m	2014 Debt securities £m	2014 Total £m
At 1 January	**6,414**	**126**	**6,540**	11,966	125	12,091
Exchange and other adjustments	**(246)**	**–**	**(246)**	(410)	9	(401)
Disposal of businesses	**(82)**	**–**	**(82)**	–	–	–
Advances written off	**(4,204)**	**(31)**	**(4,235)**	(6,432)	(10)	(6,442)
Recoveries of advances written off in previous years	**764**	**4**	**768**	681	–	681
Unwinding of discount	**(56)**	**–**	**(56)**	(126)	–	(126)
Charge to the income statement (note 12)	**443**	**(2)**	**441**	735	2	737
At 31 December	**3,033**	**97**	**3,130**	6,414	126	6,540

Of the Group's total allowance in respect of loans and advances to customers, £2,425 million (2014: £5,551 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, £1,170 million (2014: £1,482 million) was assessed on a collective basis.

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

The Bank – loans and advances to customers	2015 £m	2014 £m
At 1 January	**1,631**	2,299
Exchange and other adjustments	**(16)**	(12)
Advances written off	**(742)**	(1,323)
Recoveries of advances written off in previous years	**133**	320
Unwinding of discount	**(76)**	(96)
Charge to the income statement	**293**	443
At 31 December	**1,223**	1,631

Of the Bank's total allowance in respect of loans and advances to customers, £931 million (2014: £1,200 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, £546 million (2014: £690 million) was assessed on a collective basis.

21 Available-for-sale financial assets

The Group	2015 Conduits £m	2015 Other £m	2015 Total £m	2014 Conduits £m	2014 Other £m	2014 Total £m
Debt securities:						
Government securities	–	25,329	25,329	–	47,402	47,402
Bank and building society certificates of deposit	–	186	186	–	298	298
Asset-backed securities:						
Mortgage-backed securities	26	171	197	27	647	674
Other asset-backed securities	209	110	319	223	462	685
Corporate and other debt securities	–	5,808	5,808	–	5,529	5,529
	235	31,604	31,839	250	54,338	54,588
Equity shares	–	1,193	1,193	–	1,042	1,042
Treasury bills and similar securities	–	–	–	–	863	863
Total available-for-sale financial assets	235	32,797	33,032	250	56,243	56,493

The Bank	2015 £m	2014 £m
Debt securities:		
Government securities	25,213	46,911
Bank and building society certificates of deposit	169	186
Asset-backed securities:		
Mortgage-backed securities	88	147
Other asset-backed securities	110	120
Corporate and other debt securities	6,083	3,311
	31,663	50,675
Equity shares	813	726
Treasury bills and similar securities	–	11
Total available-for-sale financial assets	32,476	51,412

Details of the Group's asset-backed conduits shown in the table above are included in note 19(A).

At 31 December 2015 £31,945 million (2014: £53,041 million) of available-for-sale financial assets of the Group and £25,277 million (2014: £47,688 million) of the Bank had a contractual residual maturity of greater than one year.

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 2015, the Bank had sold £20 million (2014: £55 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.

22 Held-to-maturity investments

	The Group 2015 £m	The Group 2014 £m	The Bank 2015 £m	The Bank 2014 £m
Debt securities: government securities	19,808	–	19,808	–

On 1 May 2015, the Bank reclassified £19,938 million of government securities from available-for-sale financial assets to held-to-maturity investments.

At 31 December 2015 £19,808 million (2014: £nil) of held-to-maturity investments, of the Group and the Bank, had a contractual residual maturity of greater than one year.

23 Goodwill of the Group

	2015 £m	2014 £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 (2014: £2,016 million), £1,836 million, or 91 per cent of the total (2014: £1,836 million, 91 per cent of the total) has been allocated to Scottish Widows and £170 million, or 8 per cent of the total (2014: £170 millon, 8 per cent of the total) to Asset Finance.

The recoverable amount of the goodwill relating to 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 10 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 the goodwill relating to 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.

24 Value of in-force business

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

	2015 £m	2014 £m
Acquired value of in-force non-participating investment contracts	**377**	418
Value of in-force insurance and participating investment contracts	**4,219**	4,446
Total value of in-force business	**4,596**	4,864

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

	2015 £m	2014 £m
At 1 January	**418**	461
Amortisation taken to income statement (note 11)	**(41)**	(43)
Disposal of businesses	**–**	–
At 31 December	**377**	418

The acquired value of in-force non-participating investment contracts includes £228 million (2014: £251 million) in relation to OEIC business.

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

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

	2015 £m	2014 £m
At 1 January	**4,446**	4,874
Exchange and other adjustments	**(5)**	–
Movements in the year:		
New business	**454**	425
Existing business:		
Expected return	**(365)**	(441)
Experience variances	**(130)**	(65)
Assumption changes	**(209)**	(586)
Economic variance	**88**	239
Movement in the value of in-force business taken to income statement (note 9)	**(162)**	(428)
Disposal of businesses	**(60)**	–
At 31 December	**4,219**	4,446

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 in the range of 85 to 144 basis points at 31 December 2015 (2014: 120 basis points).

The risk-free rate is derived from the relevant swap curve less a deduction for credit risk.

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

	2015 %	2014 %
Risk-free rate (value of in-force non-annuity business)[1]	**0.00 to 4.20**	0.00 to 3.27
Risk-free rate (value of in-force annuity business)[1]	**0.85 to 5.64**	1.02 to 4.56
Risk-free rate (financial options and guarantees)[1]	**0.00 to 2.54**	0.29 to 2.20
Retail price inflation	**3.27**	3.26
Expense inflation	**3.65**	3.92

[1] All risk-free rates are quoted as the range of rates implied by the relevant swap curve.

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 funds 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. Further information on these assumptions is given in note 33 and the effect of changes in key assumptions is given in note 34.

25 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 2014	596	2,770	315	538	1,320	5,539	847
Additions	–	–	–	–	297	297	188
Disposals	–	–	–	–	(108)	(108)	–
At 31 December 2014	596	2,770	315	538	1,509	5,728	1,035
Additions	**–**	**–**	**–**	**–**	**306**	**306**	**212**
Disposals	**–**	**–**	**–**	**–**	**(1)**	**(1)**	**(1)**
At 31 December 2015	**596**	**2,770**	**315**	**538**	**1,814**	**6,033**	**1,246**
Accumulated amortisation:							
At 1 January 2014	107	1,860	300	442	551	3,260	283
Charge for the year (note 11)	21	300	5	14	161	501	105
Disposals	–	–	–	–	(103)	(103)	–
At 31 December 2014	128	2,160	305	456	609	3,658	388
Charge for the year (note 11)	**21**	**300**	**4**	**16**	**196**	**537**	**138**
At 31 December 2015	**149**	**2,460**	**309**	**472**	**805**	**4,195**	**526**
Balance sheet amount at 31 December 2015	**447**	**310**	**6**	**66**	**1,009**	**1,838**	**720**
Balance sheet amount at 31 December 2014	468	610	10	82	900	2,070	647

Included within brands above are assets of £380 million (2014: £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 have an indefinite useful life.

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 2015 shown above will be amortised, in accordance with the Group's accounting policy, on a straight line basis over its remaining useful life of one year.

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.

26 Property, plant and equipment

	The Group					The Bank			
	Investment properties £m	Premises £m	Equipment £m	Operating lease assets £m	Total £m	Premises £m	Equipment £m	Operating lease assets £m	Total £m
Cost or valuation:									
At 1 January 2014	4,864	2,866	4,094	4,668	16,492	1,637	3,552	162	5,351
Exchange and other adjustments	(6)	1	1	24	20	1	1	7	9
Additions	–	212	971	1,673	2,856	141	853	–	994
Expenditure on investment properties (see below)	376	–	–	–	376	–	–	–	–
Change in fair value of investment properties (note 7)	513	–	–	–	513	–	–	–	–
Disposals	(1,255)	(186)	(223)	(1,759)	(3,423)	(87)	(86)	–	(173)
At 31 December 2014	4,492	2,893	4,843	4,606	16,834	1,692	4,320	169	6,181
Exchange and other adjustments	**(5)**	**(2)**	**–**	**23**	**16**	**–**	**–**	**9**	**9**
Additions	**–**	**141**	**1,071**	**1,702**	**2,914**	**73**	**994**	**–**	**1,067**
Expenditure on investment properties (see below)	**272**	**–**	**–**	**–**	**272**	**–**	**–**	**–**	**–**
Change in fair value of investment properties (note 7)	**416**	**–**	**–**	**–**	**416**	**–**	**–**	**–**	**–**
Disposals	**(814)**	**(172)**	**(481)**	**(1,308)**	**(2,775)**	**(72)**	**(66)**	**–**	**(138)**
Disposal of businesses	**–**	**(271)**	**(167)**	**–**	**(438)**	**–**	**–**	**–**	**–**
At 31 December 2015	**4,361**	**2,589**	**5,266**	**5,023**	**17,239**	**1,693**	**5,248**	**178**	**7,119**
Accumulated depreciation and impairment:									
At 1 January 2014	–	1,299	1,773	986	4,058	956	1,760	8	2,724
Exchange and other adjustments	–	–	1	7	8	(1)	1	–	–
Depreciation charge for the year (note 11)	–	142	462	787	1,391	63	363	5	431
Disposals	–	(67)	(153)	(947)	(1,167)	(41)	(22)	–	(63)
At 31 December 2014	–	1,374	2,083	833	4,290	977	2,102	13	3,092
Exchange and other adjustments	**–**	**9**	**(3)**	**7**	**13**	**–**	**–**	**1**	**1**
Depreciation charge for the year (note 11)	**–**	**116**	**588**	**830**	**1,534**	**71**	**493**	**5**	**569**
Disposals	**–**	**(90)**	**(444)**	**(753)**	**(1,287)**	**(36)**	**(29)**	**–**	**(65)**
Disposal of businesses	**–**	**(162)**	**(128)**	**–**	**(290)**	**–**	**–**	**–**	**–**
At 31 December 2015	**–**	**1,247**	**2,096**	**917**	**4,260**	**1,012**	**2,566**	**19**	**3,597**
Balance sheet amount at 31 December 2015	**4,361**	**1,342**	**3,170**	**4,106**	**12,979**	**681**	**2,682**	**159**	**3,522**
Balance sheet amount at 31 December 2014	4,492	1,519	2,760	3,773	12,544	715	2,218	156	3,089

Expenditure on investment properties is comprised as follows:

	2015 £m	2014 £m
Acquisitions of new properties	**165**	293
Additional expenditure on existing properties	**107**	83
	272	376

Rental income of £268 million (2014: £269 million) and direct operating expenses arising from properties that generate rental income of £27 million (2014: £37 million) have been recognised in the income statement.

Capital expenditure in respect of investment properties which had been contracted for but not recognised in the financial statements was £37 million (2014: £47 million).

The table above analyses movements in investment properties, all of which are categorised as level 3. See note 49 for details of levels in the fair value hierarchy.

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

	2015 £m	2014 £m
Receivable within 1 year	**1,003**	965
1 to 5 years	**1,163**	1,103
Over 5 years	**172**	203
Total future minimum rentals receivable	**2,338**	2,271

26 Property, plant and equipment (continued)

Equipment leased to customers under operating leases primarily relates to vehicle contract hire arrangements. During 2015 and 2014 no contingent rentals in respect of operating leases were recognised in the income statement.

In addition, total future minimum sub-lease income of £72 million for the Group and £11 million for the Bank at 31 December 2015 (£45 million for the Group and £12 million for the Bank at 31 December 2014) is expected to be received under non-cancellable sub-leases of premises.

27 Investment in subsidiary undertakings of the Bank

	2015 £m	2014 £m
At 1 January	**38,818**	40,929
Additional capital injections and transfers	**1,665**	1,653
Disposals	**(711)**	(1,685)
Capital repayment	**–**	(1,930)
Impairment	**(531)**	(149)
At 31 December	**39,241**	38,818

Details of the subsidiaries and related undertakings are given on pages 137 to 150 and are incorporated by reference.

Certain subsidiary companies currently have insufficient distributable reserves to make dividend payments, however, there were no further significant restrictions on any of the Company'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.

28 Other assets

	The Group		The Bank	
	2015 £m	2014 £m	2015 £m	2014 £m
Assets arising from reinsurance contracts held (notes 33 and 35)	**675**	682	**–**	–
Deferred acquisition and origination costs (see below)	**106**	114	**–**	–
Settlement balances	**264**	1,676	**95**	1,430
Corporate pension asset	**7,725**	12,741	**–**	–
Investments in joint ventures and associates	**47**	74	**5**	5
Other assets and prepayments	**5,142**	6,458	**816**	1,016
Total other assets	**13,959**	21,745	**916**	2,451

29 Deposits from banks

	The Group		The Bank	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Liabilities in respect of securities sold under repurchase agreements	**7,061**	1,075	**7,044**	480
Other deposits from banks	**9,864**	9,812	**6,570**	7,726
Total deposits from banks	**16,925**	10,887	**13,614**	8,206

At 31 December 2015 £3,130 million (2014: £3,597 million) of deposits from banks of the Group and £1,575 million (2014: £1,808 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 52.

30 Customer deposits

	The Group		The Bank	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Non-interest bearing current accounts	**48,518**	46,487	**30,440**	24,334
Interest bearing current accounts	**85,491**	86,131	**54,771**	53,975
Savings and investment accounts	**224,137**	256,701	**75,700**	73,821
Liabilities in respect of securities sold under repurchase agreements	**–**	–	**–**	–
Other customer deposits	**60,180**	57,748	**44,806**	42,569
Total customer deposits	**418,326**	447,067	**205,717**	194,699

At 31 December 2015 £23,896 million (2014: £31,126 million) of customer deposits of the Group and £2,503 million (2014: £4,904 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 52.

Included in the amounts above for the Group are deposits of £230,110 million (2014: £260,129 million) which are protected under the UK Financial Services Compensation Scheme.

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

	The Group		The Bank	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Liabilities held at fair value through profit or loss	**7,879**	6,744	**7,878**	6,739
Trading liabilities:				
Liabilities in respect of securities sold under repurchase agreements	**38,431**	50,007	**42,359**	60,424
Short positions in securities	**4,440**	3,219	**4,440**	3,172
Other	**1,113**	2,132	**1,655**	2,892
	43,984	55,358	**48,454**	66,488
Trading and other financial liabilities at fair value through profit or loss	**51,863**	62,102	**56,332**	73,227

At 31 December 2015, the Group had £10,369 million (2014: £8,865 million) and the Bank had £10,418 million (2014: £8,860 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 2015 was £12,034 million (2014: £10,112 million), which was £4,156 million higher than the balance sheet carrying value (2014: £3,373 million higher). At 31 December 2015 there was a cumulative £67 million increase (2014: £181 million increase) 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 £114 million arose in 2015 and a decrease of £33 million arose in 2014.

For the fair value of collateral pledged in respect of repurchase agreements see note 52.

32 Debt securities in issue

	The Group		The Bank	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Medium-term notes issued	**29,329**	22,167	**27,625**	20,397
Covered bonds (note 18)	**27,200**	27,191	**35,216**	32,600
Certificates of deposit issued	**11,101**	7,033	**11,269**	7,033
Securitisation notes (note 18)	**7,763**	11,908	**772**	1,901
Commercial paper	**6,663**	7,373	**3,548**	4,131
Total debt securities in issue	**82,056**	75,672	**78,430**	66,062

At 31 December 2015 £56,986 million (2014: £49,849 million) of debt securities in issue of the Group and £57,437 million (2014: £46,287 million) of the Bank had a contractual residual maturity of greater than one year.

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

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

	2015			2014		
	Gross £m	**Reinsurance[1] £m**	**Net £m**	Gross £m	Reinsurance[1] £m	Net £m
Life insurance (see below):						
Insurance contracts	**66,145**	**(629)**	**65,516**	72,191	(636)	71,555
Participating investment contracts	**13,460**	**–**	**13,460**	14,102	–	14,102
	79,605	**(629)**	**78,976**	86,293	(636)	85,657
Non-life insurance contracts:						
Unearned premiums	**461**	**(12)**	**449**	424	(7)	417
Claims outstanding	**251**	**–**	**251**	224	–	224
	712	**(12)**	**700**	648	(7)	641
Total	**80,317**	**(641)**	**79,676**	86,941	(643)	86,298

[1]Reinsurance balances are reported within other assets (note 28).

Life insurance

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

	Insurance contracts £m	**Participating investment contracts £m**	**Gross £m**	**Reinsurance[1] £m**	**Net £m**
At 1 January 2014	67,650	14,416	82,066	(675)	81,391
New business	3,123	28	3,151	(20)	3,131
Changes in existing business	1,582	(341)	1,241	12	1,253
Change in liabilities charged to the income statement (note 10)	4,705	(313)	4,392	(8)	4,384
Exchange and other adjustments	(164)	(1)	(165)	47	(118)
At 31 December 2014	72,191	14,102	86,293	(636)	85,657
New business	**2,422**	**28**	**2,450**	**(4)**	**2,446**
Changes in existing business	**(4,681)**	**(667)**	**(5,348)**	**11**	**(5,337)**
Change in liabilities charged to the income statement (note 10)	**(2,259)**	**(639)**	**(2,898)**	**7**	**(2,891)**
Exchange and other adjustments	**39**	**(1)**	**38**	**–**	**38**
Disposal of businesses	**(3,826)**	**(2)**	**(3,828)**	**–**	**(3,828)**
At 31 December 2015	**66,145**	**13,460**	**79,605**	**(629)**	**78,976**

[1]Reinsurance balances are reported within other assets (note 28).

33 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:

	2015			2014		
	With-profit fund £m	**Non-profit fund £m**	**Total £m**	With-profit fund £m	Non-profit fund £m	Total £m
Insurance contracts	**9,023**	**57,122**	**66,145**	12,334	59,857	72,191
Participating investment contracts	**9,341**	**4,119**	**13,460**	8,957	5,145	14,102
Total	**18,364**	**61,241**	**79,605**	21,291	65,002	86,293

With-profit fund realistic liabilities
(i) Business description
During the year the Group had with-profit funds within Scottish Widows plc and Clerical Medical Investment Group Limited (CMIG) containing both insurance contracts and participating investment contracts. On 31 December 2015, the long-term insurance businesses of seven life insurance companies within the Group were transferred to CMIG pursuant to an insurance business transfer scheme, under Part VII of the Financial Services and Markets Act 2000, and the Scottish Widows plc with-profit fund was transferred to a with-profit fund within CMIG. On 31 December 2015, CMIG changed its name to Scottish Widows Limited, and Scottish Widows plc changed its name to SW Funding plc. From 31 December 2015, Scottish Widows Limited has the only with-profit funds within the Group.

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.

(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 24.

(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 swap curve, adjusted for credit risk.

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 cost of 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.

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.

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

(iv) Options and guarantees within the With-Profit Funds
The most significant options and guarantees provided from within the With-Profit Funds are in respect of guaranteed minimum cash benefits on death, maturity, retirement or certain policy anniversaries, and guaranteed annuity options on retirement for certain pension policies.

For those policies written in Scottish Widows pre-demutualisation containing potentially valuable options and guarantees, under the terms of the Scheme a separate memorandum account was set up, within the With-Profit Fund originally held in Scottish Widows plc and subsequently transferred into Scottish Widows Limited, called the Additional Account which is available, inter alia, to meet any additional costs of providing guaranteed benefits in respect of those policies. The Additional Account had a value at 31 December 2015 of £2.5 billion (2014: £2.6 billion). The eventual cost of providing benefits on policies written both pre and post demutualisation is dependent upon a large number of variables, including future interest rates and equity values, demographic factors, such as mortality, and the proportion of policyholders who seek to exercise their options. The ultimate cost will therefore not be known for many years.

As noted above, under the realistic capital regime of the PRA, the liabilities of the With-Profit Funds are valued using a market-consistent stochastic simulation model which places a value on the options and guarantees which captures both their intrinsic value and their time value.

The most significant economic assumptions included in the model are risk-free yield and investment volatility.

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.

(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.

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.

Key changes in assumptions
A detailed review of the Group's assumptions in 2015 resulted in the following key impacts on profit before tax:

- Change in persistency assumptions (£196 million decrease).
- Change in the assumption in respect of current and future mortality rates (£224 million increase).
- Change in expenses assumptions (£70 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.

(iv) Options and guarantees outside the With-Profit Funds
A number of typical guarantees are provided outside the With-Profit Funds such as guaranteed payments on death (e.g. term assurance) or guaranteed income for life (e.g. annuities). In addition, certain personal pension policyholders in Scottish Widows, for whom reinstatement to their occupational pension scheme was not an option, have been given a guarantee that their pension and other benefits will correspond in value to the benefits of the relevant occupational pension scheme. The key assumptions affecting the ultimate value of the guarantee are future salary growth, gilt yields at retirement, annuitant mortality at retirement, marital status at retirement and future investment returns. There is currently a provision, calculated on a deterministic basis, of £68 million (2014: £61 million) in respect of those guarantees.

34 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.

		2015		2014	
31 December 2015	**Change in variable**	**Increase (reduction) in profit before tax £m**	**Increase (reduction) in equity £m**	Increase (reduction) in profit before tax £m	Increase (reduction) in equity £m
Non-annuitant mortality[1]	5% reduction	**32**	**26**	37	30
Annuitant mortality[2]	5% reduction	**(190)**	**(156)**	(176)	(141)
Lapse rates[3]	10% reduction	**85**	**70**	105	84
Future maintenance and investment expenses[4]	10% reduction	**231**	**190**	259	208
Risk-free rate[5]	0.25% reduction	**(44)**	**(37)**	(10)	(8)
Guaranteed annuity option take-up[6]	5% addition	**2**	**2**	1	1
Equity investment volatility[7]	1% addition	**(7)**	**(5)**	(3)	(3)
Widening of credit default spreads on corporate bonds[8]	0.25% addition	**(183)**	**(151)**	(168)	(132)
Increase in illiquidity premia[9]	0.10% addition	**120**	**98**	101	81

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. Swap curves, the 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.

35 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:

	2015 £m	2014 £m
At 1 January	**27,248**	27,590
New business	**539**	257
Changes in existing business	**(4,461)**	(583)
Disposal of businesses	**(549)**	–
Exchange and other adjustments	**–**	(16)
At 31 December	**22,777**	27,248

The balances above are shown gross of reinsurance. At 31 December 2015, related reinsurance balances were £34 million (2014: £39 million); reinsurance balances are reported within other assets (note 28). Liabilities arising from non-participating investment contracts are categorised as level 2. See note 49 for details of levels in the fair value hierarchy.

36 Other liabilities

	The Group		The Bank	
	2015 £m	2014 £m	2015 £m	2014 £m
Settlement balances	**467**	1,024	**68**	571
Unitholders' interest in Open Ended Investment Companies	**22,621**	19,525	**–**	–
Unallocated surplus within insurance businesses	**257**	320	**–**	–
Other creditors and accruals	**6,852**	8,234	**2,920**	3,787
	30,197	29,103	**2,988**	4,358

37 Retirement benefit obligations

	2015 £m	2014 £m
Charge to the Group income statement		
Past service credits[1]	**–**	(822)
Other	**307**	334
Defined benefit pension schemes	**307**	(488)
Other post-retirement benefit schemes	**8**	10
Total defined benefit schemes	**315**	(478)
Defined contribution pension schemes	**233**	252
Total charge (credit) to the income statement (note 11)	**548**	(226)

[1] On 11 March 2014 the Group announced a change to its defined benefit pension schemes, revising the existing cap on the increases in pensionable pay used in calculating the pension benefit, from 2 per cent to nil with effect from 2 April 2014. The effect of this change was to reduce the Group's retirement benefit obligations recognised on the balance sheet by £843 million with a corresponding curtailment gain recognised in the income statement. This has been partly offset by a charge of £21 million following changes to pension arrangements for staff within the TSB business.

37 Retirement benefit obligations (continued)

	The Group		The Bank	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Amounts recognised in the balance sheet				
Retirement benefit assets	**901**	1,147	**402**	351
Retirement benefit obligations	**(365)**	(453)	**(148)**	(190)
Total amounts recognised in the balance sheet	**536**	694	**254**	161

The total amount recognised in the balance sheet relates to:

	The Group		The Bank	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Defined benefit pension schemes	**736**	890	**363**	268
Other post-retirement benefit schemes	**(200)**	(196)	**(109)**	(107)
Total amounts recognised in the balance sheet	**536**	694	**254**	161

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 2015 is 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 has not provided for these deficit contributions as the future economic benefits arising from these contributions are expected to be available to the Group. 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 2014; the results have been updated to 31 December 2015 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 2015 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. As all scheduled distributions have now been made, the value of the partnership interests equates to a nominal amount and the limited liability partnerships will continue to hold assets to provide security for the Group's obligations to the Lloyds Bank Pension Scheme No1 and Lloyds Bank Pension Scheme No 2. At 31 December 2015, the limited liability partnerships held assets of approximately £5.2 billion and no cash payments were made to the pension schemes during the year (2014: £215 million). The limited liability partnerships are consolidated fully in the Group's balance sheet (see note 19).

The Group has also established three private limited companies which hold assets to provide security for the Group's obligations to the HBOS Final Salary Pension Scheme, a section of the Lloyds Bank Pension Scheme No 1 and the Lloyds Bank Offshore Pension Scheme. At 31 December 2015 these held assets of approximately £4.1 billion in aggregate; they do not make any distributions to the pension schemes. The private limited companies are consolidated fully in the Group's balance sheet. The terms of these 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 2015.

The Group currently expects to pay contributions of approximately £600 million to its defined benefit schemes in 2016.

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	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Amount included in the balance sheet				
Present value of funded obligations	**(36,903)**	(37,243)	**(19,542)**	(19,742)
Fair value of scheme assets	**37,639**	38,133	**19,905**	20,010
Net amount recognised in the balance sheet	**736**	890	**363**	268

37 Retirement benefit obligations (continued)

	The Group		The Bank	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Net amount recognised in the balance sheet				
At 1 January	**890**	(787)	**268**	(281)
Net defined benefit pension (charge) credit	**(307)**	488	**(160)**	127
Actuarial gains (losses) on defined benefit obligation	**607**	(4,272)	**370**	(2,574)
Return on plan assets	**(879)**	4,928	**(336)**	2,856
Employer contributions	**427**	531	**232**	152
Exchange and other adjustments	**(2)**	2	**(11)**	(12)
At 31 December	**736**	890	**363**	268

	The Group		The Bank	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Movements in the defined benefit obligation				
At 1 January	**(37,243)**	(33,355)	**(19,742)**	(16,714)
Current service cost	**(302)**	(277)	**(150)**	(110)
Interest expense	**(1,340)**	(1,471)	**(805)**	(769)
Remeasurements:				
Actuarial (losses) gains – experience	**195**	186	**106**	156
Actuarial (losses) gains – demographic assumptions	**(747)**	(13)	**(422)**	14
Actuarial (losses) gains – financial assumptions	**1,159**	(4,445)	**686**	(2,744)
Benefits paid	**1,371**	1,147	**796**	633
Past service cost	**(12)**	(20)	**(4)**	(73)
Employee contributions	**(1)**	(2)	**–**	(1)
Curtailments	**–**	822	**–**	343
Settlements	**8**	117	**–**	111
Exchange and other adjustments	**9**	68	**(7)**	(588)
At 31 December	**(36,903)**	(37,243)	**(19,542)**	(19,742)

37 Retirement benefit obligations (continued)

	The Group		The Bank	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Changes in the fair value of scheme assets				
At 1 January	**38,133**	32,568	**20,010**	16,433
Return on plan assets excluding amounts included in interest income	**(879)**	4,928	**(336)**	2,856
Interest income	**1,383**	1,477	**816**	758
Employer contributions	**427**	531	**232**	152
Employee contributions	**1**	2	**–**	1
Benefits paid	**(1,371)**	(1,147)	**(796)**	(633)
Settlements	**(14)**	(124)	**–**	(115)
Administrative costs paid	**(30)**	(36)	**(17)**	(18)
Exchange and other adjustments	**(11)**	(66)	**(4)**	576
At 31 December	**37,639**	38,133	**19,905**	20,010

Composition of scheme assets:

	2015			2014		
The Group	**Quoted £m**	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Equity instruments	**947**	**–**	**947**	1,047	–	1,047
Debt instruments[1]:						
Fixed interest government bonds	**4,841**	**–**	**4,841**	4,150	–	4,150
Index-linked government bonds	**9,944**	**–**	**9,944**	10,396	–	10,396
Corporate and other debt securities	**7,243**	**–**	**7,243**	6,623	–	6,623
Asset-backed securities	**74**	**–**	**74**	74	–	74
	22,102	**–**	**22,102**	21,243	–	21,243
Property	**–**	**1,361**	**1,361**	–	1,138	1,138
Pooled investment vehicles	**3,464**	**9,698**	**13,162**	3,603	10,555	14,158
Money market instruments, derivatives, cash and other assets and liabilities	**525**	**(458)**	**67**	1,179	(632)	547
At 31 December	**27,038**	**10,601**	**37,639**	27,072	11,061	38,133

[1]Of the total debt instruments, £18,428 million (31 December 2014: £19,209 million) were investment grade (credit ratings equal to or better than 'BBB').

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	2015			2014		
The Bank	**Quoted £m**	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Equity instruments	**288**	**–**	**288**	311	–	311
Debt instruments[1]:						
Fixed interest government bonds	**721**	**–**	**721**	841	–	841
Index-linked government bonds	**6,008**	**–**	**6,008**	6,338	–	6,338
Corporate and other debt securities	**3,709**	**–**	**3,709**	3,221	–	3,221
Asset-backed securities	**–**	**–**	**–**	–	–	–
	10,438	**–**	**10,438**	10,400	–	10,400
Property	**–**	**808**	**808**	–	730	730
Pooled investment vehicles	**2,181**	**5,315**	**7,496**	2,145	5,674	7,819
Money market instruments, derivatives, cash and other assets and liabilities	**183**	**692**	**875**	562	188	750
At 31 December	**13,090**	**6,815**	**19,905**	13,418	6,592	20,010

[1] Of the total debt instruments, £8,338 million (31 December 2014: £9,347 million) were investment grade (credit ratings equal to or better than 'BBB').

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

37 Retirement benefit obligations (continued)

The pension schemes' pooled investment vehicles comprise:

	The Group		The Bank	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Equity funds	**2,412**	2,581	**1,573**	1,599
Hedge and mutual funds	**2,078**	2,170	**890**	838
Liquidity funds	**918**	2,566	**2**	1,424
Bond and debt funds	**2,807**	2,570	**2,078**	1,699
Other	**4,947**	4,271	**2,953**	2,259
At 31 December	**13,162**	14,158	**7,496**	7,819

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

	The Group	
	2015 £m	2014 £m
Current service cost	**302**	277
Net interest amount	**(43)**	(6)
Past service credits and curtailments	**–**	(822)
Settlements	**6**	7
Past service cost – plan amendments	**12**	20
Plan administration costs incurred during the year	**30**	36
Total defined benefit pension expense	**307**	(488)

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

	2015 %	2014 %
Discount rate	**3.87**	3.67
Rate of inflation:		
Retail Prices Index	**2.99**	2.95
Consumer Price Index	**1.99**	1.95
Rate of salary increases	**0.00**	0.00
Weighted-average rate of increase for pensions in payment	**2.58**	2.59
	2015 Years	2014 Years
Life expectancy for member aged 60, on the valuation date:		
Men	**28.1**	27.5
Women	**30.4**	29.8
Life expectancy for member aged 60, 15 years after the valuation date:		
Men	**29.5**	28.7
Women	**31.9**	31.1

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 2015 is assumed to live for, on average, 28.1 years for a male and 30.4 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.

37 Retirement benefit obligations (continued)

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 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.

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	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Inflation (including pension increases):[1]				
Increase of 0.1 per cent	**17**	18	**363**	383
Decrease of 0.1 per cent	**(16)**	(16)	**(346)**	(362)
Discount rate:[2]				
Increase of 0.1 per cent	**(29)**	(30)	**(605)**	(611)
Decrease of 0.1 per cent	**30**	29	**621**	623
Expected life expectancy of members:				
Increase of one year	**43**	34	**952**	750
Decrease of one year	**(41)**	(32)	**(927)**	(738)

[1]At 31 December 2015, the assumed rate of RPI inflation is 2.99 per cent and CPI inflation 1.99 per cent (2014: RPI 2.95 per cent and CPI 1.95 per cent).

[2]At 31 December 2015, the assumed discount rate is 3.87 per cent (2014: 3.67 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 any change in the rate of salary increases as pensionable salaries have been frozen since 2 April 2014.

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 prior year.

Asset-liability matching strategies

The main schemes' assets are invested in a diversified portfolio, consisting primarily of debt securities. 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 schemes, 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 asset-liability matching strategy currently mitigates substantially all of the interest rate and inflation rate volatility of the liabilities.

37 Retirement benefit obligations (continued)

Duration of defined benefit obligation
The weighted average duration of the defined benefit pension obligation was 19 years (31 December 2014: 19 years) for the Group and 18 years (31 December 2014: 17 years) for the Bank.

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 2015 the charge to the income statement in respect of defined contribution schemes was £233 million (2014: £252 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 31 December 2014 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 6.59 per cent (2014: 6.55 per cent).

Movements in the other post-retirement benefits obligation:

	The Group		The Bank	
	2015 £m	2014 £m	**2015 £m**	2014 £m
At 1 January	**(196)**	(211)	**(107)**	(132)
Actuarial (loss) gain	**(2)**	18	**(3)**	26
Insurance premiums paid	**6**	7	**5**	5
Charge for the year	**(8)**	(10)	**(4)**	(6)
At 31 December	**(200)**	(196)	**(109)**	(107)

38 Deferred tax

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

	The Group		The Bank	
	2015 £m	2014 £m	**2015 £m**	2014[1] £m
Asset at 1 January	**4,136**	5,129	**3,691**	4,216
Exchange and other adjustments	**8**	10	**10**	6
Disposals	**(74)**	(60)	**–**	–
Income statement (charge) credit (note 13):				
Due to change in UK corporation tax rate and related impacts	**(31)**	(26)	**(101)**	(9)
Other	**(120)**	(225)	**(16)**	(131)
	(151)	(251)	**(117)**	(140)
Amount credited (charged) to equity:				
Post retirement defined benefit scheme remeasurements	**59**	(135)	**(1)**	(62)
Available-for-sale financial assets (note 43)	**(10)**	(10)	**(17)**	(14)
Cash flow hedges (note 43)	**17**	(547)	**(76)**	(315)
	66	(692)	**(94)**	(391)
Asset at 31 December	**3,985**	4,136	**3,490**	3,691

[1]Restated – see note 1.

38 Deferred tax (continued)

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	
	2015 £m	2014 £m	**2015 £m**	2014[1] £m
Statutory position				
Deferred tax assets	**4,018**	4,190	**3,490**	3,691
Deferred tax liabilities	**(33)**	(54)	**–**	–
Net deferred tax asset	**3,985**	4,136	**3,490**	3,691
Tax disclosure				
Deferred tax assets	**6,350**	7,016	**4,027**	4,132
Deferred tax liabilities	**(2,365)**	(2,880)	**(537)**	(441)
Net deferred tax asset	**3,985**	4,136	**3,490**	3,691

[1]Restated – see note 1.

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

	2015 £m	2014 £m
Accelerated capital allowances	**377**	34
Pensions and other post-retirement benefits	**(40)**	(243)
Long-term assurance business	**303**	312
Allowances for impairment losses	**(5)**	(24)
Trading losses	**(855)**	(565)
Tax on fair value of acquired assets	**178**	159
Other temporary differences	**(109)**	76
Deferred tax charge in the income statement	**(151)**	(251)

Deferred tax assets and liabilities are comprised as follows:

	The Group		The Bank	
	2015 £m	2014 £m	**2015 £m**	2014[1] £m
Deferred tax assets:				
Pensions and other post retirement benefits	**–**	–	**–**	–
Allowances for impairment losses	**–**	5	**–**	10
Other provisions	**29**	15	**38**	20
Derivatives	**–**	–	**–**	5
Available-for-sale asset revaluation	**–**	–	**–**	–
Tax losses carried forward	**4,890**	5,758	**3,192**	3,397
Accelerated capital allowances	**1,089**	682	**688**	436
Other temporary differences	**342**	556	**109**	264
Total deferred tax assets	**6,350**	7,016	**4,027**	4,132
Deferred tax liabilities:				
Pensions and other post retirement benefits	**(72)**	(87)	**(44)**	(11)
Long-term assurance business	**(641)**	(944)	**–**	–
Tax on fair value of acquired assets	**(891)**	(1,072)	**–**	–
Available for sale asset revaluation	**(11)**	(12)	**–**	–
Derivatives	**(431)**	(417)	**(389)**	(318)
Effective interest rate	**–**	(10)	**–**	(1)
Other temporary differences	**(319)**	(338)	**(104)**	(111)
Total deferred tax liabilities	**(2,365)**	(2,880)	**(537)**	(441)

[1]Restated – see note 1.

38 Deferred tax (continued)

The Finance (No. 2) Act 2015 (the Act) was substantively enacted on 26 October 2015. The Act reduced the main rate of corporation tax to 19 per cent from 1 April 2017 and 18 per cent from 1 April 2020.

In addition, the Government announced that from 1 January 2016 banking profits will be subject to an additional surcharge of 8 per cent.

The change in the main rate of corporation tax from 20 per cent to 18 per cent, and the additional surcharge of 8 per cent, have resulted in a movement in the Group's net deferred tax asset at 31 December 2015 of £132 million, comprising the £31 million charge included in the income statement and a £101 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 £4,890 million and £3,192 million for the Bank (2014: £5,758 million for the Group and £3,397 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 £893 million for the Group (2014: £614 million) and £nil for the Bank (2014: £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 £140 million for the Group (2014: £190 million) and £60 million for the Bank (2014: £nil) 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 2015 of £76 million for the Group (2014: £117 million) and £37 million (2014: £78 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.

39 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 2015	101	2,549	829	70	651	4,200
Exchange and other adjustments	26	–	–	(2)	34	58
Provisions applied	(22)	(3,091)	(661)	(34)	(349)	(4,157)
Charge (release) for the year	(55)	4,000	837	3	801	5,586
At 31 December 2015	50	3,458	1,005	37	1,137	5,687

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 2015	28	1,483	309	28	947	2,795
Exchange and other adjustments	25	–	–	(2)	(8)	15
Provisions applied	–	(1,895)	(364)	(16)	(184)	(2,459)
Charge (release) for the year	(29)	2,550	377	–	172	3,070
At 31 December 2015	24	2,138	322	10	927	3,421

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
The Group increased the provision for PPI costs by a further £4,000 million in 2015, bringing the total amount provided to £16,025 million. This included an additional £2,600 million in the second half of 2015, largely to reflect the impact of our interpretation of the proposals contained within the Financial Conduct Authority's (FCA) consultation paper regarding a potential time bar and the Plevin case. As at 31 December 2015, £3,458 million or 22 per cent of the total provision, remained unutilised with £2,950 million relating to reactive complaints and associated administration costs.

The volume of reactive PPI complaints has continued to fall, with an 8 per cent reduction in 2015 compared with 2014, to approximately 8,000 complaints per week. Whilst direct customer complaint levels fell 30 per cent year-on-year, those from Claims Management Companies (CMCs) have remained broadly stable and as a result, CMCs now account for over 70 per cent of complaints.

On 26 November 2015, the FCA published a consultation paper (CP15/39: Rules and guidance on payment protection insurance complaints) proposing (i) the introduction of a deadline by which consumers would need to make their PPI complaints including an FCA led communications campaign, and (ii) rules and guidance about how firms should handle PPI complaints in light of the Supreme Court's decision in Plevin v Paragon Personal Finance Limited [2014] UKSC 61 (Plevin).

39 Other provisions (continued)

Based on recent trends, and in light of the proposals from the FCA, the Group now expects a higher level of complaints than previously assumed including those related to Plevin. As a result the Group has increased the total expected reactive complaint volumes to 4.7 million with approximately 1.3 million still expected to be received. This is equivalent to approximately 10,000 net complaints per week on average through to the proposed time bar of mid 2018.

Monthly complaints trends could vary significantly throughout this period, given they are likely to be impacted by a number of factors including the potential impact of the FCA's proposed communication campaign as well as changes in the regulation of CMCs.

The provision includes an estimate to cover redress that would be payable under the FCA's proposed new rules and guidance in light of Plevin.

Quarter	Average monthly reactive complaint volume	Quarter on quarter %	Year on year %
Q1 2013	**61,259**	**(28%)**	
Q2 2013	**54,086**	**(12%)**	
Q3 2013	**49,555**	**(8%)**	
Q4 2013	**37,457**	**(24%)**	
Q1 2014	**42,259**	**13%**	**(31%)**
Q2 2014	**39,426**	**(7%)**	**(27%)**
Q3 2014	**40,624**	**3%**	**(18%)**
Q4 2014	**35,910**	**(12%)**	**(4%)**
Q1 2015	**37,791**	**5%**	**(11%)**
Q2 2015	**36,957**	**(2%)**	**(6%)**
Q3 2015	**37,586**	**2%**	**(7%)**
Q4 2015	**33,998**	**(10%)**	**(5%)**

The Group continues to progress the re-review of previously handled cases and expects this to be substantially complete by the end of the first quarter of 2016. During the year the scope has been extended by 0.5 million to 1.7 million cases relating largely to previously redressed cases, in addition to which, higher overturn rates and average redress have been experienced. At the end of January 2016, 77 per cent of cases had been reviewed and 77 per cent of all cash payments made.

The Group has completed its Past Business Review (PBR) where it has been identified that there was a risk of potential mis-sale for certain customers, albeit active monitoring continues. No further change has been made to the amount provided.

The Group expects to maintain the PPI operation on its current scale for longer than previously anticipated given the update to volume related assumptions and the re-review of previously handled cases continuing into the first quarter of 2016. The estimate for administrative expenses, which comprise complaint handling costs and costs arising from cases subsequently referred to the FOS, is included in the provision increase outlined above.

Sensitivities

The Group estimates that it has sold approximately 16 million policies since 2000. These include policies that were not mis-sold. Since the commencement of the PPI redress programme in 2011 the Group estimates that it has contacted, settled or provided for almost 49 per cent of the policies sold since 2000, covering both customer-initiated complaints and actual and PBR mailings undertaken by the Group.

The total amount provided for PPI represents the Group's best estimate of the likely future cost. However a number of risks and uncertainties remain in particular with respect to future volumes. The cost could differ materially from the Group's estimates and the assumptions underpinning them, and could result in a further provision being required. There is significant uncertainty around the impact of the proposed FCA media campaign and CMC and customer activity in the lead up to the proposed time bar.

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]	**3.4**	**1.3**	**0.1 = £200m**
Average uphold rate per policy[3]	**76%**	**89%**	**1% = £35m**
Average redress per upheld policy[4]	**£1,810**	**£1,400**	**£100 = £170m**
Administrative expenses (£m)	**2,710**	**665**	**1 case = £450**

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

[2]Sensitivity includes complaint handling costs. Future volume includes complaints falling into the Plevin rules and guidance. As a result, the sensitivity per 100,000 complaints includes cases where the average redress would be lower than historical trends.

[3]The percentage of complaints where the Group finds in favour of the customer excluding PBR. The 76 per cent uphold rate per policy is based on the six months to 31 December 2015. Future uphold rate and sensitivities are influenced by a proportion of complaints falling under the Plevin rules and guidance which would otherwise be defended.

[4]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 the six months to 31 December 2015. Future average redress is influenced by expected compensation payments for complaints falling under the Plevin rules and guidance.

39 Other provisions (continued)

Other regulatory provisions

Customer claims in relation to insurance branch business in Germany

The Group has received a number of claims from customers relating to policies issued by Clerical Medical Investment Group Limited (recently renamed Scottish Widows Limited) 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 provisions totalling £520 million during the period to 31 December 2014. Recent experience has been slightly adverse to expectations and the Group has noted decisions of the FCJ in 2014 and 2015 involving German insurers in relation to a German industry-wide issue regarding notification of contractual 'cooling off' periods. Accordingly, a provision increase of £25 million has been recognised giving a total provision of £545 million. The remaining unutilised provision as at 31 December 2015 is £124 million (31 December 2014: £199 million).

The validity of the claims facing the Group depends 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 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 2015 the Group had identified 1,735 sales of IRHPs to customers within scope of the agreement with the FCA which have opted in and are being reviewed and, where appropriate, redressed. The Group agreed that it would provide redress to any in-scope customers where appropriate. The Group continues to review the remaining cases within the scope of the agreement with the FCA and has met all of the regulator's requirements to date.

During 2015, the Group has charged a further £40 million in respect of redress and related administration costs, increasing the total amount provided for redress and related administration costs for in-scope customers to £720 million (31 December 2014: £680 million). As at 31 December 2015, the Group has utilised £652 million (31 December 2014: £571 million), with £68 million (31 December 2014: £109 million) of the provision remaining.

FCA review of complaint handling

On 5 June 2015 the FCA announced a settlement with the Group totalling £117 million following its investigation into aspects of the Group's PPI complaint handling process during the period March 2012 to May 2013. The FCA did not find that the Group acted deliberately. The Group has reviewed all customer complaints fully defended during the Relevant Period. The remediation costs of reviewing these affected cases are not materially in excess of existing provisions.

Other legal actions and 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 other governmental authorities on a range of matters. The Group also receives complaints and claims from customers in connection with its past conduct and, where significant, provisions are held against the costs expected to be incurred as a result of the conclusions reached. During 2015, the Group charged an additional £655 million (2014: £430 million), including £225 million (2014: £nil) in response to complaints concerning packaged bank accounts and £282 million (2014: £318 million) in respect of other matters within the Retail division. In addition, the Group has charged a further £148 million (2014: £112 million) in respect of a number of other product rectifications primarily in Insurance and Commercial Banking.

At 31 December 2015, provisions for other legal actions and regulatory matters of £813 million (31 December 2014: £521 million) remained unutilised, principally in relation to the sale of bancassurance products and packaged bank accounts and other Retail provisions. The ultimate financial effect, which could be different from the current provision, of these matters will only be known once they have been resolved, the timing of which is uncertain.

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 four years; where a property is disposed of earlier than anticipated, any remaining balance in the provision relating to that property is released.

Other

Following the sale of TSB Banking Group plc (TSB, see note 55) the Group raised a provision of £665 million in relation to the Transitional Service Agreement entered into between Lloyds Bank plc and TSB and the contribution to be provided to TSB in moving to alternative IT provision.

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 also 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 £30 million at 31 December 2015 represents management's current best estimate of the cost after having regard to actuarial estimates of future losses.

40 Subordinated liabilities

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

The Group	Preferred securities £m	Undated subordinated liabilities £m	Dated subordinated liabilities £m	Total £m
At 1 January 2014	6,687	2,552	24,295	33,534
Repurchases and redemptions during the year:				
6.35% Step-up Perpetual Capital Securities callable 2013	(215)	–	–	(215)
6.071% Non-cumulative Perpetual Preferred Securities	(439)	–	–	(439)
4.875% Undated Subordinated Fixed to Floating Rate Instruments	–	(78)	–	(78)
Floating Rate Undated Subordinated Notes	–	(50)	–	(50)
11% Subordinated Bonds 2014	–	–	(250)	(250)
5.875% Subordinated Notes 2014	–	–	(150)	(150)
6.90% Perpetual Capital Securities	(207)	–	–	(207)
Subordinated Step-up Floating Rate Notes 2016	–	–	(165)	(165)
Subordinated Step-up Floating Rate Notes 2016	–	–	(179)	(179)
6.75% Subordinated Callable Fixed to Floating Rate Instruments 2017	–	–	(9)	(9)
Subordinated Callable Floating Rate Instruments 2017	–	–	(36)	(36)
4.375% Callable Fixed to Floating Rate Subordinated Notes 2019	–		(591)	(591)
	(861)	(128)	(1,380)	(2,369)
Foreign exchange and other movements	439	62	307	808
At 31 December 2014	6,265	2,486	23,222	31,973
Repurchases and redemptions during the year:				
4.875% Subordinated Notes 2015	**–**	**–**	**(723)**	**(723)**
5.125% Step-up Perpetual Subordinated Notes callable 2015	**–**	**(560)**	**–**	**(560)**
6.625% Subordinated Notes 2015	**–**	**–**	**(350)**	**(350)**
6.9625% Callable Subordinated Fixed to Floating Rate Notes 2020 callable 2015	**–**	**–**	**(737)**	**(737)**
7.834% Sterling Step-up Non-Voting Non-Cumulative Preferred Securities callable 2015	**(5)**	**–**	**–**	**(5)**
8.117% Non-cumulative Perpetual Preferred Securities (Class A)	**(250)**	**–**	**–**	**(250)**
Floating Rate Undated Subordinated Step-up Notes	**–**	**(29)**	**–**	**(29)**
6.05% Fixed to Floating Rate Undated Subordinated Notes	**–**	**(18)**	**–**	**(18)**
5.125% Undated Subordinated Fixed to Floating Rate Notes	**–**	**(50)**	**–**	**(50)**
5.109% Callable Fixed to Floating Rate Notes 2017	**–**	**–**	**(14)**	**(14)**
6.305% Subordinated Callable Fixed to Floating Notes 2017	**–**	**–**	**(35)**	**(35)**
6.50% Subordinated Fixed Rate Notes 2020	**–**	**–**	**(764)**	**(764)**
6% Subordinated Notes 2033	**–**	**–**	**(191)**	**(191)**
4.25% Perpetual Fixed to Floating Rate Reset Subordinated Guaranteed Notes	**–**	**(276)**	**–**	**(276)**
	(255)	**(933)**	**(2,814)**	**(4,002)**
Foreign exchange and other movements	**(338)**	**48**	**(76)**	**(366)**
At 31 December 2015	**5,672**	**1,601**	**20,332**	**27,605**

40 Subordinated liabilities (continued)

The Bank	Preferred securities £m	Undated subordinated liabilities £m	Dated subordinated liabilities £m	Total £m
At 1 January 2014	4,835	774	16,991	22,600
Repurchases and redemptions during the year:				
6.35% Step-up Perpetual Capital Securities callable 2013	(215)	–	–	(215)
5.875% Subordinated Notes 2014	–	–	(150)	(150)
6.90% Perpetual Capital Securities	(207)	–	–	(207)
Subordinated Step-up Floating Rate Notes 2016	–	–	(165)	(165)
Subordinated Step-up Floating Rate Notes 2016	–	–	(179)	(179)
Subordinated Floating Rate Notes 2014	-	–	(464)	(464)
	(422)	–	(958)	(1,380)
Foreign exchange and other movements	162	33	175	370
At 31 December 2014	4,575	807	16,208	21,590
Repurchases and redemptions during the year:				
6.625% Subordinated Notes 2015 (£350 million)	**–**	**–**	**(350)**	**(350)**
6.9625% Callable Subordinated Fixed to Floating Rate Notes 2020 callable 2015 (£750 million)	**–**	**–**	**(737)**	**(737)**
6.50% Subordinated Fixed Rate Notes 2020 (US$2,000 million)	**–**	**–**	**(764)**	**(764)**
	–	**–**	**(1,851)**	**(1,851)**
Foreign exchange and other movements	**(444)**	**25**	**(196)**	**(615)**
At 31 December 2015	**4,131**	**832**	**14,161**	**19,124**

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 (2014: 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 Regulation Authority.

41 Share capital

(1) Authorised share capital

	Group and Bank	
	2015 £m	2014 £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$m**	US$m
160 million Preference shares of 25 cents each	**40**	40

Euro	**€m**	€m
160 million Preference shares of 25 cents each	**40**	40

Japanese yen	**¥m**	¥m
50 million Preference shares of ¥25 each	**1,250**	1,250

(2) Issued and fully paid ordinary shares

	2015 Number of shares	2014 Number of shares	**2015 £m**	2014 £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

Share capital and control
There are no restrictions on the transfer of shares in the Bank other than as set out in the articles of association, and certain restrictions which may from time to time be imposed by law and regulations (for example, insider trading laws).

Ordinary shares
The holders of ordinary shares, who held 100 per cent of the total ordinary share capital at 31 December 2015, are entitled to receive the Bank's report and accounts, attend, speak and vote at general meetings and appoint proxies to exercise voting rights. Holders of ordinary shares may also receive a dividend (subject to the provisions of the Bank's articles of association) and on a winding up may share in the assets of the Bank.

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 40.

42 Share premium account

	Group and Bank	
	2015 £m	2014 £m
At 1 January and 31 December	**35,533**	35,533

43 Other reserves

	The Group		The Bank	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Other reserves comprise:				
Merger reserve	**6,348**	6,348	**–**	–
Revaluation reserve in respect of available-for-sale financial assets	**(1,105)**	(736)	**(541)**	(211)
Cash flow hedging reserve	**915**	1,357	**1,054**	1,257
Foreign currency translation reserve	**(171)**	(127)	**62**	75
At 31 December	**5,987**	6,842	**575**	1,121

Movements in other reserves were as follows:

	The Group		The Bank	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Merger reserve				
At 1 January and 31 December	**6,348**	6,348	**–**	–

	The Group		The Bank	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Revaluation reserve in respect of available-for-sale financial assets				
At 1 January	**(736)**	(1,273)	**(211)**	(573)
Change in fair value of available-for-sale financial assets	**(313)**	676	**(300)**	364
Deferred tax	**(21)**	(62)	**(20)**	(12)
Current tax	**2**	–	**–**	–
	(332)	614	**(320)**	352
Income statement transfers:				
Disposals (see note 9)	**(51)**	(131)	**(14)**	11
Deferred tax	**3**	52	**3**	(2)
Current tax	**(1)**	–	**–**	–
	(49)	(79)	**(11)**	9
Impairment	**4**	2	**1**	1
Deferred tax	**8**	–	**–**	–
	12	2	**1**	1
At 31 December	**(1,105)**	(736)	**(541)**	(211)

	The Group		The Bank	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Cash flow hedging reserve				
At 1 January	**1,357**	(827)	**1,257**	–
Change in fair value of hedging derivatives	**524**	3,896	**294**	1,799
Deferred tax	**(183)**	(765)	**(161)**	(360)
	341	3,131	**133**	1,439
Income statement transfers	**(983)**	(1,165)	**(421)**	(227)
Deferred tax	**200**	218	**85**	45
	(783)	(947)	**(336)**	(182)
At 31 December	**915**	1,357	**1,054**	1,257

43 Other reserves (continued)

	The Group		The Bank	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Foreign currency translation reserve				
At 1 January	**(127)**	(125)	**75**	72
Currency translation differences arising in the year	**(61)**	(24)	**(23)**	3
Foreign currency gains (losses) on net investment hedges (tax: £nil)	**17**	22	**10**	–
At 31 December	**(171)**	(127)	**62**	75

44 Retained profits

	The Group		The Bank	
	2015 £m	2014 £m	**2015 £m**	2014[1] £m
At 1 January	**4,828**	2,509	**7,102**	4,218
Profit for the year[2]	**663**	1,780	**10,911**	2,325
Dividends paid (note 45)	**(1,080)**	–	**(1,080)**	–
Adjustment on sale of non-controlling interest in TSB	**–**	(171)	**–**	–
Post-retirement defined benefit scheme remeasurements	**(215)**	539	**30**	247
Capital contribution received	**271**	367	**283**	510
Value of employee services	**1**	2	**–**	–
Return of capital contribution	**(600)**	(198)	**(600)**	(198)
At 31 December	**3,868**	4,828	**16,646**	7,102

[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.

45 Ordinary dividends

	2015 £m	2014 £m
Dividends paid in the year were as follows:		
Final dividend for previous year paid during the current year	**540**	–
Interim dividend	**540**	–
	1,080	–

46 Share-based payments

During the year ended 31December 2015 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 £387 million (2014: £340 million).

Deferred bonus plans

The Lloyds Banking Group operates a number of deferred bonus plans that are equity settled. Bonuses in respect of employee performance in 2015 have been recognised in the charge in line with the proportion of the deferral period completed.

46 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 £500 per month and, at the expiry of a fixed term of three or five years, have the option to use these savings within six months of the expiry of the fixed term to acquire shares in the Lloyds Banking 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:

	2015		2014	
	Number of options	**Weighted average exercise price (pence)**	Number of options	Weighted average exercise price (pence)
Outstanding at 1 January	**783,626,383**	**48.73**	500,969,617	41.16
Granted	**156,797,949**	**60.70**	326,565,564	60.02
Exercised	**(32,683,177)**	**41.83**	(7,287,899)	41.29
Forfeited	**(27,740,207)**	**48.69**	(18,949,167)	41.68
Cancelled	**(24,943,674)**	**56.04**	(15,561,144)	54.04
Expired	**(4,911,054)**	**48.34**	(2,110,588)	48.15
Outstanding at 31 December	**850,146,220**	**50.99**	783,626,383	48.73
Exercisable at 31 December	**533,654**	**180.66**	1,852	180.66

The weighted average share price at the time that the options were exercised during 2015 was £0.77 (2014: £0.77). The weighted average remaining contractual life of options outstanding at the end of the year was 1.9 years (2014: 2.6 years).

The weighted average fair value of SAYE options granted during 2015 was £0.17 (2014: £0.22). 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 2015 or 2014. The options outstanding at 31 December 2015 had an exercise price of £1.8066 (2014: £1.8066) and a weighted average remaining contractual life of 0.4 years (2014: 1.4 years).

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 is used not only to 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.

For options granted on 27 March 2014 under the Commercial Banking Transformation Plan (CBTP), the number of options that may be delivered in March 2017 may vary by a factor of 0-4 from the original 'on-target' award, depending on the degree to which the performance conditions have been met. An 'on-target' vesting is contingent upon Commercial Banking achieving £2.5 billion underlying profit and 2 per cent Return on Risk-weighted Assets ('RoRWA') on 31 December 2016. The Plan will pay out at between £1.9 billion and £3 billion underlying profit, and between 1.6 per cent and 2.5 per cent RoRWA.

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

	2015		2014	
	Number of options	**Weighted average exercise price (pence)**	Number of options	Weighted average exercise price (pence)
Outstanding at 1 January	**233,389,084**	**Nil**	37,354,979	Nil
Granted	**9,813,363**	**Nil**	225,424,109	Nil
Exercised	**(13,313,421)**	**Nil**	(21,870,649)	Nil
Forfeited	**(8,374,250)**	**Nil**	(7,114,199)	Nil
Lapsed	**(117,179)**	**Nil**	(405,156)	Nil
Outstanding at 31 December	**221,397,597**	**Nil**	233,389,084	Nil
Exercisable at 31 December	**3,972,911**	**Nil**	9,068,802	Nil

The weighted average fair value of options granted in the year was £0.75 (2014: £0.72). 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 2015 was £0.83 (2014: £0.75). The weighted average remaining contractual life of options outstanding at the end of the year was 6.1 years (2014: 7.0 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 Lloyds Banking 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.

46 Share-based payments (continued)

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.

At the end of the performance period for the 2012 grant, the targets had not been fully met and therefore these awards vested in 2015 at a rate of 96.6 per cent.

	2015 Number of shares	2014 Number of shares
Outstanding at 1 January	**522,836,111**	548,885,895
Granted	**121,676,131**	120,952,253
Vested	**(196,193,904)**	(73,516,122)
Forfeited	**(50,251,592)**	(73,485,915)
Outstanding at 31 December	**398,066,746**	522,836,111

Awards in respect of the 2013 grant will vest in 2016 at a rate of 94.18 per cent.

The fair value calculations at 31 December 2015 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**	**Commercial Banking Transformation Program**
Weighted average risk-free interest rate	**0.76%**	**0.56%**	**0.85%**	**0.68%**
Weighted average expected life	**3.3 years**	**1.4 years**	**3.0 years**	**1.7 years**
Weighted average expected volatility	**24%**	**21%**	**28%**	**20%**
Weighted average expected dividend yield	**2.5%**	**2.5%**	**2.5%**	**2.5%**
Weighted average share price	**£0.76**	**£0.80**	**£0.80**	**£0.78**
Weighted average exercise price	**£0.61**	**nil**	**nil**	**nil**

Expected volatility is a measure of the amount by which the Lloyds Banking 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 Lloyds Banking Group’s shares to assess the reasonableness of the historical volatility and adjustments made where appropriate.

Matching shares
The Lloyds Banking Group undertakes to match shares purchased by employees up to the value of £45 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 2015 was 18,001,413 (2014: 16,248,562), with an average fair value of £0.78 (2014: £0.78), based on market prices at the date of award.

Fixed share awards
Fixed share awards were introduced in 2014 in order to ensure that total fixed remuneration is commensurate with role and to provide a competitive reward package for certain Lloyds Banking Group employees, with an appropriate balance of fixed and variable remuneration, in line with regulatory requirements. The fixed share awards are delivered in Lloyds Banking Group shares, released over five years with 20 per cent being released each year following the year of award. The number of shares purchased in 2015 was 8,237,469 (2014: 7,761,624).

The fixed share award is not subject to any performance conditions, performance adjustment or clawback. On an employee leaving the Lloyds Banking Group, there is no change to the timeline for which shares will become unrestricted.

47 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:

	2015 £m	2014 £m
Compensation		
Salaries and other short-term benefits	**14**	15
Post-employment benefits	**–**	1
Share-based payments	**18**	17
Total compensation	**32**	33

The aggregate of the emoluments of the directors was £11.0 million (2014: £12.3 million).

Aggregate company contributions in respect of key management personnel to defined contribution pension schemes were £0.1 million (2014: £0.1 million).

The total for the highest paid director (António Horta-Osório) was £5,161,000 (2014: (António Horta-Osório) £4,782,000); this did not include any gain on exercise of Lloyds Banking Group plc shares in either year.

	2015 million	2014 million
Share options over Lloyds Banking Group plc shares		
At 1 January	**13**	14
Granted, including certain adjustments (includes entitlements of appointed key management personnel)	**3**	–
Exercised/lapsed (includes entitlements of former key management personnel)	**(7)**	(1)
At 31 December	**9**	13

	2015 million	2014 million
Share plans settled in Lloyds Banking Group plc shares		
At 1 January	**102**	105
Granted, including certain adjustments (includes entitlements of appointed key management personnel)	**37**	19
Exercised/lapsed (includes entitlements of former key management personnel)	**(57)**	(22)
At 31 December	**82**	102

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:

	2015 £m	2014 £m
Loans		
At 1 January	**3**	2
Advanced (includes loans of appointed key management personnel)	**4**	2
Repayments (includes loans of former key management personnel)	**(2)**	(1)
At 31 December	**5**	3

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 3.99 per cent and 23.95 per cent in 2015 (2014: 0.5 per cent and 23.95 per cent).

No provisions have been recognised in respect of loans given to key management personnel (2014: £nil).

47 Related party transactions (continued)

	2015 £m	2014 £m
Deposits		
At 1 January	**16**	13
Placed (includes deposits of appointed key management personnel)	**58**	32
Withdrawn (includes deposits of former key management personnel)	**(61)**	(29)
At 31 December	**13**	16

Deposits placed by key management personnel attracted interest rates of up to 4.7 per cent (2014: 4.7 per cent).

At 31 December 2015, the Group did not provide any guarantees in respect of key management personnel (2014: none).

At 31 December 2015, 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 four directors and six connected persons (2014: £1 million with six directors and six 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:

	2015 £m	2014 £m
Assets, included within:		
Derivative financial instruments	**9,701**	15,464
Trading and other assets designated at fair value through profit or loss	**4,733**	12,288
Loans and receivables: due from fellow Lloyds Banking Group undertakings	**121,683**	119,689
Available-for-sale financial assets	**4,261**	2,052
	140,378	149,493
Liabilities, included within:		
Due to fellow Lloyds Banking Group undertakings	**67,198**	89,383
Trading and other financial liabilities at fair value through profit or loss	**4,773**	13,296
Derivative financial instruments	**9,741**	15,359
Debt securities in issue	**17,929**	17,140
Subordinated liabilities	**65**	81
	99,706	135,259

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 2015 the Bank earned interest income on the above asset balances of £2,468 million (2014: £2,545 million) and incurred interest expense on the above liability balances of £1,193 million (2014: £1,481 million).

In addition, the Bank raised recharges of £1,037 million (2014: £803 million) on its subsidiaries in respect of costs incurred and also received fees of £232 million (2014: £179 million), and paid fees of £113 million (2014: £143 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 48.

47 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	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Assets, included within:				
Loans and receivables: due from fellow Lloyds Banking Group undertakings	**11,045**	11,482	**10,516**	10,947
Other	**9**	–	**11**	10
	11,054	11,482	**10,527**	10,957
Liabilities, included within:				
Due to fellow Lloyds Banking Group undertakings	**5,926**	5,288	**3,458**	2,499
Derivative financial instruments	**46**	106	**46**	106
Subordinated liabilities	**10,890**	11,364	**10,358**	10,813
	16,862	16,758	**13,862**	13,418

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 2015 the Group earned £130 million and the Bank earned £112 million interest income on the above asset balances (2014: Group £163 million; Bank £132 million); the Group incurred £1,105 million and the Bank incurred £1,033 million interest expense on the above liability balances (2014: Group £1,413 million; Bank £1,031 million).

During the year, the Bank incurred expenditure for the benefit of its subsidiaries, which has not been recharged.

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. As at 31 December 2015, HM Treasury held an interest of 9.14 per cent in Lloyds Banking Group plc's ordinary share capital, with its interest having fallen below 20 per cent on 11 May 2015. As a consequence of HM Treasury no longer being considered to have a significant influence, it ceased to be a related party of the Bank for IAS 24 purposes at that date.

In accordance with IAS 24, UK Government-controlled entities were related parties of the Group until 11 May 2015. The Group regarded the Bank of England and entities controlled by the UK Government, including The Royal Bank of Scotland Group plc (RBS), Northern Rock (Asset Management) plc and Bradford & Bingley plc, as related parties.

During the year ended 31 December 2015, 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 participates in the UK government's National Loan Guarantee Scheme, providing eligible UK businesses with discounted funding 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 pre-agreed period of time.

Funding for Lending
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, focusing primarily on providing small businesses with cheaper finance to invest and grow. In November 2015, the Bank of England announced that the deadline for banks to draw down their borrowing allowance would be extended for a further two years until 31 January 2018. At 31 December 2015, the Lloyds Banking Group had drawn down £32 billion (31 December 2014: £20 billion) under the Scheme.

Enterprise Finance Guarantee Scheme
The Lloyds Banking Group participates in the Enterprise Finance Guarantee Scheme which supports viable businesses with access to lending where they would otherwise be refused a loan due to a lack of lending security. The Department for Business, Innovation and Skills provides the lender with a guarantee of up to 75 per cent of the capital of each loan subject to the eligibility of the customer. As at 31 December 2015, the Lloyds Banking Group had offered 6,509 loans to customers, worth over £550 million. Under the most recent renewal of the terms of the scheme, Lloyds Bank plc and Bank of Scotland plc, on behalf of the Lloyds Banking Group, contracted with The Secretary of State for Business, Innovation and Skills.

Help to Buy
The Help to Buy Scheme is a scheme promoted by the UK 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. £3,133 million of outstanding loans at 31 December 2015 (31 December 2014: £1,950 million) had been advanced under this scheme.

Business Growth Fund
The Lloyds Banking Group has invested £176 million (31 December 2014: £118 million) in the Business Growth Fund (under which an agreement was entered into with RBS amongst others) and, as at 31 December 2015, carries the investment at a fair value of £170 million (31 December 2014: £105 million).

Big Society Capital
The Lloyds Banking Group has invested £36 million (31 December 2014: £31 million) in the Big Society Capital Fund under which an agreement was entered into with RBS amongst others.

47 Related party transactions (continued)

Housing Growth Partnership
The Lloyds Banking Group has committed to invest up to £50 million into the Housing Growth Partnership under which an agreement was entered into with the Homes and Communities Agency.

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
Pension funds
The Group provides banking and some investment management services to certain of its pension funds. At 31 December 2015, customer deposits of £145 million (2014: £129 million) and investment and insurance contract liabilities of £694 million (2014: £3,278 million) related to the Group's pension funds.

Collective investment vehicles
The Group manages 168 (2014: 132) collective investment vehicles, such as Open Ended Investment Companies (OEICs), and of these 95 (2014: 80) are consolidated. The Group invested £818 million (2014: £811 million) and redeemed £616 million (2014: £984 million) in the unconsolidated collective investment vehicles during the year and had investments, at fair value, of £2,129 million (2014: £2,243 million) at 31 December. The Group earned fees of £187 million from the unconsolidated collective investment vehicles during 2015 (2014: £201 million).

Joint ventures and associates
At 31 December 2015 there were loans and advances to customers of £225 million (2014: £1,901 million) outstanding and balances within customer deposits of £8 million (2014: £24 million) relating to 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 2015, these companies had total assets of approximately £3,911 million (2014: £5,553 million), total liabilities of approximately £4,104 million (2014: £6,312 million) and for the year ended 31 December 2015 had turnover of approximately £4,660 million (2014: £5,634 million) and made a net loss of approximately £181 million (2014: net loss of £272 million). In addition, the Group has provided £1,710 million (2014: £2,364 million) of financing to these companies on which it received £125 million (2014: £149 million) of interest income in the year.

48 Contingent liabilities and commitments

Interchange fees
With respect to multi-lateral interchange fees (MIFs), the Lloyds Banking Group is not directly involved in the on-going investigations and litigation (as described below) which involve card schemes such as Visa and MasterCard. However, the Lloyds Banking Group is a member of Visa and MasterCard and other card schemes.

- The European Commission continues to pursue certain competition investigations into MasterCard and Visa probing, amongst other things, MIFs paid in respect of cards issued outside the EEA;
- Litigation continues in the English Courts against both Visa and MasterCard. This litigation has been brought by several retailers who are seeking damages for allegedly 'overpaid' MIFs. From publicly available information, it is understood these damages claims are running to different timescales with respect to the litigation process, and their outcome remains uncertain. It is also possible that new claims may be issued.

On 2 November 2015, Visa Inc announced its proposed acquisition of Visa Europe, which remains subject to completion. As set out in the announcement by the Lloyds Banking Group on 2 November, the Lloyds Banking Group's share of the sale proceeds will comprise upfront consideration of cash (the amount of which remains subject to adjustment prior to completion) and preferred stock. The preferred stock will be convertible into Class A Common Stock of Visa Inc or its equivalent upon occurrence of certain events. As part of this transaction, the Lloyds Banking Group and certain other UK banks also entered into a Loss Sharing Agreement (LSA) with Visa Inc, which clarifies how liabilities will be allocated between the parties should the litigation referred to above result in Visa Inc being liable for damages payable by Visa Europe. Visa Inc may only have recourse to the LSA once €1 billion of damages have been applied to the value of the UK preferred stock received by Visa UK members (including the Lloyds Banking Group) as part of the consideration to the transaction. The value of the preferred stock will be reduced (by making a downward adjustment to the conversion rate) in an amount equal to any covered losses. The maximum amount of liability to which the Lloyds Banking Group may be subject under the LSA is capped at the cash consideration to be received by the Lloyds Banking Group. Visa Inc may also have recourse to a general indemnity, currently in place under Visa Europe's Operating Regulations, for damages claims concerning inter or intra-regional MIF setting activities.

The ultimate impact on the Group of the above investigations and the litigation against Visa and MasterCard cannot be known before the conclusion of these matters.

LIBOR and other trading rates
In July 2014, the Lloyds Banking Group announced that it had reached settlements totalling £217 million (at 30 June 2014 exchange rates) to resolve with UK and US federal authorities legacy issues regarding the manipulation several years ago of Lloyds Banking Group companies' submissions to the British Bankers' Association (BBA) London Interbank Offered Rate (LIBOR) and Sterling Repo Rate. The Lloyds Banking Group continues to cooperate with various other government and regulatory authorities, including the Serious Fraud Office, the Swiss Competition Commission, and a number of US State Attorneys General, in conjunction with their investigations into submissions made by panel members to the bodies that set LIBOR and various other interbank offered rates.

Certain Lloyds Banking 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, Japanese Yen and Sterling LIBOR. The lawsuits, which contain broadly similar allegations, allege violations of the Sherman Antitrust Act, the Racketeer Influenced and Corrupt Organizations Act and the Commodity Exchange Act, as well as various state statutes and common law doctrines. Certain of the plaintiffs' claims, including those asserted under

48 Contingent liabilities and commitments (continued)

US anti-trust laws, have been dismissed by the US Federal Court for Southern District of New York (the District Court). That court's dismissal of plaintiffs' anti-trust claims has been appealed to the New York Federal Court of Appeal. The OTC and Exchange – Based plaintiffs' claims were dismissed in November 2015 for lack of personal jurisdiction against the Lloyds Banking Group.

Certain Lloyds Banking Group companies are also named as defendants in UK based claims raising LIBOR manipulation allegations in connection with interest rate hedging products.

It is currently not possible to predict the scope and ultimate outcome on the Group of the various outstanding regulatory investigations not encompassed by the settlements, any private lawsuits or any related challenges to the interpretation or validity of any of the Group's contractual arrangements, including their timing and scale.

UK shareholder litigation
In August 2014, the Lloyds Banking Group and a number of former directors were named as defendants in a claim filed in the English High Court by a number of claimants who held shares in Lloyds TSB Group plc (LTSB) prior to the acquisition of HBOS plc, alleging breaches of fiduciary and tortious duties in relation to information provided to shareholders in connection with the acquisition and the recapitalisation of LTSB. It is currently not possible to determine the ultimate impact on the Group (if any), but the Lloyds Banking Group intends to defend the claim vigorously.

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. At 31 March 2015, the end of the latest FSCS scheme year, the principal balance outstanding on these loans was £15,797 million (31 March 2014: £16,591 million). Although the substantial majority of this loan 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. The amount of future levies payable by the Group depends on a number of factors including the amounts recovered by the FSCS from asset sales, the Group's participation in the deposit-taking market at 31 December, the level of protected deposits and the population of deposit-taking participants.

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 including open matters where Her Majesty's Revenue and Customs (HMRC) adopt a different interpretation and application of tax law. 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 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 £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. There are a number of other open matters on which the Lloyds Banking Group is in discussion with HMRC; none of these is expected to have a material impact on the financial position of the Group.

Residential mortgage repossessions
In August 2014, the Northern Ireland High Court handed down judgment in favour of the borrowers in relation to three residential mortgage test cases, concerning certain aspects of the Lloyds Banking Group's practice with respect to the recalculation of contractual monthly instalments of customers in arrears. The FCA has indicated that it will issue a Consultation Paper in relation to industry practice in this area in February 2016. The Lloyds Banking Group will respond as appropriate to this and any investigations, proceedings, or regulatory action that may in due course be instigated as a result of these issues.

The Financial Conduct Authority's announcement on time-barring for PPI complaints and Plevin v Paragon Personal Finance Limited
On 26 November 2015 the FCA issued a Consultation Paper on the introduction of a deadline by which consumers would need to make their PPI complaints or else lose their right to have them assessed by firms or the Financial Ombudsman Service, and proposed rules and guidance concerning the handling of PPI complaints in light of the Supreme Court's decision in *Plevin v Paragon Personal Finance Limited* [2014] UKSC 61 (*Plevin*). The Financial Ombudsman Service is also considering the implications of *Plevin* for PPI complaints. The implications of potential time-barring and the *Plevin* decision in terms of the scope of any court proceedings or regulatory action remain uncertain.

Other legal actions and regulatory matters
In addition, during the ordinary course of business the Group is subject to other complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, customers, investors or other third parties, as well as legal and regulatory reviews, 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 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 at the relevant balance sheet date. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed properly to assess the merits of the case, and no provisions are held in relation to such matters. However the 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.

48 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	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Contingent liabilities				
Acceptances and endorsements	**52**	59	**52**	58
Other:				
Other items serving as direct credit substitutes	**458**	330	**443**	322
Performance bonds and other transaction-related contingencies	**2,123**	2,293	**1,979**	2,015
	2,581	2,623	**2,422**	2,337
Total contingent liabilities	**2,633**	2,682	**2,474**	2,395

	The Bank	
	2015 £m	2014 £m
Incurred on behalf of fellow Lloyds Banking Group undertakings	**4**	7

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	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Commitments				
Documentary credits and other short-term trade-related transactions	**–**	101	**–**	100
Forward asset purchases and forward deposits placed	**421**	162	**397**	162
Undrawn formal standby facilities, credit lines and other commitments to lend:				
Less than 1 year original maturity:				
Mortgage offers made	**9,995**	8,809	**682**	859
Other commitments	**57,809**	64,015	**35,367**	37,892
	67,804	72,824	**36,049**	38,751
1 year or over original maturity	**44,691**	34,455	**39,261**	29,474
Total commitments	**112,916**	107,542	**75,707**	68,487

	The Bank	
	2015 £m	2014 £m
Incurred on behalf of fellow Lloyds Banking Group undertakings	**7,290**	6,231

Of the amounts shown above in respect of undrawn formal standby facilities, credit lines and other commitments to lend £63,086 million (2014: £55,029 million) for the Group and £46,908 million (2014: £39,755 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	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Not later than 1 year	**267**	301	**133**	154
Later than 1 year and not later than 5 years	**885**	945	**455**	473
Later than 5 years	**1,049**	1,141	**490**	480
Total operating lease commitments	**2,201**	2,387	**1,078**	1,107

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 26), capital expenditure contracted but not provided for at 31 December 2015 amounted to £388 million (2014: £373 million) for the Group and £7 million (2014: £3 million) for the Bank. Of this amount for the Group, £380 million (2014: £368 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.

49 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.

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 2015								
Financial assets								
Cash and balances at central banks	–	–	–	–	–	58,417	–	58,417
Items in the course of collection from banks	–	–	–	–	–	697	–	697
Trading and other financial assets at fair value through profit or loss	–	42,670	98,479	–	–	–	–	141,149
Derivative financial instruments	2,686	26,236	–	–	–	–	–	28,922
Loans and receivables:								
Loans and advances to banks	–	–	–	–	25,117	–	–	25,117
Loans and advances to customers	–	–	–	–	455,175	–	–	455,175
Debt securities	–	–	–	–	4,191	–	–	4,191
Due from fellow Lloyds Banking group undertakings	–	–	–	–	11,045	–	–	11,045
	–	–	–	–	495,528	–	–	495,528
Available-for-sale financial assets	–	–	–	33,032	–	–	–	33,032
Held-to-maturity investments	–	–	–	–	–	19,808	–	19,808
Total financial assets	2,686	68,906	98,479	33,032	495,528	78,922	–	777,553
Financial liabilities								
Deposits from banks	–	–	–	–	–	16,925	–	16,925
Customer deposits	–	–	–	–	–	418,326	–	418,326
Due to fellow Lloyds Banking group undertakings	–	–	–	–	–	5,926	–	5,926
Items in course of transmission to banks	–	–	–	–	–	717	–	717
Trading and other financial liabilities at fair value through profit or loss	–	43,984	7,879	–	–	–	–	51,863
Derivative financial instruments	2,450	23,897	–	–	–	–	–	26,347
Notes in circulation	–	–	–	–	–	1,112	–	1,112
Debt securities in issue	–	–	–	–	–	82,056	–	82,056
Liabilities arising from insurance contracts and participating investment contracts	–	–	–	–	–	–	80,317	80,317
Liabilities arising from non-participating investment contracts	–	–	–	–	–	–	22,777	22,777
Unallocated surplus within insurance businesses	–	–	–	–	–	–	257	257
Financial guarantees	–	–	48	–	–	–	–	48
Subordinated liabilities	–	–	–	–	–	27,605	–	27,605
Total financial liabilities	2,450	67,881	7,927	–	–	552,667	103,351	734,276

49 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 2014								
Financial assets								
Cash and balances at central banks	–	–	–	–	–	50,492	–	50,492
Items in the course of collection from banks	–	–	–	–	–	1,173	–	1,173
Trading and other financial assets at fair value through profit or loss	–	48,504	104,016	–	–	–	–	152,520
Derivative financial instruments	4,299	31,184	–	–	–	–	–	35,483
Loans and receivables:								
Loans and advances to banks	–	–	–	–	26,155	–	–	26,155
Loans and advances to customers	–	–	–	–	482,704	–	–	482,704
Debt securities	–	–	–	–	1,213	–	–	1,213
Due from fellow Lloyds Banking Group undertakings	–	–	–	–	11,482	–	–	11,482
	–	–	–	–	521,554	–	–	521,554
Available-for-sale financial assets	–	–	–	56,493	–	–	–	56,493
Total financial assets	4,299	79,688	104,016	56,493	521,554	51,665	–	817,715
Financial liabilities								
Deposits from banks	–	–	–	–	–	10,887	–	10,887
Customer deposits	–	–	–	–	–	447,067	–	447,067
Due to fellow Lloyds Banking Group undertakings	–	–	–	–	–	5,288	–	5,288
Items in course of transmission to banks	–	–	–	–	–	979	–	979
Trading and other financial liabilities at fair value through profit or loss	–	55,358	6,744	–	–	–	–	62,102
Derivative financial instruments	3,713	29,580	–	–	–	–	–	33,293
Notes in circulation	–	–	–	–	–	1,129	–	1,129
Debt securities in issue	–	–	–	–	–	75,672	–	75,672
Liabilities arising from insurance contracts and participating investment contracts	–	–	–	–	–	–	86,941	86,941
Liabilities arising from non-participating investment contracts	–	–	–	–	–	–	27,248	27,248
Unallocated surplus within insurance businesses	–	–	–	–	–	–	320	320
Financial guarantees	–	–	51	–	–	–	–	51
Subordinated liabilities	–	–	–	–	–	31,973	–	31,973
Total financial liabilities	3,713	84,938	6,795	–	–	572,995	114,509	782,950

49 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 2015							
Financial assets							
Cash and balances at central banks	–	–	–	–	–	55,919	55,919
Items in the course of collection from banks	–	–	–	–	–	518	518
Trading and other financial assets at fair value through profit or loss	–	47,400	4,664	–	–	–	52,064
Derivative financial instruments	806	30,186	–	–	–	–	30,992
Loans and receivables:							
Loans and advances to banks	–	–	–	–	2,625	–	2,625
Loans and advances to customers	–	–	–	–	158,117	–	158,117
Debt securities	–	–	–	–	2,865	–	2,865
Due from fellow Lloyds Banking Group undertakings	–	–	–	–	132,199	–	132,199
	–	–	–	–	295,806	–	295,806
Available-for-sale financial assets	–	–	–	32,476	–	–	32,476
Held-to-maturity investments	–	–	–	–	–	19,808	19,808
Total financial assets	806	77,586	4,664	32,476	295,806	76,245	487,583
Financial liabilities							
Deposits from banks	–	–	–	–	–	13,614	13,614
Customer deposits	–	–	–	–	–	205,717	205,717
Due to fellow Lloyds Banking Group undertakings	–	–	–	–	–	70,656	70,656
Items in course of transmission to banks	–	–	–	–	–	326	326
Trading and other financial liabilities at fair value through profit or loss	–	48,454	7,878	–	–	–	56,332
Derivative financial instruments	2,533	28,507	–	–	–	–	31,040
Debt securities in issue	–	–	–	–	–	78,430	78,430
Financial guarantees	–	–	31	–	–	–	31
Subordinated liabilities	–	–	–	–	–	19,124	19,124
Total financial liabilities	2,533	76,961	7,909	–	–	387,867	475,270

49 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 2014[1]							
Financial assets							
Cash and balances at central banks	–	–	–	–	–	40,965	40,965
Items in the course of collection from banks	–	–	–	–	–	802	802
Trading and other financial assets at fair value through profit or loss	–	59,580	6,741	–	–	–	66,321
Derivative financial instruments	1,019	39,131	–	–	–	–	40,150
Loans and receivables:							
Loans and advances to banks	–	–	–	–	4,591	–	4,591
Loans and advances to customers	–	–	–	–	165,967	–	165,967
Due from fellow Lloyds Banking Group undertakings	–	–	–	–	130,018	–	130,018
	–	–	–	–	300,576	–	300,576
Available-for-sale financial assets	–	–	–	51,412	–	–	51,412
Total financial assets	1,019	98,711	6,741	51,412	300,576	41,767	500,226
Financial liabilities							
Deposits from banks	–	–	–	–	–	8,206	8,206
Customer deposits	–	–	–	–	–	194,699	194,699
Due to fellow Lloyds Banking Group undertakings	–	–	–	–	–	91,882	91,882
Items in course of transmission to banks	–	–	–	–	–	560	560
Trading and other financial liabilities at fair value through profit or loss	–	66,488	6,739	–	–	–	73,227
Derivative financial instruments	2,826	38,494	–	–	–	–	41,320
Debt securities in issue	–	–	–	–	–	66,062	66,062
Financial guarantees	–	–	30	–	–	–	30
Subordinated liabilities	–	–	–	–	–	21,590	21,590
Total financial liabilities	2,826	104,982	6,769	–	–	382,999	497,576

[1] Restated – see note 1.

(2) 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. It is a measure at a specific date and may be significantly different from the amount which will actually be paid or received on maturity or settlement 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.

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.

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, notes in circulation and liabilities arising from non-participating investment contracts.

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.

49 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.

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.

49 Financial instruments (continued)

(3) Financial assets and liabilities carried at fair value
(A) Financial assets, excluding derivatives
Valuation hierarchy
At 31 December 2015, the Group's financial assets carried at fair value, excluding derivatives, totalled £174,181 million (31 December 2014: £209,013 million). The table below analyses these financial assets by balance sheet classification, asset type and valuation methodology (level 1, 2 or 3, as described on page 93). The fair value measurement approach is recurring in nature. There were no significant transfers between level 1 and 2 during the year.

Valuation hierarchy

The Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2015				
Trading and other financial assets at fair value through profit or loss				
Loans and advances to customers	–	30,109	–	30,109
Loans and advances to banks	–	3,065	–	3,065
Debt securities:				
Government securities	20,881	1,235	1	22,117
Other public sector securities	–	759	1,280	2,039
Bank and building society certificates of deposit	–	135	–	135
Asset-backed securities:				
Mortgage-backed securities	–	1,295	63	1,358
Other asset-backed securities	–	839	8	847
Corporate and other debt securities	38	18,250	2,037	20,325
	20,919	22,513	3,389	46,821
Equity shares	59,061	292	1,727	61,080
Treasury and other bills	74	–	–	74
Total trading and other financial assets at fair value through profit or loss	80,054	55,979	5,116	141,149
Available-for-sale financial assets				
Debt securities:				
Government securities	25,259	70	–	25,329
Bank and building society certificates of deposit	–	186	–	186
Asset-backed securities:				
Mortgage-backed securities	–	197	–	197
Other asset-backed securities	–	264	55	319
Corporate and other debt securities	7	5,801	–	5,808
	25,266	6,518	55	31,839
Equity shares	43	521	629	1,193
Treasury and other bills	–	–	–	–
Total available-for-sale financial assets	25,309	7,039	684	33,032
Total financial assets carried at fair value, excluding derivatives	**105,363**	**63,018**	**5,800**	**174,181**

49 Financial instruments (continued)

The Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2014				
Trading and other financial assets at fair value through profit or loss				
Loans and advances to customers	–	28,513	–	28,513
Loans and advances to banks	–	8,212	–	8,212
Debt securities:				
Government securities	23,950	1,523	–	25,473
Other public sector securities	–	781	1,389	2,170
Bank and building society certificates of deposit	–	554	–	554
Asset-backed securities:				
Mortgage-backed securities	24	963	47	1,034
Other asset-backed securities	1	849	–	850
Corporate and other debt securities	255	19,825	2,021	22,101
	24,230	24,495	3,457	52,182
Equity shares	60,164	343	1,647	62,154
Treasury and other bills	1,459	–	–	1,459
Total trading and other financial assets at fair value through profit or loss	85,853	61,563	5,104	152,520
Available-for-sale financial assets				
Debt securities:				
Government securities	47,402	–	–	47,402
Bank and building society certificates of deposit	–	298	–	298
Asset-backed securities:				
Mortgage-backed securities	–	674	–	674
Other asset-backed securities	–	685	–	685
Corporate and other debt securities	35	5,494	–	5,529
	47,437	7,151	–	54,588
Equity shares	45	727	270	1,042
Treasury and other bills	852	11	–	863
Total available-for-sale financial assets	48,334	7,889	270	56,493
Total financial assets carried at fair value, excluding derivatives	134,187	69,452	5,374	209,013

49 Financial instruments (continued)

Valuation hierarchy

The Bank	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
At 31 December 2015				
Trading and other financial assets at fair value through profit or loss				
Loans and advances to customers	–	34,830	–	34,830
Loans and advances to banks	–	3,065	–	3,065
Debt securities:				
Government securities	12,933	–	–	12,933
Asset-backed securities:				
Mortgage-backed securities	–	516	–	516
Other asset-backed securities	–	85	–	85
Corporate and other debt securities	1	545	89	635
	12,934	1,146	89	14,169
Equity shares	–	–	–	–
Treasury and other bills	–	–	–	–
Total trading and other financial assets at fair value through profit or loss	12,934	39,041	89	52,064
Available-for-sale financial assets				
Debt securities:				
Government securities	25,143	70	–	25,213
Bank and building society certificates of deposit	–	169	–	169
Asset-backed securities:				
Mortgage-backed securities	–	88	–	88
Other asset-backed securities	–	110	–	110
Corporate and other debt securities	4	6,079	–	6,083
	25,147	6,516	–	31,663
Equity shares	41	482	290	813
Treasury and other bills	–	–	–	–
Total available-for-sale financial assets	25,188	6,998	290	32,476
Total financial assets carried at fair value, excluding derivatives	**38,122**	**46,039**	**379**	**84,540**

49 Financial instruments (continued)

Valuation hierarchy

The Bank	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2014				
Trading and other financial assets at fair value through profit or loss				
Loans and advances to customers	–	39,802	–	39,802
Loans and advances to banks	–	8,011	–	8,011
Debt securities:				
Government securities	14,587	6	–	14,593
Bank and building society certificates of deposit	–	554	–	554
Asset-backed securities:				
Mortgage-backed securities	–	187	–	187
Other asset-backed securities	–	129	–	129
Corporate and other debt securities	79	1,428	101	1,608
	14,666	2,304	101	17,071
Equity shares	–	–	–	–
Treasury and other bills	1,437	–	–	1,437
Total trading and other financial assets at fair value through profit or loss	16,103	50,117	101	66,321
Available-for-sale financial assets				
Debt securities:				
Government securities	46,911	–	–	46,911
Bank and building society certificates of deposit	–	186	–	186
Asset-backed securities:				
Mortgage-backed securities	–	147	–	147
Other asset-backed securities	–	120	–	120
Corporate and other debt securities	31	3,280	–	3,311
	46,942	3,733	–	50,675
Equity shares	39	687	–	726
Treasury and other bills	–	11	–	11
Total available-for-sale financial assets	46,981	4,431	–	51,412
Total financial assets carried at fair value, excluding derivatives	63,084	54,548	101	117,733

49 Financial instruments (continued)

Movements in level 3 portfolio

The table below analyses movements in level 3 financial assets, excluding derivatives, carried at fair value (recurring measurement):

The Group	2015 Trading and other financial assets at fair value through profit or loss £m	2015 Available-for-sale £m	2015 Total financial assets, excluding derivatives £m	2014 Trading and other financial assets at fair value through profit or loss £m	2014 Available-for-sale £m	2014 Total financial assets, excluding derivatives £m
At 1 January	5,104	270	5,374	4,232	449	4,681
Exchange and other adjustments	–	–	–	5	(7)	(2)
Gains recognised in the income statement within other income	192	–	192	579	–	579
Gains (losses) recognised in other comprehensive income within the revaluation reserve in respect of available-for-sale financial assets	–	302	302	–	(61)	(61)
Purchases	965	68	1,033	552	229	781
Sales	(1,070)	(11)	(1,081)	(587)	(266)	(853)
Transfers into the level 3 portfolio	71	55	126	708	–	708
Transfers out of the level 3 portfolio	(146)	–	(146)	(385)	(74)	(459)
At 31 December	5,116	684	5,800	5,104	270	5,374
Gains recognised in the income statement, within other income, relating to the change in fair value of those assets held at 31 December	34	–	34	547	–	547

The Bank	2015 Trading and other financial assets at fair value through profit or loss £m	2015 Available-for-sale £m	2015 Total financial assets, excluding derivatives £m	2014 Trading and other financial assets at fair value through profit or loss £m	2014 Available-for-sale £m	2014 Total financial assets, excluding derivatives £m
At 1 January	101	–	101	18	8	26
Gains recognised in the income statement within other income	1	–	1	1	–	1
Gains recognised in other comprehensive income within the revaluation reserve in respect of available-for-sale financial assets	–	290	290	–	–	–
Purchases	7	–	7	–	–	–
Sales	(20)	–	(20)	(3)	(8)	(11)
Transfers into the level 3 portfolio	–	–	–	85	–	85
Transfers out of the level 3 portfolio	–	–	–	–	–	–
At 31 December	89	290	379	101	–	101
Gains recognised in the income statement, within other income, relating to the change in fair value of those assets held at 31 December	1	–	1	1	–	1

Valuation methodology for financial assets, excluding derivatives

Loans and advances to customers and banks

These assets are principally reverse repurchase agreements. The fair value of these assets is determined using discounted cash flow techniques. The discount rates are derived from observable repo curves specific to the type of security purchased under the reverse repurchase agreement.

Debt securities

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.

49 Financial instruments (continued)

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.

(B) Financial liabilities, excluding derivatives

Valuation hierarchy

At 31 December 2015, the Group's financial liabilities carried at fair value, excluding derivatives, totalled £51,911 million (31 December 2014: £62,153 million). The table below analyses these financial liabilities by balance sheet classification and valuation methodology (level 1, 2 or 3, as described on page 93). The fair value measurement approach is recurring in nature. There were no significant transfers between level 1 and 2 during the year.

The Group	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
At 31 December 2015				
Trading and other financial liabilities at fair value through profit or loss				
Liabilities held at fair value through profit or loss	**–**	**7,878**	**1**	**7,879**
Trading liabilities:				
Liabilities in respect of securities sold under repurchase agreements	**–**	**38,431**	**–**	**38,431**
Short positions in securities	**4,153**	**287**	**–**	**4,440**
Other	**–**	**1,113**	**–**	**1,113**
	4,153	**39,831**	**–**	**43,984**
Total trading and other financial liabilities at fair value through profit or loss	**4,153**	**47,709**	**1**	**51,863**
Financial guarantees	**–**	**–**	**48**	**48**
Total financial liabilities carried at fair value, excluding derivatives	**4,153**	**47,709**	**49**	**51,911**

The Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2014				
Trading and other financial liabilities at fair value through profit or loss				
Liabilities held at fair value through profit or loss	–	6,739	5	6,744
Trading liabilities:				
Liabilities in respect of securities sold under repurchase agreements	–	50,007	–	50,007
Short positions in securities	2,700	519	–	3,219
Other	–	2,132	–	2,132
	2,700	52,658	–	55,358
Total trading and other financial liabilities at fair value through profit or loss	2,700	59,397	5	62,102
Financial guarantees	–	–	51	51
Total financial liabilities carried at fair value, excluding derivatives	2,700	59,397	56	62,153

49 Financial instruments (continued)

The Bank	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
At 31 December 2015				
Trading and other financial liabilities at fair value through profit or loss				
Liabilities held at fair value through profit or loss	**–**	**7,878**	**–**	**7,878**
Trading liabilities:				
Liabilities in respect of securities sold under repurchase agreements	**–**	**42,359**	**–**	**42,359**
Short positions in securities	**4,153**	**287**	**–**	**4,440**
Other	**–**	**1,655**	**–**	**1,655**
	4,153	**44,301**	**–**	**48,454**
Total trading and other financial liabilities at fair value through profit or loss	**4,153**	**52,179**	**–**	**56,332**
Financial guarantees	**–**	**–**	**31**	**31**
Total financial liabilities carried at fair value, excluding derivatives	**4,153**	**52,179**	**31**	**56,363**

The Bank	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2014				
Trading and other financial liabilities at fair value through profit or loss				
Liabilities held at fair value through profit or loss	–	6,739	–	6,739
Trading liabilities:				
Liabilities in respect of securities sold under repurchase agreements	–	60,424	–	60,424
Short positions in securities	2,654	518	–	3,172
Other	–	2,892	–	2,892
	2,654	63,834	–	66,488
Total trading and other financial liabilities at fair value through profit or loss	2,654	70,573	–	73,227
Financial guarantees	–	–	30	30
Total financial liabilities carried at fair value, excluding derivatives	2,654	70,573	30	73,257

The table below analyses movements in level 3 financial liabilities excluding derivatives. There were no transfers into or out of Level 3 during 2014 or 2015.

	2015			2014		
The Group	**Trading and other financial liabilities at fair value through profit or loss £m**	**Financial guarantees £m**	**Total level 3 financial liabilities carried at fair value, excluding derivatives £m**	Trading and other financial liabilities at fair value through profit or loss £m	Financial guarantees £m	Total level 3 financial liabilities carried at fair value, excluding derivatives £m
At 1 January	**5**	**51**	**56**	39	50	89
(Gains) losses recognised in the income statement within other income	**–**	**(3)**	**(3)**	(5)	1	(4)
Redemptions	**(4)**	**–**	**(4)**	(29)	–	(29)
At 31 December	**1**	**48**	**49**	5	51	56
(Gains) losses recognised in the income statement, within other income, relating to the change in fair value of those liabilities held at 31 December	**–**	**(3)**	**(3)**	–	1	1

49 Financial instruments (continued)

The Bank	2015 Financial guarantees £m	2015 Total level 3 financial liabilities carried at fair value, excluding derivatives £m	2014 Financial guarantees £m	2014 Total level 3 financial liabilities carried at fair value, excluding derivatives £m
At 1 January	**30**	**30**	33	33
Losses (gains) recognised in the income statement within other income	**1**	**1**	(3)	(3)
At 31 December	**31**	**31**	30	30
Losses (gains) recognised in the income statement, within other income, relating to the change in fair value of those liabilities held at 31 December	**1**	**1**	(3)	(3)

Valuation methodology for financial liabilities, excluding derivatives

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. The carrying amount of the securities 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 2015, the own credit adjustment arising from the fair valuation of £7,878 million (2014: £6,739 million) of the Group's debt securities in issue designated at fair value through profit or loss resulted in a gain of £114 million (2014: gain of £33 million).

Trading liabilities in respect of securities sold under repurchase agreements

The fair value of these liabilities is determined using discounted cash flow techniques. The discount rates are derived from observable repo curves specific to the type of security sold under the repurchase agreement.

(C) Derivatives

All of the Group's derivative assets and liabilities are carried at fair value. At 31 December 2015, such assets totalled £28,922 million for the Group and £30,992 million for the Bank (31 December 2014: £35,483 million for the Group and £40,150 million for the Bank) and liabilities totalled £26,347 million for the Group and £31,040 million for the Bank (31 December 2014: £33,293 million for the Group and £41,320 million for the Bank). The table below analyses these derivative balances by valuation methodology (level 1, 2 or 3, as described on page 93). The fair value measurement approach is recurring in nature. There were no significant transfers between level 1 and level 2 during the year.

The Group	2015 Level 1 £m	2015 Level 2 £m	2015 Level 3 £m	2015 Total £m	2014 Level 1 £m	2014 Level 2 £m	2014 Level 3 £m	2014 Total £m
Derivative assets	**43**	**27,955**	**924**	**28,922**	94	33,263	2,126	35,483
Derivative liabilities	**(41)**	**(25,583)**	**(723)**	**(26,347)**	(68)	(31,769)	(1,456)	(33,293)

The Bank	2015 Level 1 £m	2015 Level 2 £m	2015 Level 3 £m	2015 Total £m	2014 Level 1 £m	2014 Level 2 £m	2014 Level 3 £m	2014 Total £m
Derivative assets	**–**	**30,413**	**579**	**30,992**	–	38,546	1,604	40,150
Derivative liabilities	**–**	**(30,355)**	**(685)**	**(31,040)**	–	(39,964)	(1,356)	(41,320)

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.

49 Financial instruments (continued)

The table below analyses movements in level 3 derivative assets and liabilities carried at fair value. Following changes in the valuation methodology in 2015, uncollateralised inflation swaps are considered not to have significant unobservable inputs and have been transferred from level 3 to level 2.

	2015		2014	
The Group	**Derivative assets £m**	**Derivative liabilities £m**	Derivative assets £m	Derivative liabilities £m
At 1 January	**2,126**	**(1,456)**	1,807	(986)
Exchange and other adjustments	**(25)**	**18**	(11)	4
Gains (losses) recognised in the income statement within other income	**13**	**(36)**	354	(375)
Purchases (additions)	**72**	**(74)**	68	(59)
(Sales) redemptions	**(125)**	**120**	(153)	66
Transfers into the level 3 portfolio	**126**	**(114)**	114	(110)
Transfers out of the level 3 portfolio	**(1,263)**	**819**	(53)	4
At 31 December	**924**	**(723)**	2,126	(1,456)
Gains (losses) recognised in the income statement, within other income, relating to the change in fair value of those assets or liabilities held at 31 December	**6**	**(12)**	354	(376)

	2015		2014	
The Bank	**Derivative assets £m**	**Derivative liabilities £m**	Derivative assets £m	Derivative liabilities £m
At 1 January	**1,604**	**(1,356)**	1,367	(940)
Exchange and other adjustments	**(6)**	**18**	(2)	3
(Losses) gains recognised in the income statement within other income	**(11)**	**(30)**	196	(317)
Purchases (additions)	**72**	**(74)**	68	(59)
(Sales) redemptions	**(74)**	**92**	(139)	63
Transfers into the level 3 portfolio	**126**	**(114)**	114	(110)
Transfers out of the level 3 portfolio	**(1,132)**	**779**	–	4
At 31 December	**579**	**(685)**	1,604	(1,356)
(Losses) gains recognised in the income statement, within other income, relating to the change in fair value of those assets or liabilities held at 31 December	**(2)**	**(11)**	196	(317)

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 2015 and 2014.

	2015 £m	2014 £m
At 1 January	**608**	498
Income statement (credit) charge	**(38)**	95
Transfers	**28**	15
At 31 December	**598**	608

Represented by:

	2015 £m	2014 £m
Credit Valuation Adjustment	**511**	568
Debit Valuation Adjustment	**(78)**	(85)
Funding Valuation Adjustment	**165**	125
	598	608

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.

49 Financial instruments (continued)

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 £99 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 £2 million of the overall CVA balance at 31 December 2015).

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 £122 million to £200 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 £200 million fall in the overall valuation adjustment to £233 million. The CVA model used by the Group does not assume any correlation between the level of interest rates and default rates.

The Group has also recognised a Funding Valuation Adjustment to adjust for the net cost of funding uncollateralised derivative positions. 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 £30 million.

(ii) 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 2015, the Group's derivative trading business held mid to bid-offer valuation adjustments of £76 million (2014: £74 million).

49 Financial instruments (continued)

(D) Sensitivity of level 3 valuations

	Valuation basis/technique	Significant unobservable inputs[1]	At 31 December 2015 Carrying value £m	At 31 December 2015 Effect of reasonably possible alternative assumptions[2] Favourable changes £m	At 31 December 2015 Effect of reasonably possible alternative assumptions[2] Unfavourable changes £m	At 31 December 2014 Carrying value £m	At 31 December 2014 Effect of reasonably possible alternative assumptions Favourable changes £m	At 31 December 2014 Effect of reasonably possible alternative assumptions Unfavourable changes £m
Trading and other financial assets at fair value through profit or loss:								
Debt securities	Discounted cash flows	Credit spreads (bps) (168 bps/211 bps)	**92**	**7**	**(7)**	35	5	(5)
Asset-backed securities	Lead manager or broker quote	n/a	**62**	**–**	**–**	65	–	(2)
Equity and venture capital investments	Market approach	Earnings multiple (1.0/17.5)	**2,279**	**72**	**(72)**	2,214	75	(75)
	Underlying asset/ net asset value (incl. property prices)[3]	n/a	**145**	**8**	**(14)**	173	26	(23)
Unlisted equities and debt securities, property partnerships in the life funds	Underlying asset/ net asset value (incl. property prices)[3]	n/a	**2,538**	**–**	**(48)**	2,617	4	(2)
			5,116			5,104		
Available-for-sale financial assets								
Asset-backed securities	Lead manager or broker quote/consensus pricing	n/a	**55**	**–**	**–**	–	–	–
Equity and venture capital investments	Underlying asset/ net asset value (incl. property prices)[3]	n/a	**339**	**25**	**(27)**	270	10	(18)
Other	Various	n/a	**290**	**–**	**–**	–	–	–
			684			270		
Derivative financial assets								
Interest rate derivatives	Discounted cash flow	Inflation swap rate – funding component (55 bps/107 bps)	**–**	**–**	**–**	1,383	17	(16)
	Option pricing model	Interest rate volatility (1%/63%)	**924**	**20**	**(19)**	743	6	(6)
			924			2,126		
Level 3 financial assets carried at fair value			**6,724**			7,500		
Trading and other financial liabilities at fair value through profit or loss			**1**			5	–	–
Derivative financial liabilities								
Interest rate derivatives	Discounted cash flow	Inflation swap rate – funding component (55 bps/107 bps)	**–**	**–**	**–**	807	–	–
	Option pricing model	Interest rate volatility (1%/63%)	**723**	**–**	**–**	649	–	–
			723			1,456		
Financial guarantees			**48**			51		
Level 3 financial liabilities carried at fair value			**772**			1,512		

[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]Underlying asset/net asset values represent fair value.

49 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:

- 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 55 bps and 107 bps (2014: 3 bps and 167 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 1 per cent to 63 per cent (2014: 4 per cent and 120 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.

49 Financial instruments (continued)

(4) Financial assets and liabilities carried at amortised cost
(A) Financial assets

Valuation hierarchy
The table below analyses the fair values of the financial assets of the Group which are carried at amortised cost by valuation methodology (level 1, 2 or 3, as described on page 93). Loans and receivables are mainly classified as level 3 due to significant unobservable inputs used in the valuation models. Where inputs are observable, debt securities are classified as level 1 or 2.

			Valuation hierarchy		
The Group	**Carrying value £m**	**Fair value £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**
At 31 December 2015					
Loans and advances to customers	**455,175**	**454,797**	**–**	**–**	**454,797**
Loans and advances to banks	**25,117**	**25,130**	**–**	**–**	**25,130**
Debt securities	**4,191**	**4,107**	**7**	**4,090**	**10**
Due from fellow Lloyds Banking Group undertakings	**11,045**	**11,045**	**–**	**–**	**11,045**
Held-to-maturity investments	**19,808**	**19,851**	**19,851**	**–**	**–**
Reverse repos included in above amounts:					
Loans and advances to customers	**–**	**–**	**–**	**–**	**–**
Loans and advances to banks	**963**	**963**	**–**	**–**	**963**
At 31 December 2014					
Loans and advances to customers	482,704	480,631	–	–	480,631
Loans and advances to banks	26,155	26,031	–	–	26,031
Debt securities	1,213	1,100	7	1,050	43
Due from fellow Lloyds Banking Group undertakings	11,482	11,482	–	–	11,482
Reverse repos included in above amounts:					
Loans and advances to customers	5,148	5,148	–	–	5,148
Loans and advances to banks	1,899	1,899	–	–	1,899

49 Financial instruments (continued)

The Bank	Carrying value £m	Fair value £m	Valuation hierarchy Level 1 £m	Level 2 £m	Level 3 £m
At 31 December 2015					
Loans and advances to customers	**158,117**	**156,133**	**–**	**–**	**156,133**
Loans and advances to banks	**2,625**	**2,621**	**–**	**–**	**2,621**
Debt securities	**2,865**	**2,884**	**–**	**2,884**	**–**
Due from fellow Lloyds Banking Group undertakings	**132,199**	**132,199**	**–**	**–**	**132,199**
Held-to-maturity investments	**19,808**	**19,851**	**19,851**	**–**	**–**
Reverse repos included in above amounts:					
Loans and advances to customers	**–**	**–**	**–**	**–**	**–**
Loans and advances to banks	**–**	**–**	**–**	**–**	**–**
At 31 December 2014					
Loans and advances to customers	165,967	163,950	–	–	163,950
Loans and advances to banks	4,591	4,533	–	–	4,533
Debt securities	–	–	–	–	–
Due from fellow Lloyds Banking Group undertakings	130,018	130,018	–	–	130,018
Reverse repos included in above amounts:					
Loans and advances to customers	5,148	5,148	–	–	5,148
Loans and advances to banks	1,899	1,899	–	–	1,899

Valuation methodology

Loans and advances to customers
The Group provides loans and advances to commercial, corporate and personal customers at both fixed and variable rates due to their short term nature. The carrying value of the variable rate loans and those relating to lease financing is assumed to be their fair value.

To determine the fair value of loans and advances to customers, loans are segregated into portfolios of similar characteristics. A number of techniques are used to estimate the fair value of fixed rate lending; these take account of expected credit losses based on historic trends, prevailing market interest rates and expected future cash flows. For retail exposures, fair value is usually 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 commercial 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. No adjustment is made to put it in place by the Group to manage its interest rate exposure.

Loans and advances to banks
The carrying value of short dated loans and advances to banks is assumed to be their fair value. The fair value of loans and advances to banks is estimated by discounting the anticipated cash flows at a market discount rate adjusted for the credit spread of the obligor or, where not observable, the credit spread of borrowers of similar credit quality.

Debt securities
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.

Reverse repurchase agreements
The carrying amount is deemed a reasonable approximation of fair value given the short-term nature of these instruments.

49 Financial instruments (continued)

(B) Financial liabilities

Valuation hierarchy
The table below analyses the fair values of the financial liabilities of the Group which are carried at amortised cost by valuation methodology (level 1, 2 or 3, as described on page 93).

The Group	Carrying value £m	Fair value £m	Valuation hierarchy Level 1 £m	Level 2 £m	Level 3 £m
At 31 December 2015					
Deposits from banks	**16,925**	**16,934**	**–**	**16,934**	**–**
Customer deposits	**418,326**	**418,512**	**–**	**407,417**	**11,095**
Due to fellow Lloyds Banking Group undertakings	**5,926**	**5,926**	**–**	**5,926**	**–**
Debt securities in issue	**82,056**	**85,093**	**–**	**81,132**	**3,961**
Subordinated liabilities	**27,605**	**29,996**	**–**	**29,996**	**–**
Repos included in above amounts:					
Deposits from banks	**7,061**	**7,061**	**–**	**7,061**	**–**
Customer deposits	**–**	**–**	**–**	**–**	**–**
At 31 December 2014					
Deposits from banks	10,887	10,902	–	10,902	–
Customer deposits	447,067	450,038	–	435,073	14,965
Due to fellow Lloyds Banking Group undertakings	5,288	5,288	–	5,288	–
Debt securities in issue	75,672	79,664	–	79,664	–
Subordinated liabilities	31,973	34,780	–	34,780	–
Repos included in above amounts:					
Deposits from banks	1,075	1,075	–	1,075	–
Customer deposits	–	–	–	–	–

The Bank	Carrying value £m	Fair value £m	Valuation hierarchy Level 1 £m	Level 2 £m	Level 3 £m
At 31 December 2015					
Deposits from banks	**13,614**	**13,622**	**–**	**13,622**	**–**
Customer deposits	**205,717**	**205,744**	**–**	**205,744**	**–**
Due to fellow Lloyds Banking Group undertakings	**70,656**	**70,656**	**–**	**70,656**	**–**
Debt securities in issue	**78,430**	**82,552**	**–**	**82,552**	**–**
Subordinated liabilities	**19,124**	**20,518**	**–**	**20,518**	**–**
Repos included in above amounts:					
Deposits from banks	**7,044**	**7,044**	**–**	**7,044**	**–**
Customer deposits	**–**	**–**	**–**	**–**	**–**
At 31 December 2015					
Deposits from banks	8,206	8,213	–	8,213	–
Customer deposits	194,699	196,958	–	196,958	–
Due to fellow Lloyds Banking Group undertakings	91,882	91,882	–	91,882	–
Debt securities in issue	66,062	71,617	–	71,617	–
Subordinated liabilities	21,590	23,314	–	23,314	–
Repos included in above amounts:					
Deposits from banks	480	480	–	480	–
Customer deposits	–	–	–	–	–

Valuation methodology
Deposits from banks and customer deposits
The fair value of bank and customer deposits repayable on demand is assumed 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.

49 Financial instruments (continued)

Debt securities in issue
The fair value of short-term debt securities in issue is approximately equal to their carrying value. Fair value for other debt securities is calculated based on quoted market prices where available. Where quoted market prices are not available, fair value is estimated using discounted cash flow techniques at a rate which reflects market rates of interest and the Group's own credit spread.

Subordinated liabilities
The fair value of subordinated liabilities is determined by reference to quoted market prices where available or by reference to quoted market prices of similar instruments. Subordinated liabilities are classified as level 2, since the inputs used to determine their fair value are largely observable.

Repurchase agreements
The carrying amount is deemed a reasonable approximation of fair value given the short-term nature of these instruments.

(5) Reclassification of financial assets
In 2015 the Group reviewed its approach to managing a portfolio of government securities held as a separately identifiable component of the Group's liquidity portfolio. Given the long-term nature of this portfolio, the Group concluded that certain of these securities will be able to be held until they reach maturity. Consequently, on 1 May 2015, government securities with a fair value of £19,938 million were classified from available-for-sale financial assets to held-to-maturity investments reflecting the Group's positive intent and ability to hold them until maturity.

No financial assets were reclassified in 2014.

50 Transfers of financial assets

(1) 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 18, 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 2015				
Repurchase and securities lending transactions				
Trading and other financial assets at fair value through profit or loss	**13,711**	**7,460**	**10,563**	**9,065**
Available-for-sale financial assets	**18,141**	**14,295**	**18,919**	**14,977**
Loans and receivables:				
Loans and advances to customers	**1,491**	**–**	**–**	**–**
Debt securities classified as loans and receivables	**–**	**–**	**69**	**–**
Securitisation programmes				
Loans and receivables:				
Loans and advances to customers[1]	**58,090**	**7,763[1]**	**9,004**	**8,379**

	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 2014				
Repurchase and securities lending transactions				
Trading and other financial assets at fair value through profit or loss	16,803	6,673	9,076	6,625
Available-for-sale financial assets	18,835	10,301	17,916	10,287
Loans and receivables:				
Loans and advances to customers	2,353	908	1,683	324
Debt securities classified as loans and receivables	88	–	88	–
Securitisation programmes				
Loans and receivables:				
Loans and advances to customers[1]	75,970	11,908	13,048	12,209

[1]The carrying value of associated liabilities for the Group excludes securitisation notes held by the Group of £29,303 million (31 December 2014: £38,149 million).

(2) Transferred financial assets derecognised in their entirety with ongoing exposure
Transferred financial assets which were derecognised in their entirety, but with ongoing exposure, consisted of £9 million of debt securities (2014: £33 million) with a fair value of £9 million (2014: £33 million) and a maximum exposure to loss of £9 million (2014: £33 million).

51 Offsetting of financial assets and liabilities

The following information relates to financial assets and liabilities which have been offset in the balance sheet and those which have not been offset but for which the Group has enforceable master netting agreements in place with counterparties.

				Related amounts where set off in the balance sheet not permitted[3]		Potential net amounts if
At 31 December 2015	Gross amounts of assets and liabilities[1] £m	Amounts offset in the balance sheet[2] £m	Net amounts presented in the balance sheet £m	Cash collateral received/ pledged £m	Non-cash collateral received/ pledged £m	offset of related amounts permitted £m
Financial assets						
Trading and other financial assets at fair value through profit or loss:						
Excluding reverse repos	107,975	–	107,975	–	(7,175)	100,800
Reverse repos	39,083	(5,909)	33,174	–	(33,174)	–
	147,058	(5,909)	141,149	–	(40,349)	100,800
Derivative financial instruments	62,392	(33,470)	28,922	(3,228)	(20,091)	5,603
Loans and advances to banks:						
Excluding reverse repos	24,154	–	24,154	(1,810)	–	22,344
Reverse repos	963	–	963	–	(963)	–
	25,117	–	25,117	(1,810)	(963)	22,344
Loans and advances to customers:						
Excluding reverse repos	457,546	(2,371)	455,175	(1,001)	(7,250)	446,924
Reverse repos	–	–	–	–	–	–
	457,546	(2,371)	455,175	(1,001)	(7,250)	446,924
Debt securities	4,191	–	4,191	–	–	4,191
Available-for-sale financial assets	33,032	–	33,032	–	(13,895)	19,137
Held-to-maturity investments	19,808	–	19,808	–	–	19,808
Financial liabilities						
Deposits from banks:						
Excluding repos	9,864	–	9,864	(2,770)	(1,387)	5,707
Repos	7,061	–	7,061	–	(7,061)	–
	16,925	–	16,925	(2,770)	(8,448)	5,707
Customer deposits:						
Excluding repos	420,330	(2,004)	418,326	(458)	(7,250)	410,618
Repos	–	–	–	–	–	–
	420,330	(2,004)	418,326	(458)	(7,250)	410,618
Trading and other financial liabilities at fair value through profit or loss:						
Excluding repos	13,432	–	13,432	–	–	13,432
Repos	44,340	(5,909)	38,431	–	(38,431)	–
	57,772	(5,909)	51,863	–	(38,431)	13,432
Derivative financial instruments	60,184	(33,837)	26,347	(2,811)	(22,586)	950

51 Offsetting of financial assets and liabilities (continued)

At 31 December 2014	Gross amounts of assets and liabilities[1] £m	Amounts offset in the balance sheet[2] £m	Net amounts presented in the balance sheet £m	Related amounts where set off in the balance sheet not permitted[3] Cash collateral received/ pledged £m	Non-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:						
Excluding reverse repos	115,795	–	115,795	–	(6,670)	109,125
Reverse repos	42,640	(5,915)	36,725	–	(36,725)	–
	158,435	(5,915)	152,520	–	(43,395)	109,125
Derivative financial instruments	71,733	(36,250)	35,483	(3,651)	(22,336)	9,496
Loans and advances to banks:						
Excluding reverse repos	24,256	–	24,256	(2,133)	–	22,123
Reverse repos	1,899	–	1,899	–	(1,899)	–
	26,155	–	26,155	(2,133)	(1,899)	22,123
Loans and advances to customers:						
Excluding reverse repos	480,376	(2,820)	477,556	(1,254)	(4,967)	471,335
Reverse repos	5,148	–	5,148	–	(5,148)	–
	485,524	(2,820)	482,704	(1,254)	(10,115)	471,335
Debt securities	1,213	–	1,213	–	–	1,213
Available-for-sale financial assets	56,493	–	56,493	–	(10,299)	46,194
Financial liabilities						
Deposits from banks:						
Excluding repos	9,812	–	9,812	(3,119)	–	6,693
Repos	1,075	–	1,075	–	(1,075)	–
	10,887	–	10,887	(3,119)	(1,075)	6,693
Customer deposits:						
Excluding repos	449,361	(2,294)	447,067	(532)	(4,094)	442,441
Repos	–	–	–	–	–	–
	449,361	(2,294)	447,067	(532)	(4,094)	442,441
Trading and other financial liabilities at fair value through profit or loss:						
Excluding repos	12,095	–	12,095	–	–	12,095
Repos	55,922	(5,915)	50,007	–	(50,007)	–
	68,017	(5,915)	62,102	–	(50,007)	12,095
Derivative financial instruments	70,069	(36,776)	33,293	(3,387)	(25,559)	4,347

[1]After impairment allowance.

[2]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.

[3]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.

The effects of over collateralisation have not been taken into account in the above table.

52 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. 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.

	At 31 December 2015			At 31 December 2014		
The Group	**Maximum exposure £m**	**Offset[2] £m**	**Net exposure £m**	Maximum exposure £m	Offset[2] £m	Net exposure £m
Loans and receivables:						
Loans and advances to banks, net[1]	**25,117**	**–**	**25,117**	26,155	–	26,155
Loans and advances to customers, net[1]	**455,175**	**(7,250)**	**447,925**	482,704	(4,094)	478,610
Debt securities, net[1]	**4,191**	**–**	**4,191**	1,213	–	1,213
	484,483	**(7,250)**	**477,233**	510,072	(4,094)	505,978
Available-for-sale financial assets[2]	**31,839**	**–**	**31,839**	55,451	–	55,451
Held-to-maturity investments	**19,808**	**–**	**19,808**	–	–	–
Trading and other financial assets at fair value through profit or loss[3,4]:						
Loans and advances	**33,174**	**–**	**33,174**	36,725	–	36,725
Debt securities, treasury and other bills	**46,895**	**–**	**46,895**	53,641	–	53,641
	80,069	**–**	**80,069**	90,366	–	90,366
Derivative assets	**28,922**	**(19,466)**	**9,456**	35,483	(21,929)	13,554
Assets arising from reinsurance contracts held	**675**	**–**	**675**	682	–	682
Financial guarantees	**7,165**	**–**	**7,165**	7,161	–	7,161
Off-balance sheet items:						
Acceptances and endorsements	**52**	**–**	**52**	59	–	59
Other items serving as direct credit substitutes	**458**	**–**	**458**	330	–	330
Performance bonds and other transaction-related contingencies	**2,123**	**–**	**2,123**	2,293	–	2,293
Irrevocable commitments	**63,086**	**–**	**63,086**	55,029	–	55,029
	65,719	**–**	**65,719**	57,711	–	57,711
	718,680	**(26,716)**	**691,964**	756,926	(26,023)	730,903

52 Financial risk management (continued)

	At 31 December 2015			At 31 December 2014		
	Maximum exposure £m	Offset[2] £m	Net exposure £m	Maximum exposure £m	Offset[2] £m	Net exposure £m
The Bank						
Loans and receivables:						
Loans and advances to banks, net[1]	2,625	–	2,625	4,591	–	4,591
Loans and advances to customers, net[1]	158,117	(2,736)	155,381	165,967	(2,932)	163,035
Debt securities, net[1]	2,865	–	2,865	–	–	–
	163,607	(2,736)	160,871	170,558	(2,932)	167,626
Available-for-sale financial assets[3]	31,663	–	31,663	50,686	–	50,686
Held-to-maturity investments	19,808	–	19,808	–	–	–
Trading and other financial assets at fair value through profit or loss[3]						
Loans and advances	37,895	–	37,895	47,813	–	47,813
Debt securities, treasury and other bills	14,169	–	14,169	18,508	–	18,508
	52,064	–	52,064	66,321	–	66,321
Derivative assets	30,992	(16,480)	14,512	40,150	(16,999)	23,151
Financial guarantees	6,795	–	6,795	6,598	–	6,598
Off-balance sheet items:						
Acceptances and endorsements	52	–	52	58	–	58
Other items serving as direct credit substitutes	443	–	443	322	–	322
Performance bonds and other transaction-related contingencies	1,979	–	1,979	2,015	–	2,015
Irrevocable commitments	46,908	–	46,908	39,755	–	39,755
	49,382	–	49,382	42,150	–	42,150
	354,311	(19,216)	335,095	376,463	(19,931)	356,532

[1]Amounts shown net of related impairment allowances.

[2]Offset items comprise deposit amounts available for offset and amounts available for offset under master netting arrangements that 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.

[3]Excluding equity shares.

[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.

B. Concentrations of exposure

The Group's management of concentration risk includes single name, industry sector and country limits as well as controls over the Group's overall exposure to certain products. Further information on the Group's management of this risk is included within Credit risk on page 5.

At 31 December 2015 the most significant concentrations of exposure were in mortgages (comprising 68 per cent of total loans and advances to customers) and to financial, business and other services (comprising 9 per cent of the total). For further information on concentrations of the Group's loans, refer to note 17.

Following the continuing reduction in the Group's non-UK activities, an analysis of credit risk exposures by geographical region has not been provided.

52 Financial risk management (continued)

C. Credit quality of assets

Loans and receivables

The disclosures in the table below are produced under the underlying basis used for the Lloyds Banking Group's segmental reporting. The Group believes that, for reporting periods immediately following a significant acquisition such as that of HBOS in 2010, this underlying 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 commercial 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 commercial 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: Retail – mortgages £m	Retail – other £m	Commercial £m	Total £m	Loans and advances designated at fair value through profit or loss £m
31 December 2015						
Neither past due nor impaired	**25,006**	**302,063**	**38,886**	**100,001**	**440,950**	**33,174**
Past due but not impaired	**111**	**8,233**	**393**	**463**	**9,089**	**–**
Impaired – no provision required	**–**	**732**	**690**	**1,092**	**2,514**	**–**
– provision held	**–**	**3,269**	**911**	**2,896**	**7,076**	**–**
Gross	**25,117**	**314,297**	**40,880**	**104,452**	**459,629**	**33,174**
Allowance for impairment losses	**–**	**(1,617)**	**(448)**	**(2,107)**	**(4,172)**	**–**
Fair value adjustments	**–**				**(282)**	**–**
Net balance sheet carrying value	**25,117**				**455,175**	**33,174**

	Loans and advances to banks £m	Loans and advances to customers: Retail – mortgages £m	Retail – other £m	Commercial £m	Total £m	Loans and advances designated at fair value through profit or loss £m
31 December 2014						
Neither past due nor impaired	26,003	320,324	37,886	106,768	464,978	36,725
Past due but not impaired	152	10,311	674	488	11,473	–
Impaired – no provision required	–	578	938	847	2,363	–
– provision held	–	3,766	1,109	7,070	11,945	–
Gross	26,155	334,979	40,607	115,173	490,759	36,725
Allowance for impairment losses	–	(1,702)	(577)	(5,373)	(7,652)	–
Fair value adjustments	–				(403)	–
Net balance sheet carrying value	26,155				482,704	36,725

The criteria that the Group uses to determine that there is objective evidence of an impairment loss are disclosed in note 2(h). Included in loans and receivables are advances individually determined to be impaired with a gross amount before impairment allowances of £4,406 million (2014: £8,522 million).

52 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	Commercial £m	Total £m	
31 December 2015						
Good quality	**24,670**	**301,403**	**33,589**	**63,453**		**33,156**
Satisfactory quality	**311**	**527**	**4,448**	**28,899**		**15**
Lower quality	**4**	**27**	**476**	**7,210**		**3**
Below standard, but not impaired	**21**	**106**	**373**	**439**		**–**
Total loans and advances which are neither past due nor impaired	**25,006**	**302,063**	**38,886**	**100,001**	**440,950**	**33,174**
31 December 2014						
Good quality	25,654	318,967	30,993	65,106		36,482
Satisfactory quality	263	1,159	5,675	28,800		238
Lower quality	49	72	623	11,204		5
Below standard, but not impaired	37	126	595	1,658		–
Total loans and advances which are neither past due nor impaired	26,003	320,324	37,886	106,768	464,978	36,725

The definitions of good quality, satisfactory quality, lower quality and below standard, but not impaired applying to retail and commercial are not the same, reflecting the different characteristics of these exposures and the way they are managed internally, and consequently totals are not provided. Commercial 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	Commercial £m	Total £m	
31 December 2015						
0-30 days	**111**	**4,066**	**276**	**248**	**4,590**	**–**
30-60 days	**–**	**1,732**	**81**	**100**	**1,913**	**–**
60-90 days	**–**	**1,065**	**9**	**52**	**1,126**	**–**
90-180 days	**–**	**1,370**	**8**	**19**	**1,397**	**–**
Over 180 days	**–**	**–**	**19**	**44**	**63**	**–**
Total loans and advances which are past due but not impaired	**111**	**8,233**	**393**	**463**	**9,089**	**–**
31 December 2014						
0-30 days	152	4,854	453	198	5,505	–
30-60 days	–	2,309	110	51	2,470	–
60-90 days	–	1,427	90	139	1,656	–
90-180 days	–	1,721	5	38	1,764	–
Over 180 days	–	–	16	62	78	–
Total loans and advances which are past due but not impaired	152	10,311	674	488	11,473	–

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

52 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	Commercial £m	Total £m	
31 December 2015						
Neither past due nor impaired	**2,625**	**59,898**	**26,741**	**67,701**	**154,340**	**33,173**
Past due but not impaired	**–**	**1,182**	**212**	**316**	**1,710**	**–**
Impaired – no provision required	**–**	**312**	**456**	**511**	**1,279**	**–**
– provision held	**–**	**244**	**643**	**1,124**	**2,011**	**–**
Gross	**2,625**	**61,636**	**28,052**	**69,652**	**159,340**	**33,173**
Allowance for impairment losses (note 20)	**–**	**(127)**	**(221)**	**(875)**	**(1,223)**	**–**
Net balance sheet carrying value	**2,625**	**61,509**	**27,831**	**68,777**	**158,117**	**33,173**

	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	Commercial £m	Total £m	
31 December 2014						
Neither past due nor impaired	4,591	65,827	24,523	71,214	161,564	35,586
Past due but not impaired	–	1,487	455	294	2,236	–
Impaired – no provision required	–	232	646	498	1,376	–
– provision held	–	288	709	1,425	2,422	–
Gross	4,591	67,834	26,333	73,431	167,598	35,586
Allowance for impairment losses (note 20)	–	(185)	(205)	(1,241)	(1,631)	–
Net balance sheet carrying value	4,591	67,649	26,128	72,190	165,967	35,586

[1] Excludes amounts due from fellow Lloyds Banking Group undertakings.

Included in loans and receivables are advances individually determined to be impaired with a gross amount before impairment allowances of £2,032 million (2014: £2,415 million).

52 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	Commercial £m	Total £m	Loans and advances designated at fair value through profit or loss £m
31 December 2015						
Good quality	**2,323**	**59,880**	**23,216**	**42,376**		**33,156**
Satisfactory quality	**285**	**17**	**2,918**	**21,698**		**14**
Lower quality	**–**	**1**	**321**	**3,516**		**3**
Below standard, but not impaired	**17**	**–**	**286**	**111**		**–**
Total loans and advances which are neither past due nor impaired	**2,625**	**59,898**	**26,741**	**67,701**	**154,340**	**33,173**
31 December 2014						
Good quality	4,363	65,770	20,339	46,030		35,343
Satisfactory quality	210	53	3,405	20,693		238
Lower quality	1	1	394	4,148		5
Below standard, but not impaired	17	3	385	343		–
Total loans and advances which are neither past due nor impaired	4,591	65,827	24,523	71,214	161,564	35,586

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	Commercial £m	Total £m	Loans and advances designated at fair value through profit or loss £m
31 December 2015						
0-30 days	**–**	**583**	**161**	**253**	**997**	**–**
30-60 days	**–**	**252**	**41**	**35**	**328**	**–**
60-90 days	**–**	**147**	**1**	**15**	**163**	**–**
90-180 days	**–**	**200**	**3**	**10**	**213**	**–**
Over 180 days	**–**	**–**	**6**	**3**	**9**	**–**
Total loans and advances which are past due but not impaired	**–**	**1,182**	**212**	**316**	**1,710**	**–**
31 December 2014						
0-30 days	–	738	301	79	1,118	–
30-60 days	–	331	58	32	421	–
60-90 days	–	193	83	98	374	–
90-180 days	–	225	2	31	258	–
Over 180 days	–	–	11	54	65	–
Total loans and advances which are past due but not impaired	–	1,487	455	294	2,236	–

A financial asset is ‘past due’ if a counterparty has failed to make a payment when contractually due.

52 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:

	2015			2014		
	Investment grade[1] £m	Other[2] £m	Total £m	Investment grade[1] £m	Other[2] £m	Total £m
The Group						
Asset-backed securities:						
Mortgage-backed securities	2,528	–	2,528	190	–	190
Other asset-backed securities	1,140	94	1,234	780	205	985
	3,668	94	3,762	970	205	1,175
Corporate and other debt securities	417	109	526	–	164	164
Gross exposure	4,085	203	4,288	970	369	1,339
Allowance for impairment losses			(97)			(126)
Total debt securities classified as loans and receivables			4,191			1,213
The Bank						
Asset-backed securities:						
Mortgage-backed securities	2,353	–	2,353	–	–	–
Other asset-backed securities	125	–	125	–	–	–
	2,478	–	2,478	–	–	–
Corporate and other debt securities	387	–	387	–	–	–
Gross exposure	2,865	–	2,865	–	–	–
Allowance for impairment losses	–	–	–	–	–	–
Total debt securities classified as loans and receivables	2,865	–	2,865	–	–	–

[1] Credit ratings equal to or better than 'BBB'.

[2] Other comprises sub-investment grade (2015: £87 million for the Group and £nil for the Bank; 2014 £198 million for the Group and £nil for the Bank) and not rated (2015: £116 million for the Group and £nil for the Bank; 2014 £171 million for the Group and £nil for the Bank.)

Available-for-sale financial assets (excluding equity shares)
An analysis of available-for-sale financial assets is included in note 21. The credit quality of available-for-sale financial assets (excluding equity shares) is set out below:

	2015			2014		
	Investment grade[1] £m	Other[2] £m	Total £m	Investment grade[1] £m	Other[2] £m	Total £m
The Group						
Debt securities						
Government securities	25,329	–	25,329	47,402	–	47,402
Bank and building society certificates of deposit	186	–	186	298	–	298
Asset-backed securities:						
Mortgage-backed securities	197	–	197	674	–	674
Other asset-backed securities	315	4	319	681	4	685
	512	4	516	1,355	4	1,359
Corporate and other debt securities	5,808	–	5,808	5,490	39	5,529
Total debt securities	31,835	4	31,839	54,545	43	54,588
Treasury bills and other bills	–	–	–	863	–	863
Total held as available-for-sale financial assets	31,835	4	31,839	55,408	43	55,451

[1] Credit ratings equal to or better than 'BBB'.

[2] Other comprises sub-investment grade (2015: £4 million; 2014 £20 million) and not rated (2015: £nil; 2014 £23 million.)

52 Financial risk management (continued)

	2015			2014		
	Investment grade[1] £m	**Other[2] £m**	**Total £m**	Investment grade[1] £m	Other[2] £m	Total £m
The Bank						
Debt securities						
Government securities	**25,213**	**–**	**25,213**	46,911	–	46,911
Bank and building society certificates of deposit	**169**	**–**	**169**	186	–	186
Asset-backed securities:						
Mortgage-backed securities	**88**	**–**	**88**	147	–	147
Other asset-backed securities	**106**	**4**	**110**	116	4	120
	194	**4**	**198**	263	4	267
Corporate and other debt securities	**1,822**	**–**	**1,822**	1,220	39	1,259
Total debt securities	**27,398**	**4**	**27,402**	48,580	43	48,623
Treasury bills and other bills	**–**	**–**	**–**	11	–	11
	27,398	**4**	**27,402**	48,591	43	48,634
Due from fellow Group undertakings:						
Corporate and other debt securities			**4,261**			2,052
Total held as available-for-sale financial assets			**31,663**			50,686

[1] Credit ratings equal to or better than 'BBB'.

[2] Other comprises sub-investment grade (2015: £4 million; 2014 £20 million) and not rated (2015: £nil; 2014 £23 million.)

Held-to-maturity investments
An analysis of the credit quality of the Group's and the Bank's held-to-maturity investments at 31 December 2015 is set out below:

	Investment grade[1] £m	**Other £m**	**Total £m**
Government securities	**19,808**	**–**	**19,808**

[1] Credit ratings equal to or better than 'BBB'.

The Group and the Bank did not carry any held-to-maturity investments at 31 December 2014.

52 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 14. The credit quality of debt securities, treasury and other bills held at fair value through profit or loss is set out below.

The Group	2015 Investment grade[1] £m	2015 Other[2] £m	2015 Total £m	2014 Investment grade[1] £m	2014 Other[2] £m	2014 Total £m
Trading assets						
Government securities	**8,269**	**–**	**8,269**	7,976	–	7,976
Bank and building society certificates of deposit	**–**	**–**	**–**	554	–	554
Asset-backed securities:						
Mortgage-backed securities	**516**	**–**	**516**	187	–	187
Other asset-backed securities	**85**	**–**	**85**	117	12	129
	601	**–**	**601**	304	12	316
Corporate and other debt securities	**582**	**30**	**612**	1,288	198	1,486
Total debt securities held as trading assets	**9,452**	**30**	**9,482**	10,122	210	10,332
Treasury bills and other bills	**–**	**–**	**–**	1,437	–	1,437
Total held as trading assets	**9,452**	**30**	**9,482**	11,559	210	11,769
Other assets held at fair value through profit or loss						
Government securities	**13,848**	**–**	**13,848**	17,496	1	17,497
Other public sector securities	**2,023**	**16**	**2,039**	2,170	–	2,170
Bank and building society certificates of deposit	**135**	**–**	**135**	–	–	–
Asset-backed securities:						
Mortgage-backed securities	**801**	**41**	**842**	845	2	847
Other asset-backed securities	**762**	**–**	**762**	699	22	721
	1,563	**41**	**1,604**	1,544	24	1,568
Corporate and other debt securities	**17,371**	**2,333**	**19,704**	18,119	2,485	20,604
Total debt securities held at fair value through profit or loss	**34,940**	**2,390**	**37,330**	39,329	2,510	41,839
Treasury bills and other bills	**74**	**–**	**74**	22	–	22
Total other assets held at fair value through profit or loss	**35,014**	**2,390**	**37,404**	39,351	2,510	41,861
	44,466	**2,420**	**46,886**	50,910	2,720	53,630
Due from fellow Group undertakings:						
Corporate and other debt securities			**9**			11
Total held at fair value through profit or loss			**46,895**			53,641

[1] Credit ratings equal to or better than 'BBB'.

[2] Other comprises sub-investment grade (2015: £544 million; 2014 £629 million) and not rated (2015: £1,876 million; 2014 £2,091 million.)

52 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.

	2015			2014		
	Investment grade[1] £m	**Other[2] £m**	**Total £m**	Investment grade[1] £m	Other[2] £m	Total £m
The Bank						
Trading assets						
Government securities	**8,269**	**–**	**8,269**	7,931	–	7,931
Bank and building society certificate of deposits	**–**	**–**	**–**	554	–	554
Asset-backed securities:						
Mortgage-backed securities	**516**	**–**	**516**	187	–	187
Other asset-backed securities	**85**	**–**	**85**	117	12	129
	601	**–**	**601**	304	12	316
Corporate and other debt securities	**582**	**30**	**612**	1,259	198	1,457
Total debt securities	**9,452**	**30**	**9,482**	10,048	210	10,258
Treasury bills and other bills	**–**	**–**	**–**	1,437	–	1,437
Total held as trading assets	**9,452**	**30**	**9,482**	11,485	210	11,695
Other assets held at fair value through profit or loss						
Government securities	**4,664**	**–**	**4,664**	6,662	–	6,662
Corporate and other debt securities	**–**	**–**	**–**	–	79	79
Total other assets held at fair value through profit or loss	**4,664**	**–**	**4,664**	6,662	79	6,741
	14,116	**30**	**14,146**	18,147	289	18,436
Due from fellow Group undertakings:						
Corporate and other debt securities			**23**			72
Total held at fair value through profit or loss			**14,169**			18,508

[1] Credit ratings equal to or better than 'BBB'.

[2] Other comprises sub-investment grade (2015: £30 million; 2014 £46 million) and not rated (2015: £nil; 2014 £243 million.)

52 Financial risk management (continued)

Derivative assets

An analysis of derivative assets is given in note 15. 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 £9,456 million for the Group and £14,512 million for the Bank (2014: £13,554 million for the Group and £23,151 million for the Bank), cash collateral of £3,228 million for the Group and £1,528 million for the Bank (2014: £3,651 million for the Group and £1,938 million for the Bank) was held and a further £94 million for the Group and £10 million for the Bank (2014: £2,043 million for the Group and £282 million for the Bank) was due from OECD banks.

	2015			2014		
	Investment grade[1] £m	**Other[2] £m**	**Total £m**	Investment grade[1] £m	Other[2] £m	Total £m
The Group						
Trading and other	**24,764**	**1,472**	**26,236**	26,509	4,675	31,184
Hedging	**2,653**	**33**	**2,686**	4,251	48	4,299
Total derivative financial instruments	**27,417**	**1,505**	**28,922**	30,760	4,723	35,483
The Bank						
Trading and other	**19,774**	**849**	**20,623**	19,718	4,044	23,762
Hedging	**663**	**5**	**668**	918	6	924
	20,437	**854**	**21,291**	20,636	4,050	24,686
Due from fellow Group undertakings			**9,701**			15,464
Total derivative financial instruments			**30,992**			40,150

[1] Credit ratings equal to or better than 'BBB'.

[2] Other comprises sub-investment grade (2015: £1,418 million for the Group and £853 million for the Bank; 2014 £1,896 million for the Group and £941 million for the Bank) and not rated (2015: £87 million for the Group and £1 million for the Bank; 2014 £2,827 million for the Group and £3,109 million for the Bank.)

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.

52 Financial risk management (continued)

D. 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

There were reverse repurchase agreements which are accounted for as collateralised loans within loans and advances to banks with a carrying value of £963 million for the Group and £nil for the Bank (2014: £1,899 million for the Group and Bank), against which the Group held collateral with a fair value of £1,009 million for the Group and £nil for the Bank (2014: £1,886 million for the Group and Bank).

These transactions were generally conducted under terms that are usual and customary for standard secured lending activities.

Loans and advances to customers

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

	2015				2014			
	Neither past due nor impaired £m	**Past due but not impaired £m**	**Impaired £m**	**Gross £m**	Neither past due nor impaired £m	Past due but not impaired £m	Impaired £m	Gross £m
Less than 70 per cent	**211,631**	**4,907**	**1,965**	**218,503**	202,789	4,895	1,601	209,285
70 per cent to 80 per cent	**45,764**	**1,350**	**671**	**47,785**	58,837	1,998	726	61,561
80 per cent to 90 per cent	**27,529**	**935**	**528**	**28,992**	32,771	1,526	702	34,999
90 per cent to 100 per cent	**10,908**	**610**	**247**	**11,765**	15,858	1,005	486	17,349
Greater than 100 per cent	**6,231**	**431**	**590**	**7,252**	10,069	887	829	11,785
Total	**302,063**	**8,233**	**4,001**	**314,297**	320,324	10,311	4,344	334,979

The Bank

	2015				2014			
	Neither past due nor impaired £m	**Past due but not impaired £m**	**Impaired £m**	**Gross £m**	Neither past due nor impaired £m	Past due but not impaired £m	Impaired £m	Gross £m
Less than 70 per cent	**46,749**	**756**	**279**	**47,784**	46,258	783	215	47,256
70 per cent to 80 per cent	**7,045**	**182**	**94**	**7,321**	10,026	266	86	10,378
80 per cent to 90 per cent	**3,955**	**127**	**64**	**4,146**	5,598	214	87	5,899
90 per cent to 100 per cent	**1,677**	**82**	**66**	**1,825**	2,808	138	58	3,004
Greater than 100 per cent	**472**	**35**	**53**	**560**	1,137	86	74	1,297
Total	**59,898**	**1,182**	**556**	**61,636**	65,827	1,487	520	67,834

Other

The majority of non-mortgage retail lending is unsecured. At 31 December 2015, impaired non-mortgage lending amounted to £1,153 million, net of an impairment allowance of £448 million (2014: £1,470 million, net of an impairment allowance of £577 million). The fair value of the collateral held in respect of this lending was £107 million (2014: £110 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 £39,279 million (2014: £38,560 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 thereafter monitored 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.

52 Financial risk management (continued)

Commercial lending

Reverse repurchase transactions

At 31 December 2014 there were reverse repurchase agreements which were accounted for as collateralised loans with a carrying value of £5,148 million for the Group and the Bank against which the Group and the Bank held collateral with a fair value of £5,155 million all of which the Group was able to repledge. Included in these amounts were collateral balances in the form of cash provided in respect of reverse repurchase agreements amounting to £35 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. There were no such transactions in 2015.

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.

At 31 December 2015, impaired secured commercial lending amounted to £1,245 million, net of an impairment allowance of £577 million (2014: £2,613 million, net of an impairment allowance of £3,724 million). The fair value of the collateral held in respect of impaired secured commercial lending was £1,367 million (2014: £2,517 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 commercial 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 commercial 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 commercial lending amounted to £51,298 million (2014: £57,647 million).

For unimpaired secured commercial 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 commercial 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 commercial lending portfolio is provided to key management personnel.

Trading and other financial assets at fair value through profit or loss (excluding equity shares)

Included in trading and other financial assets at fair value through profit or loss are reverse repurchase agreements treated as collateralised loans with a carrying value of £33,174 million for the Group and £37,285 million for the Bank (2014: £36,725 million for the Group and £47,726 million for the Bank). Collateral is held with a fair value of £36,493 million for the Group and £37,006 million for the Bank (2014: £42,858 million for the Group and £53,221 million for the Bank), all of which the Group is able to repledge. At 31 December 2015, £15,438 million for the Group and £17,876 million for the Bank had been repledged (2014: £10,319 million for the Group and £22,872 million for the Bank).

In addition, securities held as collateral in the form of stock borrowed amounted to £58,621 million for the Group and £46,042 million for the Bank (2014: £33,721 million for the Group and £44,318 million for the Bank). Of this amount, £29,859 million for the Group and £29,360 million for the Bank (2014: £32,686 million for the Group and £43,338 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 £9,456 million for the Group and £14,512 million for the Bank (2014: £13,554 million for the Group and £23,151 million for the Bank), cash collateral of £3,228 million for the Group and £1,528 million for the Bank (2014: £3,651 million for the Group and £1,938 million for the Bank) was held.

Irrevocable loan commitments and other credit-related contingencies

At 31 December 2015, there were irrevocable loan commitments and other credit-related contingencies of £65,719 million for the Group and £49,382 million for the Bank (2014: £57,711 million for the Group and £42,150 million for the Bank). Collateral is held as security, in the event that lending is drawn down, on £9,551 million for the Group and £nil for the Bank (2014: £8,673 million for the Group and £247 million for the Bank) of these balances.

Collateral repossessed

During the year, £203 million of collateral was repossessed (2014: £828 million), consisting primarily of residential property. 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 commercial lending. In such cases, the assets are carried on the Group's balance sheet and are classified according to the Group's accounting policies.

52 Financial risk management (continued)

E. Collateral pledged as security

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.

Repurchase transactions

Deposits from banks

Included in deposits from banks are deposits held as collateral for facilities granted, with a carrying value of £7,061 million for the Group and £7,044 million for the Bank (2014: £1,075 million for the Group and £480 million for the Bank) and a fair value of £6,707 million for the Group and £6,707 million for the Bank (2014: £1,075 million for the Group and £480 million for the Bank).

Customer deposits

Customer deposits included no deposits held as collateral for facilities granted (2014: £nil). In addition, collateral balances in the form of cash provided in respect of repurchase agreements amounted to £5 million for the Group and £nil for the Bank (2014: £6 million for the Group and £nil for the Bank).

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

The fair value of collateral pledged in respect of repurchase transactions, accounted for as secured borrowing, where the secured party is permitted by contract or custom to repledge was £44,655 million for the Group and £48,172 million for the Bank (2014: £57,844 million for the Group and £67,016 million for the Bank).

Securities lending transactions

The following on balance sheet financial assets have been lent to counterparties under securities lending transactions:

	The Group		The Bank	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Trading and other financial assets at fair value through profit or loss	**6,478**	9,955	**1,807**	2,040
Loans and advances to customers	**1,491**	1,393	**–**	–
Debt securities classified as loans and receivables	**–**	88	**69**	88
Available-for-sale financial assets	**4,247**	8,363	**4,464**	7,706
	12,216	19,799	**6,340**	9,834

Securitisations and covered bonds

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 18 and 19.

(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 2015 the aggregate notional principal of interest rate swaps designated as fair value hedges was £121,331 million (2014: £115,905 million) for the Group and £129,062 million (2014: £119,951 million) for the Bank with a net fair value asset of £835 million (2014: asset of £1,480 million) for the Group and a net fair value liability of £1,707 million (2014: liability of £1,787 million) for the Bank (note 15). The losses recognised on the hedging instruments were £695 million (2014: £2,791 million) for the Group and £31 million (2014: losses of £3,669 million) for the Bank. The gains on the hedged items attributable to the hedged risk were £516 million (2014: £2,652 million) for the Group and £59 million (2014: £3,596 million) for the Bank.

In addition the Group has cash flow hedges which are primarily used to hedge the variability in the cost of funding within the commercial business. Note 15 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 2015 was £460,829 million (2014: £518,746 million) for the Group and £164,826 million (2014: £52,396) for the Bank with a net fair value liability of £718 million (2014: liability of £930 million) for the Group and a net fair value asset of £39 million (2014: asset of £29 million) for the Bank (note 15). In 2015, ineffectiveness recognised in the income statement that arises from cash flow hedges was gains of £3 million (2014: £56 million) for the Group and £30 million (2014: £26 million) for the Bank.

52 Financial risk management (continued)

Currency risk

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 and liquidity risk function in London.

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 2015 the aggregate principal of the Group's currency borrowings was £670 million (2014: £587 million). In 2015, an ineffectiveness gain of £5 million before and £4 million after tax (2014: ineffectiveness loss of £1 million before and after tax) was recognised in the income statement arising from net investment hedges.

The Group's main overseas operations are in the Americas and Europe. Details of the Group's structural foreign currency exposures, after net investment hedges, are as follows:

Functional currency of Group operations

The Group	Euro £m	US Dollar £m	Other non-sterling £m
31 December 2015			
Gross exposure	**246**	**447**	**32**
Net investment hedges	**(254)**	**(415)**	**(1)**
Total structural foreign currency exposures, after net investment hedges	**(8)**	**32**	**31**
31 December 2014			
Gross exposure	286	392	100
Net investment hedges	(218)	(342)	(27)
Total structural foreign currency exposures, after net investment hedges	68	50	73

The Bank	Euro £m	US Dollar £m	Other non-sterling £m
31 December 2015			
Gross exposure	**(2)**	**91**	**28**
Net investment hedges	**–**	**–**	**–**
Total structural foreign currency exposures, after net investment hedges	**(2)**	**91**	**28**
31 December 2014			
Gross exposure	7	43	94
Net investment hedges	–	–	–
Total structural foreign currency exposures, after net investment hedges	7	43	94

(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. Liquidity risk is managed through a series of measures, tests and reports that are primarily based on contractual maturity. 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.

52 Financial risk management (continued)

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 2015						
Deposits from banks	**6,586**	**1,143**	**6,179**	**2,785**	**400**	**17,093**
Customer deposits	**339,387**	**21,234**	**34,012**	**23,932**	**567**	**419,132**
Trading and other financial liabilities at fair value through profit or loss	**23,400**	**15,465**	**5,404**	**5,921**	**10,662**	**60,852**
Debt securities in issue	**7,526**	**9,131**	**18,467**	**34,515**	**24,540**	**94,179**
Liabilities arising from non-participating investment contracts	**429**	**365**	**1,644**	**4,396**	**15,901**	**22,735**
Subordinated liabilities	**425**	**331**	**3,720**	**9,019**	**14,779**	**28,274**
Total non-derivative financial liabilities	**377,753**	**47,669**	**69,426**	**80,568**	**66,849**	**642,265**
Derivative financial liabilities:						
Gross settled derivatives – outflows	**31,932**	**28,059**	**27,510**	**29,962**	**28,507**	**145,970**
Gross settled derivatives – inflows	**(30,432)**	**(26,967)**	**(26,337)**	**(27,883)**	**(26,521)**	**(138,140)**
Gross settled derivatives – net flows	**1,500**	**1,092**	**1,173**	**2,079**	**1,986**	**7,830**
Net settled derivative liabilities	**16,600**	**115**	**321**	**953**	**2,587**	**20,576**
Total derivative financial liabilities	**18,100**	**1,207**	**1,494**	**3,032**	**4,573**	**28,406**
At 31 December 2014						
Deposits from banks	4,238	1,734	1,427	2,895	1,003	11,297
Customer deposits	365,331	14,003	38,521	31,614	470	449,939
Trading and other financial liabilities at fair value through profit or loss	32,209	15,145	1,316	3,657	7,508	59,835
Debt securities in issue	11,059	6,163	15,155	33,864	29,306	95,547
Liabilities arising from non-participating investment contracts	5	10	140	241	16,741	17,137
Subordinated liabilities	670	1,386	2,358	9,820	12,940	27,174
Total non-derivative financial liabilities	413,512	38,441	58,917	82,091	67,968	660,929
Derivative financial liabilities:						
Gross settled derivatives – outflows	39,616	32,166	34,932	42,415	41,128	190,257
Gross settled derivatives – inflows	(37,928)	(30,408)	(32,999)	(39,883)	(35,858)	(177,076)
Gross settled derivatives – net flows	1,688	1,758	1,933	2,532	5,270	13,181
Net settled derivative liabilities	21,959	114	340	1,150	3,650	27,213
Total derivative financial liabilities	23,647	1,872	2,273	3,682	8,920	40,394

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 £7,165 million at 31 December 2015 (2014: £7,161 million) with £4,014 million expiring within one year; £942 million between one and three years; £1,182 million between three and five years; and £1,027 million over five years (2014: £4,133 million expiring within one year; £1,823 million between one and three years; £674 million between three and five years; and £531 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.

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 2015	**1,477**	**1,081**	**4,745**	**10,444**	**62,570**	**80,317**
At 31 December 2014	1,037	1,276	5,101	20,914	58,613	86,941

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.

52 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 £38 million (2014: £79 million) per annum for the Group and £22 million (2014: £22 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 2015						
Deposits from banks	**4,913**	**1,111**	**6,070**	**1,290**	**400**	**13,784**
Customer deposits	**182,384**	**12,807**	**8,602**	**1,760**	**386**	**205,939**
Trading and other financial liabilities at fair value through profit or loss	**23,047**	**15,465**	**5,404**	**5,921**	**10,661**	**60,498**
Debt securities in issue	**3,759**	**8,003**	**17,838**	**37,932**	**26,341**	**93,873**
Subordinated liabilities	**305**	**1,352**	**3,348**	**11,536**	**7,468**	**24,009**
Total non-derivative financial liabilities	**214,408**	**38,738**	**41,262**	**58,439**	**45,256**	**398,103**
Derivative financial liabilities:						
Gross settled derivatives – outflows	**31,699**	**27,798**	**26,754**	**27,092**	**23,302**	**136,645**
Gross settled derivatives – inflows	**(30,375)**	**(26,816)**	**(25,596)**	**(25,079)**	**(21,874)**	**(129,740)**
Gross settled derivatives – net flows	**1,324**	**982**	**1,158**	**2,013**	**1,428**	**6,905**
Net settled derivative liabilities	**14,460**	**8**	**115**	**191**	**660**	**15,434**
Total derivative financial liabilities	**15,784**	**990**	**1,273**	**2,204**	**2,088**	**22,339**

	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 2014						
Deposits from banks	4,173	1,136	1,169	1,561	288	8,327
Customer deposits	175,031	8,223	7,065	4,511	348	195,178
Trading and other financial liabilities at fair value through profit or loss	31,056	14,731	1,451	3,354	7,504	58,096
Debt securities in issue	7,547	4,614	9,255	19,715	22,541	63,672
Subordinated liabilities	371	509	1,386	4,801	9,492	16,559
Total non-derivative financial liabilities	218,178	29,213	20,326	33,942	40,173	341,832
Derivative financial liabilities:						
Gross settled derivatives – outflows	36,964	28,245	31,639	34,609	23,375	154,832
Gross settled derivatives – inflows	(35,481)	(26,665)	(29,881)	(32,716)	(21,481)	(146,224)
Gross settled derivatives – net flows	1,483	1,580	1,758	1,893	1,894	8,608
Net settled derivative liabilities	18,253	27	88	303	516	19,187
Total derivative financial liabilities	19,736	1,607	1,846	2,196	2,410	27,795

The Banks's financial guarantee contracts are accounted for as financial instruments and measured at fair value on the balance sheet. The majority of the Banks'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 £6,795 million at 31 December 2015 (2014: £6,598 million) with £3,833 million expiring within one year; £916 million between one and three years; £1,153 million between three and five years; and £893 million over five years (2014: £3,674 million expiring within one year; £1,773 million between one and three years; £647 million between three and five years; and £504 million over five years).

52 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 2015					
Acceptances and endorsements	**50**	**1**	**1**	**–**	**52**
Other contingent liabilities	**1,463**	**365**	**107**	**646**	**2,581**
Total contingent liabilities	**1,513**	**366**	**108**	**646**	**2,633**
Lending commitments	**67,727**	**18,803**	**19,234**	**6,731**	**112,495**
Other commitments	**38**	**4**	**83**	**296**	**421**
Total commitments	**67,765**	**18,807**	**19,317**	**7,027**	**112,916**
Total contingents and commitments	**69,278**	**19,173**	**19,425**	**7,673**	**115,549**
31 December 2014					
Acceptances and endorsements	58	–	–	1	59
Other contingent liabilities	1,306	504	130	683	2,623
Total contingent liabilities	1,364	504	130	684	2,682
Lending commitments	72,693	13,750	15,733	5,103	107,279
Other commitments	101	162	–	–	263
Total commitments	72,794	13,912	15,733	5,103	107,542
Total contingents and commitments	74,158	14,416	15,863	5,787	110,224

	Within 1 year £m	1-3 years £m	3-5 years £m	Over 5 years £m	Total £m
The Bank					
31 December 2015					
Acceptances and endorsements	**50**	**1**	**1**	**–**	**52**
Other contingent liabilities	**1,378**	**360**	**107**	**577**	**2,422**
Total contingent liabilities	**1,428**	**361**	**108**	**577**	**2,474**
Lending commitments	**36,049**	**16,231**	**18,301**	**4,729**	**75,310**
Other commitments	**38**	**4**	**83**	**272**	**397**
Total commitments	**36,087**	**16,235**	**18,384**	**5,001**	**75,707**
Total contingents and commitments	**37,515**	**16,596**	**18,492**	**5,578**	**78,181**
31 December 2014					
Acceptances and endorsements	58	–	–	–	58
Other contingent liabilities	1,089	502	124	622	2,337
Total contingent liabilities	1,147	502	124	622	2,395
Lending commitments	38,751	11,710	15,194	2,570	68,225
Other commitments	100	162	–	–	262
Total commitments	38,851	11,872	15,194	2,570	68,487
Total contingents and commitments	39,998	12,374	15,318	3,192	70,882

(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.

53 Capital

Capital Management

Within the Group, capital within each regulated entity is actively managed at an appropriate level of frequency and regulatory ratios are a key factor in 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 evolving regulatory requirements, expected growth and currency of risk assets. Capital policies and procedures are subject to independent oversight.

The Group measures the amount of capital it holds using the regulatory framework defined by the Capital Requirements Directive and Regulation (CRD IV) as implemented in the UK by the Prudential Regulation Authority (PRA) policy statement PS7/13. Application of CRD IV requirements is subject to transitional phasing permitted by PS7/13.

The minimum amount of total capital, under Pillar 1 of the regulatory framework, is determined as 8 per cent of the aggregate risk-weighted assets calculated in respect of credit risk, counterparty credit risk, operational risk and market risk. At least 4.5 per cent of risk-weighted assets are required to be covered by Common Equity Tier 1 (CET1) capital.

The minimum requirement for capital is supplemented by Pillar 2 of the framework. Under Pillar 2A, additional requirements are set through the issuance of bank specific Individual Capital Guidance (ICG), which adjusts the Pillar 1 minimum for those risks not covered or not fully covered under Pillar 1. A key input into the PRA's ICG process is a bank's own assessment of the amount of capital it needs, a process known as the Internal Capital Adequacy Assessment Process (ICAAP).

A range of additional bank specific regulatory capital buffers apply under CRD IV. These include a time-varying countercyclical capital buffer for which the Group currently has a negligible requirement based on its minimal exposures to those jurisdictions that have set countercyclical buffer rates. Other capital buffers do not currently apply to the Group as they are either subject to phase in periods (commencing 2016) or are applied at the discretion of the regulator.

During the year, the individual regulated entities within the Group and the Group itself complied with all of the externally imposed capital requirements to which they are subject.

Regulatory capital development

The regulatory framework within which the Group operates continues to be developed at a global level through the Financial Stability Board (FSB) and Basel Committee on Banking Supervision (BCBS), at a European level mainly through the issuance of CRD IV technical standards and guidelines and within the UK by the PRA and through directions from the Financial Policy Committee (FPC).The Group continues to monitor these developments very closely, analysing potential capital impacts to ensure the Group and individual regulated entities continue to maintain a strong capital position that exceeds the minimum regulatory requirements and the Group's risk appetite and is consistent with market expectations.

Capital resources

Regulatory capital is divided into tiers depending on the degree of permanency and ability to absorb losses.

- Common equity tier 1 capital represents the strongest form of capital consisting of shareholders' equity after a number of regulatory adjustments and deductions are applied. These include deductions for the Group's equity investment in its insurance business and deferred tax assets, subject to threshold requirements under CRD IV, and the elimination of the cash flow hedging reserve, goodwill, other intangible assets and defined benefit pension surpluses.
- Fully qualifying additional tier 1 (AT1) capital comprises non-cumulative perpetual securities containing specific provisions to write down the security or convert it to equity should the CET1 ratio fall to a defined trigger limit. Under transitional rules, securities that do not qualify in their own right but were issued and eligible as tier 1 capital prior to CRD IV can be partially included within AT1, until they are phased out altogether in 2022. To the extent these securities do not qualify as AT1 they may nevertheless still qualify as tier 2 capital. A portion of the subordinated debt issued by the Group's insurance business and held by the Group is deducted from AT1 capital. The remaining portion is deducted from tier 2 capital.
- Tier 2 (T2) capital comprises certain other subordinated debt securities that do not qualify as AT1. They must have an original term of at least 5 years, cannot normally be redeemed within their first 5 years and are phased out as T2 regulatory capital in the final 5 years before maturity. Transitional rules under CRD IV allow securities that do not qualify in their own right as T2 capital, but which were issued and eligible as T2 capital prior to CRD IV, to be partially included as T2 capital until they are phased out altogether in 2022. A deduction from T2 capital is made for the portion of the subordinated debt issued by the Group's insurance business that is not deducted from AT1 capital.

The Group's CRD IV transitional capital resources are summarised as follows:

	2015 £m	2014 £m
Common equity tier 1 capital	**34,041**	36,464
Additional tier 1 capital	**3,584**	4,583
Tier 2 capital	**12,027**	15,201
Total capital	**49,652**	56,248

54 Cash flow statements

a Change in operating assets

	The Group		The Bank	
	2015 £m	2014 £m	**2015 £m**	2014[1] £m
Change in loans and receivables	**6,081**	12,846	**5,486**	(1,365)
Changes in amounts due from fellow Lloyds Banking Group undertakings	**437**	3,204	**(2,181)**	132,561
Change in derivative financial instruments, trading and other financial assets at fair value through profit or loss	**20,557**	(11,446)	**23,492**	(41,022)
Change in other operating assets	**7,886**	(1,965)	**1,724**	(737)
Change in operating assets	**34,961**	2,639	**28,521**	89,437

b Change in operating liabilities

	The Group		The Bank	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Change in deposits from banks	**6,107**	(3,029)	**5,482**	(2,176)
Change in customer deposits	**(4,252)**	7,745	**10,893**	9,422
Changes in amounts due to fellow Lloyds Banking Group undertakings	**636**	(3,629)	**(21,228)**	(152,046)
Change in debt securities in issue	**6,218**	(11,114)	**12,188**	12,894
Change in derivative financial instruments, trading and other financial liabilities at fair value through profit or loss	**(16,984)**	23,886	**(27,175)**	43,134
Change in investment contract liabilities	**(3,922)**	(342)	**–**	–
Change in other operating liabilities	**1,207**	(5,148)	**(1,606)**	147
Change in operating liabilities	**(10,990)**	8,369	**(21,446)**	(88,625)

[1]Restated – see note 1.

54 Cash flow statements (continued)

c Non-cash and other items

	The Group		The Bank	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Depreciation and amortisation	**2,112**	1,935	**707**	536
Permanent diminution in value of investment in subsidiaries	**–**	–	**531**	149
Dividends received from subsidiary undertakings	**–**	–	**(12,820)**	(2,873)
Revaluation of investment properties	**(416)**	(513)	**–**	–
Allowance for loan losses	**441**	737	**293**	443
Write-off of allowance for loan losses, net of recoveries	**(3,467)**	(5,761)	**(609)**	(1,003)
Impairment of available-for-sale financial assets	**4**	2	**1**	–
Change in insurance contract liabilities	**(2,856)**	4,069	**–**	–
Payment protection insurance provision	**4,000**	2,200	**2,550**	1,394
Other regulatory provisions	**837**	925	**383**	561
Other provision movements	**337**	222	**(57)**	633
Net charge (credit) in respect of defined benefit schemes	**315**	(478)	**164**	(182)
Impact of consolidation and deconsolidation of OEICs[1]	**(5,978)**	(5,277)	**–**	–
Unwind of discount on impairment allowances	**(56)**	(126)	**(76)**	(96)
Foreign exchange element on balance sheet[2]	**(186)**	1,057	**(902)**	(542)
Interest expense on subordinated liabilities	**2,452**	2,752	**1,751**	1,848
Loss (profit) on disposal of businesses	**46**	(208)	**(139)**	(210)
Other non-cash items	**(456)**	(97)	**38**	(212)
Total non-cash items	**(2,871)**	1,439	**(8,185)**	446
Contributions to defined benefit schemes	**(433)**	(538)	**(237)**	(157)
Payments in respect of payment protection insurance provision	**(3,091)**	(2,458)	**(1,895)**	(1,650)
Payments in respect of other regulatory provisions	**(661)**	(1,104)	**(370)**	(667)
Other	**7**	29	**–**	–
Total other items	**(4,178)**	(4,071)	**(2,502)**	(2,474)
Non-cash and other items	**(7,049)**	(2,632)	**(10,687)**	(2,028)

[1] These OEICs (Open-ended investment companies) are mutual funds which are consolidated if the Group manages the funds and also has a sufficient 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.

d Analysis of cash and cash equivalents as shown in the balance sheet

	The Group		The Bank	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Cash and balances with central banks	**58,417**	50,492	**55,919**	40,965
Less: mandatory reserve deposits[1]	**(941)**	(980)	**(485)**	(478)
	57,476	49,512	**55,434**	40,487
Loans and advances to banks	**25,117**	26,155	**2,625**	4,591
Less: amounts with a maturity of three months or more	**(10,640)**	(10,520)	**(2,207)**	(2,106)
	14,477	15,635	**418**	2,485
Total cash and cash equivalents	**71,953**	65,147	**55,852**	42,972

[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 2015 is £13,545 million (2014: £12,855 million) held within the Group's life funds, which is not immediately available for use in the business.

54 Cash flow statements (continued)

e Acquisition of group undertakings and businesses

	The Group		The Bank	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Additional capital injections to subsidiaries	**–**	–	**(64)**	(750)
Acquisition of and additional investment in associates and joint ventures	**(5)**	(1)	**–**	–
Net cash outflow	**(5)**	(1)	**(64)**	(750)

f Disposal of group undertakings and businesses

	The Group		The Bank	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Trading and other financial assets at fair value through profit or loss	**3,420**	11	**–**	–
Loans and advances to banks	**5,539**	55	**–**	–
Loans and advances to customers	**21,333**	256	**–**	256
Available-for-sale financial assets	**654**	–	**–**	–
Value of in-force business	**60**	–	**–**	–
Property, plant and equipment	**150**	–	**–**	–
	31,156	322	**–**	256
Customer deposits	**(24,613)**	(266)	**–**	(266)
Debt securities in issue	**(9)**	–	**–**	–
Liabilities arising from insurance contracts and participating investment contracts	**(3,828)**	–	**–**	–
Liabilities arising from non-participating investment contracts	**(549)**	–	**–**	–
Non-controlling interests	**(825)**	–	**–**	–
Other net assets (liabilities)	**(314)**	802	**–**	–
	(30,138)	536	**–**	(266)
Net assets (liabilities) disposed of	**1,018**	858	**–**	(10)
Investment in subsidiary disposed of	**–**	–	**711**	910
Non-cash consideration received	**–**	(518)	**–**	(518)
(Loss) profit on sale of businesses	**(46)**	208	**139**	351
Cash consideration received on losing control of group undertakings and businesses	**972**	548	**850**	733
Cash and cash equivalents disposed	**(5,043)**	(5)	**–**	(5)
Net cash inflow (outflow)	**(4,071)**	543	**850**	728

55 Disposal of interest in TSB Banking Group plc

On 20 March 2015 the Group announced that it had agreed to sell a 9.99 per cent interest in TSB Banking Group plc (TSB) to Banco de Sabadell S.A. (Banco Sabadell) and that it had entered into an irrevocable undertaking to accept Banco Sabadell's recommended cash offer in respect of its remaining 40.01 per cent interest in TSB. The offer by Banco Sabadell was conditional upon, amongst other things, regulatory approval.

The sale of the 9.99 per cent interest completed on 24 March 2015, reducing the Group's holding in TSB to 40.01 per cent; this sale led to a loss of control and the deconsolidation of TSB. The Group's residual investment in 40.01 per cent of TSB was then recorded at fair value, as an asset held for sale. The Group recognised a loss of £660 million reflecting the net costs of the Transitional Service Agreement between Lloyds and TSB, the contribution to be provided by Lloyds to TSB in moving to alternative IT provision and the net result on sale of the 9.99 per cent interest and fair valuation of the residual investment.

The Group announced on 30 June 2015 that all relevant regulatory clearances for the sale of its remaining 40.01 per cent holding in TSB had been received and that the sale was therefore unconditional in all respects; the proceeds were received on 10 July 2015.

At 31 December 2015, the Group held a £2,349 million interest in Cape Funding No.1 PLC, a securitisation funding vehicle set up by TSB.

56 Future accounting developments

The following pronouncements are not applicable for the year ending 31 December 2015 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. As at 16 March 2016, these pronouncements are awaiting EU endorsement.

IFRS 9 Financial Instruments
IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income 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. These changes are not expected to have a significant impact on the Group.

IFRS 9 also replaces the existing 'incurred loss' impairment approach with an expected credit loss approach, resulting in earlier recognition of credit losses. The IFRS 9 impairment model has three stages. Entities are required to recognise a 12 month expected loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk (stage 2). The assessment of whether a significant increase in credit risk has occurred is a key aspect of the IFRS 9 methodology and involves quantitative measures, such as forward looking probabilities of default, and qualitative factors and therefore requires considerable management judgement. Stage 3 requires objective evidence of impairment which is similar to the guidance on incurred losses in IAS 39. IFRS 9 requires the use of more forward looking information including reasonable and supportable forecasts of future economic conditions. The need to consider multiple economic scenarios and how they could impact the loss allowance is a very subjective feature of the IFRS 9 impairment model. Loan commitments and financial guarantees not measured at fair value through profit or loss are also in scope.

These changes may result in a material increase in the Group's balance sheet provisions for credit losses although the extent of any increase will depend upon, amongst other things, the composition of the Group's lending portfolios and forecast economic conditions at the date of implementation. The requirement to transfer assets between stages and to incorporate forward looking data into the expected credit loss calculation, including multiple economic scenarios, is likely to result in impairment charges being more volatile when compared to the current IAS 39 impairment model.

The IFRS 9 expected credit loss model differs from the regulatory models in a number of ways, for example stage 2 assets under IFRS 9 carry a lifetime expected loss amount whereas regulatory models generate 12 month expected losses for non defaulted loans. In addition, different assets are in scope of each reporting base and therefore the size of the regulatory expected losses should not be taken as a proxy to the size of the loss allowance under IFRS 9.

In 2015, the Basel Committee on Banking Supervision published finalised guidance on credit risk and accounting for expected credit losses. The paper sets out supervisory guidance on how expected credit loss accounting models should interact with a bank's credit risk practices. The existing impairment processes, controls and governance will be reviewed and changed where necessary to reflect the increased demands of an expected credit loss impairment model.

The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle-based approach than IAS 39. The accounting policy choice to continue with IAS 39 hedge accounting is still being considered by the Group.

The Group has an established IFRS 9 programme to ensure a high quality implementation in compliance with the standard and regulatory guidance. The programme involves Finance and Risk functions across the Group with Divisional and Group steering committees providing oversight. The key responsibilities of the programme include defining IFRS 9 methodology and accounting policy, identifying data and system requirements, and establishing an appropriate operating model and governance framework. The impairment workstreams have developed methodologies for many of the IFRS 9 requirements, although additional validation of these decisions will be on-going to reflect the uncertainty around regulatory and audit expectations. Some risk model build has started and detailed plans, including resource needs, are in place. We expect the majority of model build to be completed in 2016 to allow robust testing and the development of management information to take place in 2017.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts. Financial instruments, leases and insurance contracts are out of scope and so this standard is not expected to have a significant impact on the Group.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018.

IFRS 16 Leases
On 13 January 2016 the IASB issued IFRS 16 to replace IAS 17 Leases. IFRS 16 requires lessees to recognise a right of use asset and a liability for future payments arising from a lease contract. Lessor accounting requirements remain aligned to the current approach under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019.

Amendments to IAS 7 Statement of Cash Flows and IAS 12 Income Taxes
In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows which require additional disclosure about an entity's financing activities and IAS 12 Income Taxes which clarify when a deferred tax asset should be recognised for unrealised losses. These revised requirements, which are effective for annual periods beginning on or after 1 January 2017, are not expected to have a significant impact on the Group.

57 Other information

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.

GROUP COMPANIES

In compliance with Section 409 of the Companies Act 2006, the following comprises a list of all related undertakings of the Group, as at 31 December 2015. The list includes each undertaking's country of incorporation (UK unless otherwise stated) and the percentage of class(es) of shares held by the immediate parent company. Where different, the ultimate percentage held by the Group is given in brackets. All shares are ordinary shares indirectly held by Lloyds Bank plc unless indicated otherwise.

Subsidiary undertakings

The Group holds a majority of voting rights of following undertakings.

Name of undertaking	% of class held by immediate parent company	
A G Finance Limited	100%	ii, #
A.C.L. Limited	100%	
ACL Autolease Holdings Limited	100%	
ADF No.1 Pty Ltd, (Australia)	100%	
Alex Lawrie Factors Limited	100%	
Alex. Lawrie Receivables Financing Limited	100%	
Amberdate Limited	100%	iv, ^
	100%	^
AN Vehicle Finance Limited	100%	
Anglo Scottish Utilities Partnership 1	n/a	*
Aquilus Limited	100%	^
Automobile Association Personal Finance Limited	100%	
Bank Of Scotland (B.G.S) London Nominees Limited	n/a	*
Bank Of Scotland (Stanlife) London Nominees Limited	n/a	*
Bank Of Scotland Branch Nominees Limited	100%	
Bank Of Scotland Capital Funding (Jersey) Limited, (Jersey)	100%	
Bank Of Scotland Capital Funding L.P, (Jersey)	n/a	*
Bank Of Scotland Central Nominees Limited	n/a	*
Bank Of Scotland Edinburgh Nominees Limited	n/a	*
Bank Of Scotland Equipment Finance Limited	100%	
Bank Of Scotland Foundation Limited	n/a	*
Bank Of Scotland Hong Kong Nominees Limited, (Hong Kong)	n/a	*
Bank Of Scotland Insurance Services Limited	99.99% (100%)	
Bank Of Scotland Leasing Limited	100%	
Bank Of Scotland LNG Leasing (No 1) Limited	100%	
Bank Of Scotland London Nominees Limited	n/a	*
Bank Of Scotland Nominees (Unit Trusts) Limited	n/a	*
Bank Of Scotland P.E.P. Nominees Limited	n/a	*
Bank Of Scotland plc	99.99% (100%)	
	0% (100%)	iii, ^
Bank Of Scotland Structured Asset Finance Limited	100%	
Bank Of Scotland Transport Finance 1 Limited	100%	
Bank Of Wales Limited	100%	
Barbirolli Square Limited Partnership	n/a	*
Barents Leasing Limited	100%	
Barnwood Mortgages Limited	100%	
Bavarian Mortgages No. 5 Limited	99.99% (100%)	
Bavarian Mortgages No.2 Limited (In Liquidation)	100%	
Birchcrown Finance Limited	100%	iv
	100%	vi
Birmingham Midshires Asset Management Limited	100%	
Birmingham Midshires Financial Services Limited	100%	
Birmingham Midshires Land Development Limited	100%	
Birmingham Midshires Mortgage Services Limited	100%	
Birmingham Midshires Mortgage Services No.1 Limited	100%	
Birmingham Midshires Property Services Limited (In Liquidation)	100%	
	100%	xii
Black Horse (TRF) Limited	100%	
Black Horse Executive Mortgages Limited	100%	
Black Horse Finance Holdings Limited	100%	i
	100%	ii
Black Horse Finance Limited (In Liquidation)	100%	
Black Horse Finance Management Limited	100%	
Black Horse Group Limited	100%	
	0% (100%)	iv
Black Horse Limited	100%	
Black Horse Offshore Limited, (Jersey)	100%	
Black Horse Property Services Limited	100%	^
Boltro Nominees Limited	100%	
BOS (Boston) Inc, (USA)	100%	
BOS (Ireland) Nominees Limited, (Ireland)	100%	
BOS (Ireland) Property Services 2 Limited, (Ireland)	100%	
BOS (Ireland) Property Services Limited, (Ireland)	100%	
BOS (PB) LLC, (USA)	100%	
BOS (Shared Appreciation Mortgages (Scotland) No. 2) Limited	100%	
BOS (Shared Appreciation Mortgages (Scotland) No. 3) Limited	100%	
BOS (Shared Appreciation Mortgages (Scotland)) Limited	100%	
BOS (Shared Appreciation Mortgages) No. 1 Plc	99.99% (100%)	
BOS (Shared Appreciation Mortgages) No. 2 Plc	99.99% (100%)	
BOS (Shared Appreciation Mortgages) No. 3 Plc	99.99% (100%)	
BOS (Shared Appreciation Mortgages) No. 4 Plc	99.99% (100%)	
BOS (Shared Appreciation Mortgages) No. 5 Plc	99.99% (100%)	
BOS (Shared Appreciation Mortgages) No. 6 Plc	99.99% (100%)	
BOS (Southport) Holding LLC, (USA)	100%	
BOS (USA) AI Inc., (USA)	100%	
BOS (USA) Fund Investments Inc., (USA)	100%	
BOS (USA) Inc, (USA)	100%	
BOS Aircraft Holdings Limited (In Liquidation)	100%	
BOS Edinburgh No 1 Limited	100%	
BOS Mistral Limited	100%	
BOSIC Inc, (Canada)	100%	
BOSSAF Rail Limited	100%	
Boundary Business Centre Limited (In Liquidation)	100%	
Britannia Personal Lending Limited	100%	i
British Linen Leasing (London) Limited	100%	
British Linen Leasing Limited	100%	
British Linen Shipping Limited	100%	
Brooklyn Properties Limited, (Ireland)	100%	i
	100%	ii

Group companies

C & G Financial Services Limited	100%	
C & G Homes Limited	100%	
C&G Estate Agents Limited	100%	
C&G Property Holdings Limited (In Liquidation)	100%	
C.T.S.B. Leasing Limited	100%	
Capital 1945 Limited	100%	
Capital Bank Insurance Services Limited	100%	
Capital Bank Leasing 1 Limited	100%	
Capital Bank Leasing 10 Limited	100%	
Capital Bank Leasing 11 Limited	100%	
Capital Bank Leasing 12 Limited	100%	
Capital Bank Leasing 2 Limited	100%	
Capital Bank Leasing 3 Limited	100%	
Capital Bank Leasing 4 Limited	100%	
Capital Bank Leasing 5 Limited	100%	
Capital Bank Leasing 6 Limited	100%	
Capital Bank Leasing 7 Limited	100%	
Capital Bank Leasing 8 Limited	100%	
Capital Bank Leasing 9 Limited	100%	
Capital Bank Property Investments (3) Limited	100%	
Capital Bank Property Investments (6) Limited	100%	
Capital Bank Vehicle Management Limited	100%	
Capital Leasing (Edinburgh) Limited	100%	
Capital Leasing Limited	100%	
Capital Personal Finance Limited	100%	
Car Ownership Finance Limited	100%	
Cardnet Merchant Services Limited	97.85% (100%)	ii, # ^
Carlease Limited	100%	
Cartwright Finance Limited	100%	viii
	0.08%	vii, #
CashFriday Limited	100%	
Cashpoint Limited	100%	^
Castle Baynard Funding Limited	100%	
Castlemill Investments Limited (In Liquidation)	100%	
Caveminster Limited	100%	
CBRail Limited (In Liquidation)	100%	
CBRail S.A.R.L., (Luxembourg)	100%	
Cedar Holdings Limited	100%	
Central Mortgage Finance Limited	100%	
CF Asset Finance Limited	100%	
Chariot Finance Limited	100%	
Chartered Trust (Nominees) Limited	100%	
Chartered Trust Limited (In Liquidation)	100%	
Chartered Trust Marine Limited (In Liquidation)	100%	
Charterhall (No. 1) Limited	100%	^
Charterhall (No. 2) Limited	100%	^
Charterhall (No. 3) Limited	100%	^
Cheltenham & Gloucester plc	99.99% (100%)	^
Cheshire Holdings Europe Limited, (Jersey)	100%	
	100%	xii
Chiswell Stockbrokers Limited	100%	^
Clerical Medical (Dartford Number 2) Limited	100%	
Clerical Medical (Dartford Number 3) Limited	100%	
Clerical Medical (Waterlooville One) Limited, (Jersey)	100%	
Clerical Medical (Waterlooville Two) Limited, (Jersey)	100%	
Clerical Medical Finance Plc	99.99% (100%)	
Clerical Medical Financial Services Limited	99.99% (100%)	
Clerical Medical Forestry Limited	99.99% (100%)	
Clerical Medical International Holdings B.V.	100%	
Clerical Medical Investment Fund Managers Limited	100%	
Clerical Medical Investment Group Limited	100%	
Clerical Medical Managed Funds Limited	99.99% (100%)	
Clerical Medical Non Sterling Property Company SARL	100%	
Clerical Medical Properties Limited	99.99% (100%)	
Cloak Lane Finance (Cayman) Limited (In Liquidation), (Cayman)	100%	
	100%	iv
Cloak Lane Funding Limited, (Jersey)	100%	
	100%	iv
Cloak Lane Investments Limited	100%	
CM Venture Investments Limited, (Isle of Man)	100%	
	100%	iv
CMI Asset Management (Luxembourg) S.A (In Liquidation) , (Luxembourg)	99.99%	
CMI Insurance (Luxembourg) S.A. , (Luxembourg)	99.99% (100%)	
Coate Homes Limited (In Liquidation)	100%	
Coleman Staffordshire Funding Limited (In Liquidation)	100%	
Coleman Staffordshire Investments Limited (In Liquidation)	100%	
Conquest Securities Limited	100%	iv
	100%	vi
Corbiere Asset Investments Ltd	100%	i
	0% (100%)	ii
County Wide Property Investments Limited	100%	
Create Services Limited	100%	^
Dalkeith Corporation, (USA)	100%	
Delancey Rolls UK Limited	100%	ii, #
Denham Funding Limited	100%	
	100%	iv
Deva Lease 2 Limited	100%	
Deva Lease 3 Limited	100%	
Direct LB Limited	100%	^
Dunstan Investments (UK) Limited	100%	
Eastcheap Funding Limited (in Liquidation)	100%	
Enterprise Car Finance Limited	100%	ii
Equipment Leasing (No. 3) Limited	100%	
Equipment Leasing (No. 6) Limited	100%	
Eurolead Services Holdings Limited	100%	
Exclusive Finance No. 1 Limited	100%	^
	100%	i, ^
Faryner's House Funding Limited (In Liquidation),	100%	
(Cayman Islands)	100%	x
	100%	x
Financial Consultants LB Limited	100%	^

Group companies

First Alternative Limited	100%	
First Retail Finance (Chester) Limited	100%	
Flexifly Limited	100%	
Fontview Limited	100%	
Forthright Finance Limited	100%	
Fortrose Investments Limited (In Liquidation)	100%	
France Industrial Premises Holding Company, (France)	100%	
Freeway Limited	100%	
General Insurance Services Limited	100%	
General Leasing (No. 10) Limited (In Liquidation)	100%	
General Leasing (No. 12) Limited	100%	
General Leasing (No. 14) Limited	100%	^
General Leasing (No. 15) Limited	100%	
General Leasing (No. 19) Limited (In Liquidation)	100%	
General Leasing (No. 2) Limited	100%	
General Leasing (No. 4) Limited	100%	
General Reversionary And Investment Company	80%	
Gensar Design Limited (In Liquidation)	100%	
GFP Holdings LLC, (USA)	100%	
Gleacher Mezzanine LLC, (USA)	66.67%	
Glosstrips Limited	100%	
Godfrey Davis (Contract Hire) Limited	100%	
Goldbond Limited (In Liquidation), (Hong Kong)	100%	
Gresham Nominee 1 Limited	100%	
Gresham Nominee 2 Limited	100%	
Halifax Credit Card Limited	100%	i
	100%	ii
	100%	vii
Halifax Equitable Limited	100%	
Halifax Financial Brokers Limited	100%	
Halifax Financial Services (Holdings) Limited	100%	
Halifax Financial Services Limited	100%	
Halifax General Insurance Services Limited	100%	
Halifax Group Limited	100%	
Halifax Investment Services Limited	100%	
Halifax Leasing (June) Limited	100%	
Halifax Leasing (March No.2) Limited	100%	
Halifax Leasing (September) Limited	100%	
Halifax Life Limited	100%	
Halifax Limited	99.99% (100%)	
Halifax Loans Limited	100%	
Halifax Mortgage Services (Holdings) Limited	100%	
Halifax Mortgage Services Limited	100%	
Halifax Nominees Limited	100%	
Halifax Pension Nominees Limited	100%	
Halifax Premises Limited	100%	
Halifax Share Dealing Limited	100%	
Halifax Vehicle Leasing (1998) Limited	100%	
HBOS Canada Inc, (Canada)	100%	
HBOS Capital Funding (Jersey) Limited, (Jersey)	100%	
HBOS Covered Bonds LLP	n/a	*

HBOS Directors Limited	100%	
HBOS Final Salary Trust Limited	100%	
HBOS Financial Services Limited	100%	
HBOS Insurance & Investment Group Limited	100%	^
HBOS International Financial Services Holdings Limited	99.99% (100%)	
HBOS Investment Fund Managers Limited	100%	
HBOS Investment Management (Mediterranean) Limited (In Liquidation)	100%	
HBOS Investment Management Holdings (Malta) Limited (In Liquidation), (Malta)	100%	
HBOS Management (Jersey) Limited, (Jersey)	100%	
HBOS plc	99.99% (100%)	^
	100%	iv, ^
	100%	vi, ^
HBOS Social housing Covered Bonds LLP	n/a	*
HBOS Treasury Services Limited	100%	
HBOS UK Limited	99.99% (100%)	
HECM Customer Services Limited (In Liquidation)	99.99% (100%)	
Heidi Finance Holdings (UK) Limited	100%	
High Street Marketing Services S.A. (In Liquidation), (Argentina)	99.99% (100%)	^
Highway Contract Hire Limited (In Liquidation)	100%	
Highway Vehicle Leasing Limited (In Liquidation)	100%	
	100%	iv
Highway Vehicle Management Limited	100%	
Hill Samuel (USA), Inc., (USA)	100%	
Hill Samuel Bank Limited	100%	^
Hill Samuel Finance (No.22) Limited (In Liquidation)	100%	
Hill Samuel Finance Limited	100%	xi
	100%	iv
Hill Samuel International Holdings Limited (In Liquidation)	100%	i
Hill Samuel Investments Limited (In Liquidation)	36.61% (100%)	^
Hill Samuel Leasing (No 2) Limited	100%	
Hill Samuel Leasing Co. Limited	100%	^
Hill Samuel Nominees Asia Private Limited, (Singapore)	100%	
HL Group (Holdings) Limited	100%	
Home Shopping Personal Finance Limited	100%	
Horizon Capital 2000 Limited	100%	
Horizon Capital Limited	100%	
Horizon Hotel Investments Limited	100%	
Horizon Property Investments Limited	100%	
Horizon Residential Developments Limited (In Liquidation)	100%	
Horizon Resources Limited	100%	
Horsham Investments Limited, (Jersey)	100%	
Housing Growth Partnership GP LLP	n/a	*
Housing Growth Partnership LP	n/a	*
Housing Growth Partnership Limited	100%	i, ^
Housing Growth Partnership Manager Limited	100%	^
HSDL Nominees Limited	100%	
HVF Limited	100%	

Hyundai Car Finance Limited	100%	i
	100%	ii
IAI International Limited	100%	^
IBOS Finance Limited	100%	
IBOS Securities	n/a	*
ICC Enterprise Partners Limited, (Ireland)	100%	
ICC Equity Partners Limited, (Ireland)	100%	
ICC ESOP Trustee Limited, (Ireland)	100%	
ICC Holdings, (Ireland)	99.09% (100%)	
ICC Software Partners Limited, (Ireland)	100%	
IF Covered Bonds Limited Liability Partnership	n/a	*
In Store Credit Limited	100%	
Inchcape Financial Services Limited	100%	i
Industrial Real Estate (General Partner) Limited	100%	
Industrial Real Estate (Nominee) Limited	100%	
Intelligent Finance Financial Services Limited	100%	
Intelligent Finance Software Limited	100%	
International Motors Finance Limited	100%	i
IWEB (UK) Limited (In Liquidation)	100%	
Kanaalstraat Funding C.V., (Netherlands)	n/a	*
Kanto Leasing Limited	100%	
Katrine Leasing Limited, (Jersey)	100%	
Kingsbarns Investments Limited (In Liquidation)	100%	
Kripton Properties Limited (In Liquidation), (Ireland)	100%	
Langbourn Holdings Limited, (Guernsey)	99.99% (100%)	
LB Comhold Limited	100%	^
LB Healthcare Trustee Limited	100%	^
LB Leasing L.P, (USA)	n/a	*
LB Mortgages Limited	100%	
LB Motorent Limited	100%	
LB Quest Limited	100%	^
LB Share Schemes Trustees Limited	100%	^
LBCF Limited	100%	
LBI Finanz Anstalt (In Liquidation), (Liechtenstein)	100%	
LBI Leasing Limited	100%	
LDC (Asia) Limited, (Hong Kong)	100%	
LDC (General Partner) Limited	100%	^
LDC (Managers) Limited	100%	
LDC (Nominees) Limited	100%	
LDC (UK) Ltd (applied for strike off)	100%	
LDC Carry V LP	n/a	*
LDC Equity V LLP	n/a	*
LDC GP LLP	n/a	*
LDC I LP	n/a	*
LDC II LP	n/a	*
LDC III LP	n/a	*
LDC IV LP	n/a	*
LDC Parallel (Nominees) Limited	100%	
LDC Parallel I LP	n/a	*
LDC Parallel II LP	n/a	*
LDC Parallel III LP	n/a	*
LDC Parallel IV LP	n/a	*
LDC Parallel V LP	n/a	*
LDC PE Limited (applied for strike off)	100%	
LDC Private Equity Ltd (applied for strike off)	100%	
LDC Ventures Carry Ltd	100%	
LDC Ventures Trustees Ltd	100%	
LDC V LP	n/a	*
Leasing (No. 2) Limited	100%	
Legacy Renewal Company Limited	99.99% (100%)	
Lex Autolease (CH) Limited	100%	
Lex Autolease (FMS) Limited	100%	
Lex Autolease (Shrewsbury) Limited	100%	
	100%	iv
	100%	v
Lex Autolease (VC) Limited	100%	
Lex Autolease (VH) Limited (In Liquidation)	100%	
Lex Autolease (VL) Limited	100%	
Lex Autolease Carselect Limited	100%	
Lex Autolease Limited	100%	
Lex Vehicle Finance 2 Limited	100%	
Lex Vehicle Finance 3 Limited	100%	
Lex Vehicle Finance Limited	100%	
Lex Vehicle Leasing (Holdings) Limited	100%	i
	100%	ii
	100%	x
Lex Vehicle Leasing Limited	100%	
Lex Vehicle Partners (1) Limited	100%	
Lex Vehicle Partners (2) Limited	100%	
Lex Vehicle Partners (3) Limited	100%	
Lex Vehicle Partners (4) Limited	100%	
Lex Vehicle Partners Limited	100%	
Lime Street (Funding) Limited	100%	
Lloyds (FDC) Company	99% (100%)	
Lloyds (General Partner) Limited, (Jersey)	100%	
Lloyds (Gresham) Limited	100%	^
	100%	x, ^
Lloyds (Gresham) No. 1 Limited	100%	^
Lloyds (Nimrod) Leasing Industries Limited	100%	
Lloyds (Nimrod) Specialist Finance Limited	100%	
Lloyds America Securities Corporation	100%	^
Lloyds Asset Leasing Limited	100%	
Lloyds Bank (BLSA)	50% (100%)	^
Lloyds Bank (Branches) Nominees Limited	100%	^
Lloyds Bank (Colonial & Foreign) Nominees Limited	100%	^
Lloyds Bank (Fountainbridge 1) Limited	100%	
Lloyds Bank (Fountainbridge 2) Limited	100%	
Lloyds Bank (Gibraltar) Limited, (Gibraltar)	100%	
Lloyds Bank (I.D.) Nominees Limited	100%	^
Lloyds Bank (Pep Nominees) Limited	100%	^
Lloyds Bank (Stock Exchange Branch) Nominees Limited	100%	^
Lloyds Bank Asset Finance Limited	100%	^
Lloyds Bank Commercial Finance Limited	100%	^

Group companies

Lloyds Bank Commercial Finance Scotland Limited	100%	
Lloyds Bank Corporate Asset Finance (HP) Limited	100%	
Lloyds Bank Corporate Asset Finance (No. 3) Limited	100%	
Lloyds Bank Corporate Asset Finance (No. 4) Limited	100%	
Lloyds Bank Corporate Asset Finance (No.1) Limited	100%	
Lloyds Bank Corporate Asset Finance (No.2) Limited	100%	
Lloyds Bank Covered Bonds LLP	n/a	*
Lloyds Bank Equipment Leasing (No. 1) Limited	100%	
Lloyds Bank Equipment Leasing (No. 10) Limited	100%	
Lloyds Bank Equipment Leasing (No. 11) Limited	100%	
Lloyds Bank Equipment Leasing (No. 2) Limited	100%	
Lloyds Bank Equipment Leasing (No. 5) Limited	100%	
Lloyds Bank Equipment Leasing (No. 7) Limited	100%	
Lloyds Bank Equipment Leasing (No. 9) Limited	100%	
Lloyds Bank Financial Advisers Limited	100%	i
	100%	ii
Lloyds Bank Financial Services (Holdings) Limited	99.99% (100%)	^
	0% (100%)	iv
Lloyds Bank Financial Services Limited (In Liquidation)	100%	
Lloyds Bank Foundation for England & Wales	n/a	*
Lloyds Bank Foundation for Northern Ireland	n/a	*
Lloyds Bank Foundation for the Channel Islands	n/a	*
Lloyds Bank General Insurance Holdings Limited	100%	
Lloyds Bank General Insurance Limited	100%	
Lloyds Bank General Leasing (No. 1) Limited	100%	
Lloyds Bank General Leasing (No. 11) Limited	100%	
Lloyds Bank General Leasing (No. 17) Limited	100%	
Lloyds Bank General Leasing (No. 18) Limited	100%	
Lloyds Bank General Leasing (No. 20) Limited	100%	
Lloyds Bank General Leasing (No. 3) Limited	100%	
Lloyds Bank General Leasing (No. 5) Limited	100%	
Lloyds Bank General Leasing (No. 9) Limited	100%	^
Lloyds Bank GF (Holdings) Limited	100%	^
	100%	vi
Lloyds Bank Hill Samuel Holding Company Limited	100%	^
Lloyds Bank Insurance Services (Direct) Limited	100%	
Lloyds Bank Insurance Services Limited	100%	
Lloyds Bank International Limited, (Jersey)	100%	
Lloyds Bank Leasing (No. 3) Limited	100%	
Lloyds Bank Leasing (No. 4) Limited	100%	
Lloyds Bank Leasing (No. 6) Limited	100%	
Lloyds Bank Leasing (No. 7) Limited	100%	
Lloyds Bank Leasing (No. 8) Limited	100%	
Lloyds Bank Leasing Limited	100%	^
Lloyds Bank Maritime Leasing (No. 10) Limited	100%	
Lloyds Bank Maritime Leasing (No. 12) Limited	100%	
Lloyds Bank Maritime Leasing (No. 13) Limited	100%	
Lloyds Bank Maritime Leasing (No. 15) Limited	100%	
Lloyds Bank Maritime Leasing (No. 16) Limited	100%	
Lloyds Bank Maritime Leasing (No. 17) Limited	100%	
Lloyds Bank Maritime Leasing (No. 18) Limited	100%	

Lloyds Bank Maritime Leasing (No. 2) Limited	100%	
Lloyds Bank Maritime Leasing (No. 3) Limited	100%	
Lloyds Bank Maritime Leasing (No. 8) Limited	100%	
Lloyds Bank Maritime Leasing Limited	100%	
Lloyds Bank Mtch Limited	100%	^
Lloyds Bank Nominees Limited	100%	
Lloyds Bank Offshore Pension Trust Limited, (Jersey)	91% (100%)	^
Lloyds Bank Pension ABCS (No. 1) LLP	n/a	*
Lloyds Bank Pension ABCS (No. 2) LLP	n/a	*
Lloyds Bank Pension Trust (No. 1) Limited	100%	^
Lloyds Bank Pension Trust (No. 2) Limited	100%	^
Lloyds Bank Pensions Property (Guernsey) Limited,	100%	i
(Guernsey)	100%	ii
Lloyds Bank Private Banking Limited	100%	^
Lloyds Bank Properties Limited	100%	^
Lloyds Bank Property Company Limited	100%	
Lloyds Bank S.F. Nominees Limited	100%	
Lloyds Bank Subsidiaries Limited	100%	^
	100%	iv, ^
Lloyds Bank Trust Company (International) Limited	100%	^
Lloyds Bank Trustee Services Limited	100%	^
Lloyds Bank Trustees Limited	100%	^
Lloyds Banking Group Insurance PCC Limited (In Liquidation), (Guernsey)	77.16% (100%)	
Lloyds Banking Group Pensions Trustees Limited	100%	^
Lloyds Capital 2 L.P, (Jersey)	n/a	*
Lloyds Commercial Leasing Limited	100%	
Lloyds Commercial Properties Limited	100%	^
Lloyds Commercial Property Investments Limited	100%	
Lloyds Corporate Services (Jersey) Limited, (Jersey)	100%	
Lloyds Development Capital (Holdings) Limited	100%	^
Lloyds Development Capital Ltd, (applied for strike off)	100%	
Lloyds Engine Capital (No.1) U.S LLC, (USA)	100%	
Lloyds Far East Limited, (Jersey)	100%	
Lloyds Financial Leasing Limited	100%	
Lloyds Financial Services Limited	100%	^
Lloyds General Leasing Limited	100%	
Lloyds Group Holdings (Jersey) Limited, (Jersey)	99.4%	i, ^
	100%	ii, ^
	100%	vii, ^
Lloyds Holdings (Jersey) Limited, (Jersey)	100%	
Lloyds Industrial Leasing Limited	100%	
Lloyds International Pty Limited, (Australia)	100%	
	0% (100%)	x
Lloyds Investment Bonds Limited	100%	
Lloyds Investment Fund Managers Limited, (Jersey)	100%	
Lloyds Investment Securities No.5 Limited	100%	
Lloyds Leasing (North Sea Transport) Limited	100%	
Lloyds Leasing Developments Limited	100%	
Lloyds Nominees (Guernsey) Limited, (Guernsey)	98% (100%)	
Lloyds Offshore Global Services Private Limited, (India)	99.99% (100%)	

Lloyds Offshore Private Clients Limited,		
Lloyds Plant Leasing Limited	100%	
Lloyds Portfolio Leasing Limited	100%	
Lloyds Premises Investments Limited	100%	^
Lloyds Project Leasing Limited	100%	
Lloyds Property Investment Company Limited	100%	
Lloyds Property Investment Company No. 4 Limited	100%	^
Lloyds Property Investment Company No. 5 Limited	100%	
Lloyds Property Investment Company No.3 Limited	100%	
Lloyds Secretaries Limited	100%	
Lloyds Securities Inc, (USA)	100%	
Lloyds Trade & Project Finance Limited	100%	^
Lloyds Trust Company (Gibraltar) Limited, (Gibraltar)	100%	^
Lloyds TSB Fomento Comercial LTDA, (Brazil)	99.99% (100%)	^
Lloyds TSB Foundation for Scotland	n/a	*
Lloyds TSB Merchant Bank Limited, (Singapore)	100%	
	100%	v
Lloyds TSB Montracon Limited (In Liquidation)	100%	
Lloyds TSB Pacific Limited, (Hong Kong)	99.99% (100%)	
Lloyds TSB Rail Capital Inc., (USA)	100%	
Lloyds TSB Representaçóes LTDA, (Brazil)	99.99% (100%)	
Lloyds UDT (Marlow) Limited (In Liquidation)	100%	
Lloyds UDT Asset Leasing Limited	100%	
Lloyds UDT Asset Rentals Limited	100%	
Lloyds UDT Business Development Limited	100%	
Lloyds UDT Business Equipment Limited	100%	
Lloyds UDT Hiring Limited	100%	
Lloyds UDT Leasing Limited	100%	
Lloyds UDT Limited	100%	
Lloyds UDT Rentals Limited (In Liquidation)	100%	
Lloyds Your Tomorrow Trustee Limited	100%	^
London Taxi Finance Limited	100%	i
	100%	ii
London Uberior (L.A.S.Group) Nominees Limited	n/a	*
Lothian Road LLC, (USA)	100%	
Lotus Finance Limited	100%	i, #
Lovat Funding (Holdings) Limited	100%	
LTGP Limited Partnership Incorporated, (Guernsey)	n/a	*
Maritime Leasing (No. 1) Limited (In Liquidation)	100%	
Maritime Leasing (No. 11) Limited	100%	
Maritime Leasing (No. 14) Limited (In Liquidation)	100%	
Maritime Leasing (No. 19) Limited	100%	
Maritime Leasing (No. 4) Limited (In Liquidation)	100%	
Maritime Leasing (No. 7) Limited	100%	
Maritime Leasing (No. 9) Limited (In Liquidation)	100%	
Meadowfield Investments Limited	100%	
Membership Services Finance Limited	100%	
Mitre Street Funding Limited, (Jersey)	100%	
Moor Lane Holdings Limited, (Jersey)	100%	^
Moray Investments Limited	100%	
Morrison Street LLC, (USA)	100%	
Mortgage Services Funding Limited (In Liquidation)	100%	

Murrayfield LLC, (USA)	100%	
Nevis Leasing Limited, (Jersey)	74%	
Newfont Limited	100%	
NFU Mutual Finance Limited	100%	i, #
	100%	vii
Nominees (Jersey) Limited, (Jersey)	100%	
Nordic Leasing Limited	100%	
Northern Mortgage Corporation Limited (In Liquidation)	100%	
NW Motor Finance Limited (In Liquidation)	100%	
NWS 2	n/a	*
NWS Trust Limited	100%	
Ocean Leasing (July) Limited	100%	
Ocean Leasing (No 1) Limited	100%	
Ocean Leasing (No 2) Limited	100%	
Old Park Limited (In Liquidation), (Cayman)	100%	
Omnistone Limited, (Ireland)	100%	i
	100%	ii
	98% (100%)	vii
Oystercatcher Nominees Limited	100%	
Oystercatcher Residential Limited	100%	
Pacific Leasing Limited	100%	
Pensions Management (S.W.F.) Limited	n/a	*
Peony Eastern Leasing Limited	100%	
Peony Leasing Limited	100%	
Peony Western Leasing Limited	100%	
Perry Nominees Limited	100%	^
Personal Motoring Plan Limited (In Liquidation)	100%	
Pips Asset Investments Limited	100%	i
	0% (100%)	ii
Portland Funding Limited	100%	^
Prestonfield Investments Limited	100%	
Prestonfield P1 Limited	100%	
Prestonfield P2 Limited	100%	
Prestonfield P3 Limited	100%	
Proton Finance Limited	99.99% (100%)	ii, #
Quion 6 BV, (Netherlands)	100%	
R I G P Finance Limited (In Liquidation)	100%	
	100%	iii
	100%	iii
	100%	iv
R.F. Spencer And Company Limited	100%	^
Ranelagh Nominees Limited	100%	^
Retail Revival (Burgess Hill) Investments Limited	100%	
Retail Revival (Stratford) Investments Limited (In Liquidation)	100%	
Retail Revival (Trowbridge) Investments Limited (In Liquidation)	100%	
Rig Funding (Cayman) Limited (In Liquidation), (Cayman)	100%	
Saint Michel Holding Company No1, (France)	100%	
Saint Michel Investment Property, (France)	99% (100%)	
Saint Witz 2 Holding Company No1, (France)	100%	

Group companies

Saint Witz 2 Investment Property, (France)	99% (100%)	
Saleslease Purchase Limited	100%	
Savban Leasing Limited	100%	
Scotland International Finance B.V., (Netherlands)	100%	
Scotland International Finance No. 2 B.V., (Netherlands)	100%	
Scotmar Commercial Equipment Finance Limited	100%	i, #
Scottish Widows (Port Hamilton) Limited	100%	
Scottish Widows Active Management Fund	n/a	*
Scottish Widows Administration Services Limited	100%	
Scottish Widows Annuities Limited	100%	
Scottish Widows Bank Plc	100%	^
Scottish Widows Financial Services Holdings	100%	
Scottish Widows' Fund And Life Assurance Society	n/a	*
Scottish Widows Fund Management Limited	100%	
Scottish Widows Group Limited	100%	i, ^
	0% (100%)	ii
	0% (100%)	iv, ^
	0% (100%)	x
Scottish Widows Industrial Properties Europe B.V., (Netherlands)	100%	
Scottish Widows Limited	100%	
Scottish Widows Pension Trustees Limited	100%	
Scottish Widows Property Management Limited	100%	
Scottish Widows Services Limited	100%	
Scottish Widows Trustees Limited	100%	
Scottish Widows Unit Funds Limited	100%	
Scottish Widows Unit Trust Managers Limited	100%	
Seabreeze Leasing Limited	100%	
Seadance Leasing Limited	100%	
Seaforth Maritime (Highlander) Limited	100%	
Seaforth Maritime (Jarl) Limited	100%	
Seaspirit Leasing Limited	100%	
SeaSpray Leasing Limited	100%	
Services LB (No. 2) Limited	100%	^
	100%	iv, ^
Services LB (No. 3) Limited	100%	^
Services LB (No. 4) Limited	100%	^
	100%	iv, ^
SG Motor Finance Limited (In Liquidation)	100%	iv
Share Dealing Nominees Limited	100%	
Shibden Dale Limited	100%	
Shogun Finance Limited	100%	ii, #
Silentdale Limited	100%	iv
	100%	vi
	100%	vi
St Andrew's Group Plc	99.99% (100%)	
St Andrew's Insurance Plc	99.99% (100%)	
St Andrew's Life Assurance Plc	99.99% (100%)	
St. Mary's Court Investments	99.99% (100%)	
Standard Property Investment (1987) Limited	0% (100%)	i
	100%	ii
Standard Property Investment Limited	60.34%	
Starfort Limited	100%	

Sussex County Homes Limited	100%	
Suzuki Financial Services Limited	100%	i, #
SW No.1 Limited	100%	
SWAMF (GP) Limited	100%	
SWAMF Nominee (1) Limited	100%	
SWAMF Nominee (2) Limited	100%	
SW Funding plc	99% (100%)	
SWUF Nominee 1 Limited, (Jersey)	100%	
SWUF Nominee 2 Limited, (Jersey)	100%	
SWUF Nominee 3 Limited, (Jersey)	100%	
SWUF Nominee 4 Limited, (Jersey)	100%	
Tantallon Investments, Inc	100%	
Target Corporate Services Limited	100%	
The Agricultural Mortgage Corporation Plc	99.99% (100%)	^
The British Linen Company Limited	99.98%	
The Clearwater Partnership LLP, (USA)	n/a	*
The Emerson Partnership LLP, (USA)	n/a	*
The Freight Leasing Partnership LLP, (USA)	n/a	*
The Grand Leasing Partnership LLP, (USA)	n/a	*
The Mortgage Business Public Limited Company	99.99% (100%)	
Three Copthall Avenue Limited	99% (100%)	^
Tower Hill Property Investments (10) Limited	90%	
Tower Hill Property Investments (7) Limited	90%	
Tranquillity Leasing Limited	100%	
TSB Intermediate Company 1 Limited (In Liquidation)	n/a	*
TSB Intermediate Company 2 Limited (In Liquidation)	100%	^
Uberior (Moorfield) Limited	100%	
Uberior Europe Limited	100%	
Uberior Canada LP Ltd, (Canada)	100%	
Uberior Co-Investments Limited	100%	
Uberior ENA Limited	100%	
Uberior Equity Limited	100%	
Uberior Fund Investments Limited	100%	
Uberior Infrastructure Investments (No 2) Limited	100%	
Uberior Infrastructure Investments Limited	100%	
Uberior Investments Limited	99% (100%)	
Uberior ISAF CIP 2007 L.P	n/a	*
Uberior Nominees Limited	n/a	*
Uberior Trading Limited	100%	
Uberior Trustees Limited	n/a	*
Uberior Ventures Australia Pty Limited, (Australia)	100%	
Uberior Ventures Limited	100%	
UDT Autolease Limited	100%	
UDT Budget Leasing Limited	100%	
UDT Limited	100%	
UDT Sales Finance Limited	100%	
United Dominions Leasing Limited	100%	
United Dominions Trust Limited	100%	
Upsaala Limited, (Ireland)	100%	^
Vehicle Leasing (1) Limited	100%	
Vehicle Leasing (2) Limited	100%	
Vehicle Leasing (3) Limited	100%	
Vehicle Leasing (4) Limited	100%	

Group companies

Vintry Holdings (UK) Limited (In Liquidation)	100%	
Ward Nominees (Abingdon) Limited	100%	^
Ward Nominees (Birmingham) Limited	100%	^
Ward Nominees (Bristol) Limited	100%	^
Ward Nominees Limited	100%	^
Warwick Leasing Limited	100%	i
	100%	ii
Waverley – Boca LLC, (USA)	100%	
Waverley – Fund II Investor LLC, (USA)	100%	
Waverley – Fund III Investor LLC, (USA)	100%	
Waverley – Wilshire Rodeo LLC, (USA)	100%	
Waymark Asset Investments Limited	100%	i
	0% (100%)	ii
WCS Limited, (Isle of Man)	100%	
West Craigs Limited	100%	
Western Trust & Savings Holdings Limited	100%	
Western Trust Holdings Limited	100%	
Whitestar Securities Limited	100%	ii
	100%	xi
Wood Street Leasing Limited	100%	

^ Shares directly held by Lloyds Bank plc
* The undertaking does not have share capital
# An undertaking external to the Group holds a separate class of share
(i) A Ordinary shares
(ii) B Ordinary shares
(iii) Deferred Shares
(iv) Preference shares
(v) Preferred Ordinary shares
(vi) Non-voting shares
(vii) C Ordinary shares
(viii) N Ordinary shares
(ix) Callable preference shares
(x) Redeemable preference shares
(xi) Ordinary limited voting shares
(xii) Redeemable ordinary shares

Group companies

Subsidiary Undertakings[i]

Name of Undertaking	
Addison Social Housing Holdings Limited, (Jersey)	
Addison Social Housing Limited	
ARKLE Finance Trustee Limited, (Jersey)	
ARKLE Funding (No. 1) Ltd	
ARKLE Holdings Limited	
ARKLE Master Issuer plc	
ARKLE PECOH Holdings Ltd	
ARKLE PECOH Limited	
Cancara Asset Securitisation Limited, (Jersey)	
Candide Financing 2006 BV, (Netherlands)	
Candide Financing 2007 NHG BV, (Netherlands)	
Candide Financing 2008-1 BV, (Netherlands)	
Candide Financing 2008-2 BV, (Netherlands)	
Candide Financing 2011-1 BV, (Netherlands)	
Candide Financing 2012-1 BV, (Netherlands)	
Celsius European Lux 2 SARL, (Luxembourg)	
Chepstow Blue Holdings Limited	
Chepstow Blue plc	
Clerical Medical Non Sterling Arts FSA, (Belgium)	
Clerical Medical Non Sterling Arts LSA, (Belgium)	
Clerical Medical Non Sterling Guadalix Hold Co BV, (Netherlands)	
Clerical Medical Non Sterling Guadalix Spanish Prop Co SL, (Spain)	
Clerical Medical Non Sterling Megapark Hold Co BV, (Netherlands)	
Clerical Medical Non Sterling Megapark Prop Co SA, (Spain)	
Computershare Trustees (Jersey) Limited, (Jersey)	
Continuity Air Finance (Ireland) I Limited (In Liquidation)	
Craig Finance Limited	
Craig Financing Holdings Limited	
Derby Blue 2009 plc	
Derby Blue Holdings Limited	
Deva Financing Holdings Limited	
Deva Financing plc	
Edgbaston RMBS 2010-1 plc	
Edgbaston RMBS Holdings Limited	
Exeter Blue Limited, (Jersey)	
Farnham Funding Limited, (Cayman)	100% preference shares
Gable Funding plc (In Liquidation)	
Gable Holdco Limited, (Jersey)	
Gresham Receivables (No. 1) Limited, (Jersey)	
Gresham Receivables (No. 10) Limited, (Jersey)	
Gresham Receivables (No. 12) Limited, (Jersey)	
Gresham Receivables (No. 15) UK Limited	
Gresham Receivables (No. 19) UK Limited	
Gresham Receivables (No. 20) Limited, (Jersey)	
Gresham Receivables (No. 21) Limited, (Jersey)	
Gresham Receivables (No. 22) Limited, (Jersey)	
Gresham Receivables (No. 23) Limited, (Jersey)	
Gresham Receivables (No. 24) Limited, (Jersey)	
Gresham Receivables (No. 25) UK Limited	
Gresham Receivables (No. 26) UK Limited	
Gresham Receivables (No. 28) Limited, (Jersey)	
Gresham Receivables (No. 29) Limited, (Jersey)	
Gresham Receivables (No. 3) Limited, (Jersey)	
Gresham Receivables (No. 30) UK Limited	
Gresham Receivables (No. 31) UK Limited	
Gresham Receivables (No. 32) UK Limited	
Gresham Receivables (No. 33) UK Limited	
Gresham Receivables (No. 34) UK Limited	
Gresham Receivables (No. 35) Limited, (Jersey)	
Gresham Receivables (No.11) UK Limited	
Gresham Receivables (No.13) UK Limited	
Gresham Receivables (No.14) UK Limited	
Gresham Receivables (No.16) UK Limited	
Gresham Receivables (No.27) UK Limited	
Gresham Receivables (No.36) UK Limited	
Gresham Receivables (No.37) UK Limited	
Gresham Receivables (No.38) UK Limited	
Gresham Receivables (No.39) UK Limited	
Gresham Receivables (No.40) UK Limited	
Guildhall Asset Purchasing Company (No 3) Limited, (Jersey)	
Guildhall Asset Purchasing Company (No.11) UK Limited	
Hart 2014-1 Limited, (Jersey)	
Headingley RMBS 2011-1 Holdings Limited	
Headingley RMBS 2011-1 plc	
Leicester Securities 2014 Limited, (Ireland)	
Lingfield 2014 I Holdings Limited	
Lingfield 2014 I plc	
Lloyds Bank Covered Bonds (Holdings) Limited	
Lloyds Bank Covered Bonds (LM) Limited	
Lloyds TSB Secured Finance (Holdings) Limited	
Mound Holdings Limited	
Mound Holdings No.2 Limited	
Penarth Asset Securitisation Holdings Limited	
Penarth Funding 1 Limited, (Jersey)	
Penarth Funding 2 Limited, (Jersey)	
Penarth Master Issuer plc	
Penarth Receivables Trustee Limited, (Jersey)	
Performer Financing Holdings Limited	
Performer Financing plc (In Liquidation)	
Permanent Funding (No. 1) Limited	
Permanent Funding (No. 2) Limited	
Permanent Holdings Limited	
Permanent Master Issuer plc	
Permanent Mortgages Trustee Limited, (Jersey)	
Permanent PECOH Holdings Limited	
Permanent PECOH Limited	
Sandown 2012-2 Holdings Limited	
Sandown 2012-2 plc	
Sandown Gold 2011-1 Holdings Limited	
Sandown Gold 2011-1 plc	
Sandown Gold 2012-1 Holdings Limited	
Sandown Gold 2012-1 plc	

Group companies

Sandown Gold Holdings Limited
Sandown Gold plc
SARL Coliseum, (France)
SARL Fonciere De Rives, (France)
SARL Hiram, (France)
SAS Compagnie Fonciere De France, (France)
SCI A-AP1, (France)
SCI Archos, (France)
SCI Argenteuil PPI, (France)
SCI Astoria Invest, (France)
SCI De L'Horloge, (France)
SCI Equinoxe, (France)
SCI Gandre, (France)
SCI Laval Invest, (France)
SCI Massy AP1, (France)
SCI Mercury Invest, (France)
SCI Millenium AP1, (France)
SCI Norli, (France)
SCI Rambuteau CFF, (France)
SCI Synergie, (France)
SCI Toulouse Capitouls, (France)
Stichting Candide Financing Holding, (Netherlands)
Swan Funding 1 Limited, (Jersey)
Swan Funding 2 Limited, (Jersey)
The Hual Carolita Limited Partnership
The SAFA 0494 Limited Partnership (to be placed into liquidation), (Cayman Islands)
Thistle Investments (ERM) Limited
Trinity Financing Holdings Limited
Trinity Financing plc
Trinity Holdings Limited
Wolfhound Funding 2 Limited, (Ireland)
Wolfhound Funding 2008-1 Limited, (Ireland)

(i) The Group has determined that is has the power to exercise control without having majority of the voting rights of the undertakings. Unless otherwise stated, the undertakings do not have a share capital or the Group does not hold any shares.

Group companies

Associated Undertakings
The Group has a participating interest in the following undertakings:

Name of Undertaking	% of class held by immediate parent company	
A G Germany Limited	100%	vii
Aceso Healthcare Limited	27.52%	
Adler & Allan Group Limited	43.61%	
A-Gas (Orb) Limited	57%	
Agora Shopping Centres Limited (In Administration)	50%	ii
Airline Services And Components Group Limited	46.2%	
Alderley Capital Limited (In Administration) (Isle of Man)	50%	ii
Angus International Safety Group Limited	48.09%	
Antler Limited	63.38%	
Aqualisa Holdings Limited	64.71%	
Aspin Group Holdings Limited	35.6%	
Aspire Oil Services Limited	23.67%	
Atcore Technology Group Limited	71.2%	
Australand Apartments No.6 Pty Ltd, (Australia)	50%	
Australand Residential Trust, (Australia)	n/a	*
AVJBOS Nominees Proprietary Limited, (Australia)	50%	
Away Resorts Limited	64.26%	
Bergamot Ventures Limited	50%	ii
Bluestone Consolidated Holdings Limited	0.25%	
	47.15%	iii
BOFA International Ltd	73.19%	
Business Growth Fund Plc	23%	
Capital Economics Research Limited	31.15%	
Capital Gardens Limited	30.5%	
Cary Towne Parke Holdings LLC, (USA)	98%	
Cary Towne Parke LLC, (USA)	98%	
Case Topco Limited	53.4%	
Caspian Media Holdings	7.76%	
	80.68%	v
Cherry Topco Limited	32.4%	
City & General Securities Limited	32.7%	
Clifford Thames (Topco) Limited	50.27%	
Cobaco Holdings Limited	50.34%	
Connect Managed Holdings Limited	58.8%	
Connery Limited, (Jersey)	20%	
Continental Shelf 225 Limited (In Liquidation)	49%	i
Continental Shelf 291 Limited (In Liquidation)	40.09%	i
D.U.K.E Real Estate Limited	50%	ii
Dale Erskine Power Solutions Limited	74.25%	
Delancey Arnold UK Limited	100%	ii
DCK Group Limited	75%	viii
Dino Newco Limited	50.78%	
EDM Business Services Holdings Limited	65.32%	
Eley Group Limited	70.76%	
Equiom Holdings Limited, (Isle of Man)	53.4%	
Europa Property Company (Northern) Limited	35%	
European Property Fund (Holdings) Limited SARL , (Luxembourg)	24.9%	
Fern Bay Seaside Village Limited (In Liquidation), (Australia)	34.48%	
FHR European Ventures LLP	n/a	*
Forest Holidays Group Limited	59.28%	
Golfview Apartment Holdings LLC, (USA)	88%	
Golfview Apartments LLC, (USA)	88%	
Great Wigmore Property Limited	100%	
HBOS Capital Funding LP, (Jersey)	n/a	*
HBOS Capital Funding No. 1 LP, (Jersey)	n/a	*
HBOS Capital Funding No. 3 LP, (Jersey)	n/a	*
HBOS Capital Funding No. 4 LP, (Jersey)	n/a	*
HBOS Euro Finance (Jersey) LP, (Jersey)	n/a	*
HBOS Sterling Finance (Jersey) LP, (Jersey)	n/a	*
Hillview (Watford) Limited	50%	
ICB Brands Holdings Limited	58.49%	
Icon Polymer Group Limited	46.59%	
Iglufastnet Limited	41.95%	
Independent Group (UK) Limited	57.61%	
Ingleby (1884) Limited	76%	
Injection Directe Immobilier SAS, (France)	48.50%	
Inprova Group Ltd	21.14%	
Joules Investment Holdings Limited	27.04%	
Kee Safety Group Limited	20.86%	
Kenmore Capital 2 Limited (In Liquidation)	50%	ii
Kenmore Capital 3 Limited (In Administrative Receivership)	50%	ii
Kenmore Capital Limited (In Liquidation)	50%	ii
Keoghs Topco Limited	22.28%	
Kimberly Holdings Limited	59.08%	
LCP Baby Investors LP (In process of disposal), (Cayman)	n/a	*
Lighthouse Healthcare Group Limited	41.6%	
LKR Holdings Limited	53.4%	
Lothian Fifty (150) Limited	47.50%	
Marvel Newco Limited	44.06%	
Mini-Cam Limited	38.29%	
Morston Assets Limited (In Administration)	20%	
Motability Operations Group plc	20% (40%)	
	20% (40%)	iii
Murray International Holdings Limited (In Liquidation)	30%	
	100%	iii
Nevada Topco Limited	73.19%	
New World Trading Company (UK) Holdings Limited	34.55%	
Node 4 Holdings Limited	41.21%	
Northern Edge Limited	23.27%	
Octagon (Richmond) Limited	50%	ii
Omnium Leasing Compa ny	n/a	*
Onapp (Topco) II Limited	28.88%	
Onapp (Topco) Limited	28.88%	
Original Additions Topco Limited	60.28%	
Orion Media Holdings Limited	57.61%	

Group companies

Osprey Aviation Services (UK) Ltd	65.5%
Panther Partners Limited	61.41%
Pei Media Group Limited	34.89%
Pertemps Network Group Limited	27.23%
PIHL Equity Administration Limited	35% ii
PIMCO (Holdings) Limited	61.88%
Prestbury 1 Limited Partnership	n/a *
Prestbury Hotel Holdings Limited (In Liquidation)	27.50% vii
Prestbury Wentworth Holdings Limited (In Liquidation)	29.41% vii
Prism Medical Healthcare Limited	65.05%
Property Software Holdings Limited	64.08%
Quantel Holdings (2010) Limited	54.83%
	54.83% iii
	95% iv
	86.45% v
Ramco Acquisition Limited	59.96%
Rolls Development UK Limited	100% ii
Sapphire Retail Fund Limited (In Liquidation)	50% ii
Seabrook Crisps Limited	66.94%
Secure Income REIT Plc	23.64%
Southport Green Acquisition LLC, (USA)	50%
Specialist People Services Group Limited	51.56%
SSP Topco Limited	54.17%
Stainton Capital Holdings Limited (In Liquidation)	50%
Stewart Milne (Glasgow) Limited	100% i
Stewart Milne (West) Limited	100% i
Stratus (Holdings) Limited	66.63%
Stroma Group Limited	36.42%
Synexus Clinical Research Topco Limited	49.57%
T D Travel (Holdings) Limited	53.56%
Tantallon Acquisition LLC, (USA)	100%
Tantallon Austin Hotel LLC, (USA)	100%
Tantallon Austin LLC, (USA)	100%
Tantallon LLC, (USA)	75%
Tantallon Orlando LLC, (USA)	100%
TCFG Holdings Limited	16.09%
Test Equipment Asset Management Limited	63.95%
The Great Wigmore Partnership (G.P.) Limited	n/a *
The Great Wigmore Partnership	n/a *
The Moment Content Group Limited	60.28%
The Power Industrial Group Limited	71%
The Scottish Agricultural Securities Corporation P.L.C.	33.33%
The Training Grp Holdings Limited	40.94%
Thread Real Estate Cary Towne Park LLC, (USA)	50%
Thread Real Estate Golfview LLC, (USA)	50%
TPN Group Holdings Limited	53.63%
Travellers Cheque Associates Limited	36%
Tropical Marine Centre (2012) Ltd	35%
Valad Canadian Partners LP, (Canada)	n/a *
Vocalink Holdings Limited	19.05% (33.47%)
	18.22% (20%) iii
WASP Management Software Limited	66%
Waterfall Catering Group Limited	59.96%
Whitefleet Limited (In Liquidation)	100% i
Willoughby (873) Limited	47.44%
WRG Worldwide Limited	48.3%
York & Becket Nominees Limited	100% ii
	50% vi
York & Becket Nominees No.3 Limited	100% ii
York & Becket Nominees No.4 Limited	100% ii
Zog Brownfield Ventures Limited (In Administration)	50%

* The undertaking does not have share capital
(i) A Ordinary Shares
(ii) B Ordinary Shares
(iii) Preferences Shares
(iv) Investor Preference Shares
(v) Preferred Ordinary Shares
(vi) Redeemable Preference Shares
(vii) C Ordinary Shares
(viii) F Ordinary Shares

Group companies

Open Ended Investment Companies and Other Funds
The following comprises a list of the Group's Open Ended Investment Companies and Other Funds

Name of Undertaking	% of fund held by immediate parent
ABERDEEN EUROPEAN PROPERTY FUND viii	59%
ABERDEEN GLOBAL HIGH YIELD BOND viii	35%
ABERDEEN GLOBAL LIQUIDITY FUNDS PLC, (Ireland) i	
Aberdeen Sterling Liquidity Fund	39% (53%)
Euro Liquidity Fund	51% (93%)
ABERDEEN INVESTMENT CASH OEIC PLC Aberdeen Sterling Investment Cash Fund, (Ireland) iv	50% (60%)
ABERDEEN INVESTMENT FUND ICVC viii	
Aberdeen World Emerging Markets Equity Fund	75%
Aberdeen World Government Bond Fund	49%
ABERDEEN PRIVATE EQUITY FUND OF FUNDS (2007) PLC, (Ireland) iv	97%
ABERDEEN STERLING BOND FUND viii	100%
ACS POOLED PROPERTY iii	
Scottish Widows Pooled Property ACS Fund	100%
Scottish Widows Pooled Property ACS Fund 2	100%
AGFE UK REAL ESTATE SENIOR DEBT MUTUAL FUND xiii	83%
BLACKROCK BALANCED GROWTH PORTFOLIO FUND xiv	35%
BLACKROCK EMERGING MARKETS FUND xiv	20%
BLACKROCK UK SMALLER COMPANIES FUND xiv	24%
BNY MELLON INVESTMENTS FUNDS ICVC ix	
Insight Global Absolute Return Fund	83%
Insight Global Multi-Strategy Fund	44%
Newton Managed Income Fund	29%
Newton Multi-Asset Growth Fund	31%
Newton Oriental Fund	39%
Newton UK Equity Fund	22%
Newton UK Opportunities Fund	44%
The Boston Company UK Opportunities Fund	21%
CLERICAL MEDICAL OEIC ICVC ii	
Clerical Medical Income Fund	23%
Clerical Medical Balanced Managed Fund	22%
CMIG EURO ADVENTUROUS MANAGED xv	51%
CMIG EURO BALANCED MANAGED xv	57%
CMIG EURO CAUTIOUS MANAGED xv	33%
CMIG GLOBAL MULTI ASSETS xv	31%
ETFS LIVERSTOCK, (USA) xvi	55%
ETFS PRECIOUS METALS, (USA) xvi	21%
HBOS ACTIVELY MANAGED PORTFOLIO FUNDS ICVC ii	
Absolute Return Fund	93%
Diversified Income Fund	82%
Diversified Return Fund	97%
Dynamic Return Fund	97%
HBOS GLOBAL INVESTMENT FUNDS ICVC ii	
Emerging Markets Focus Fund	81%
European Focus Fund	87%
European Strategic Fund	97%
Far Eastern Focus Fund	93%
Japanese Focus Fund	97%
US Focus Fund	79%
US Strategic Fund	98%
HBOS INTERNATIONAL INVESTMENT FUNDS ICVC ii	
European Fund	73%
Far Eastern Fund	45%
International Growth Fund	52%
Japanese Fund	92%
North American Fund	85%
HBOS PROPERTY INVESTMENT FUNDS ICVC UK Property Fund ii	45%
HBOS SPECIALISED INVESTMENT FUNDS ICVC ii	
Cautious Managed Fund	54%
Ethical Fund	70%
Fund of Investment Trusts	42%
Smaller Companies Fund	49%
Special Situations Fund	47%
HBOS UK INVESTMENT FUNDS ICVC ii	
UK Equity Income Fund	60%
UK FTSE All-Share Index Tracking Fund	56%
UK Growth Fund	62%
HBOS UK & FIXED INTEREST INVESTMENT FUNDS ICVC ii	
International Fixed Income Fund	93%
UK Focus Fund	90%
UK Gilt Fund	79%
UK High Income Fund	83%
UK Index-Linked Gilt Fund	24%
UK Smaller Companies Alpha Fund	81%
UK Strategic Fund	94%
INSIGHT INVESTMENT FUNDS-OF-FUNDS II ICVC Absolute Insight Fund ix	39%
INVESCO PERPETUAL FAR EASTERN INVESTMENT SERIES Invesco Perpetual Asian Equity Income Fund x	25%
JP MORGAN FUND II ICVC JPM Balanced Managed Fund xi	69%
MULTI-MANAGER ICVC iii	
Multi Manager UK Equity Growth Fund	67%
Multi Manager UK Equity Income Fund	20%
NORDEA 1 Diversified Return Fund, (Luxembourg) xviii	91%
SCHRODER GILT AND FIXED INTEREST FUND xvii	23%
SCOTTISH WIDOWS INCOME AND GROWTH FUNDS ICVC iii	
Adventurous Growth Fund	67%
Balanced Growth Fund	27%
Corporate Bond 1 Fund	100%
Corporate Bond PPF Fund	100%
Scottish Widows GTAA 1	82%
SW Corporate Bond Tracker	100%

UK Index Linked Gilt Fund	100%
SCOTTISH WIDOWS INVESTMENT SOLUTIONS FUNDS ICVC iii	
Adventurous Solution	78%
Asia Pacific (Ex Japan) Equity Fund	98%
Balanced Solution	51%
Cautious Solution	46%
Defensive Solution	75%
Discovery Solution	51%
Dynamic Solution	60%
European (Ex UK) Equity Fund	98%
Fundamental Index Emerging Markets Equity Fund	96%
Fundamental Index Global Equity Fund	96%
Fundamental Index UK Equity Fund	86%
Japan Equities Fund	95%
SSTL ADF SW FDMTL Index Glo EQ	100%
Strategic Solution	59%
US Equities Fund	100%
SCOTTISH WIDOWS MANAGED INVESTMENT FUNDS ICVC iii	
Balanced Portfolio Fund	82%
Cash Fund	99%
Cautious Portfolio Fund	60%
International Equity Tracker Fund	99%
Opportunities Portfolio Fund	93%
Progressive Portfolio Fund	74%
SCOTTISH WIDOWS OVERSEAS GROWTH INVESTMENT FUNDS ICVC iii	
American Growth Fund	88%
European Growth Fund	89%
Global Growth Fund	52%
Japan Growth Fund	99%
Pacific Growth Fund	37%
SCOTTISH WIDOWS TRACKER AND SPECIALIST INVESTMENT FUNDS ICVC iii	
Emerging Markets Fund	90%
International Bond Fund	68%
Overseas Fixed Interest Tracker Fund	99%
UK All Share Tracker Fund	93%
UK Fixed Interest Tracker Fund	98%
UK Index Linked Tracker Fund	88%
UK Smaller Companies Fund	28%
UK Tracker Fund	48%
SCOTTISH WIDOWS UK AND INCOME INVESTMENT FUNDS ICVC iii	
Corporate Bond Fund	52%
Environmental Investor Fund	68%
Ethical Fund	70%
Gilt Fund	97%
High Income Bond Fund	24%
Safety Plus Fund	72%
Strategic Income Fund	61%
UK Growth Fund	62%
SSGA ASIA PACIFIC TRACKER FUND v	82%
SSGA EUROPE v	95%
SSGA UK EQUITY TRACKER FUND v	91%
SWIP EUROPEAN BALANCED PROPERTY FUND, (Luxembourg) vi	85%
UBS INVESTMENT FUNDS ICVC UBS UK Opportunities Fund xii	50%
UNIVERSE, THE CMI GLOBAL NETWORK, (Luxembourg) vii	
CMIG Access 80%	100%
CMIG Focus Euro Bond	100%
CMIG GA 70 Flexible	100%
CMIG GA 80 Flexible	100%
CMIG GA 90 Flexible	100%
Continental Euro Equity	96%
Euro Bond	53%
Euro Currency Reserve	93%
European Enhanced Equity	100%
Japan Enhanced Equity	95%
Pacific Enhanced Basin	57%
UK Equity	75%
US Bond	91%
US Currency Reserve	68%
US Enhanced Equity	87%

Principal place of business
(i) 25/28 North Wall Quay, Dublin, Ireland
(ii) Trinity Road, Halifax West Yorkshire, HX1 2RG
(iii) 15 Dalkeith Road Edinburgh EH16 5WL
(iv) 39/40 Upper Mount Street, Dublin, Ireland
(v) 20 Churchill Place, Canary Wharf London E14 5HJ
(vi) 80 route d'Esch, L-1470 Luxembourg
(vii) 106 route d'Arlon, L-8210 Mamer Grand Duchy of Luxembourg
(viii) 1 Bread Street London EC4M 9HH
(ix) 160 Queen Victoria St London EC4V 4LA
(x) 30 Finsbury Square, London EC2A 1AG
(xi) 60 Victoria Embankment EC4Y 0JP
(xii) 21 Lombard Street London EC3V 9AH
(xiii) 55 Baker Street, London, W1U 8EW
(xiv) 12 Throgmorton Avenue, London EC2N 2DL
(xv) 33 Old Broad Street London
(xvi) 48 Wall Street, 11th Floor, New York 10005
(xvii) 31 Gresham Street London EC2V 7QA
(xviii) 562 Rue De Neudorf, L-2220 Luxembourg

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