Lloyds Bank plc

Report and Accounts
2016

Member of Lloyds Banking Group

Contents

Registered Office: 25 Gresham Street, London EC2V 7HN. Registered in England no 2065

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

As a result of the requirements of the ring-fencing regulations, the Bank expects to sell its subsidiary, Scottish Widows Group Limited, to its ultimate holding company during 2017. This is only an internal reorganisation within the Lloyds Banking Group, but due to the significance of the Scottish Widows entities they have been classified as discontinued operations for the purposes of the Bank's consolidated statutory reporting.

Continuing operations

During the year ended 31 December 2016, the Group recorded a profit before tax from its continuing operations of £1,977 million compared with a profit before tax in 2015 of £1,227 million. The result in 2016 included provisions in respect of redress to customers (together with the related administrative costs) associated with both past sales of Payment Protection Insurance and other matters of £2,271 million compared to a charge of £4,732 million in the year ended 31 December 2015. Excluding these charges from both years, profit before tax was £1,711 million, or 29 per cent, lower at £4,248 million in the year ended 31 December 2016 compared to £5,959 million in the previous year. The comparison of results for 2016 to 2015 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. After taking this item into account there has been a reduction in profit before tax of £2,371 million, which in particular reflects losses arising as a result of restructurings of the Group's capital.

Total income decreased by £1,739 million, or 11 per cent, to £14,480 million in 2016 compared with £16,219 million in 2015, comprising a £180 million increase in net interest income more than offset by a decrease of £1,919 million in other income.

Net interest income was £11,194 million in 2016; an increase of £180 million, or 2 per cent compared to £11,014 million in 2015 despite an underlying decrease of £592 million related to TSB which was sold in 2015. Average interest-earning assets fell as a result of decreases in average UK mortgage balances and in the portfolio of assets which are outside of the Group's risk appetite, as well as a reduction of some £5 billion as result of the sale of TSB, more than offsetting growth in small business and unsecured personal lending. Net interest margin improved.

Other income was £1,919 million lower at £3,286 million in 2016 compared to £5,205 million in 2015. Fee and commission income was £234 million, or 8 per cent, lower at £2,844 million compared to £3,078 million in 2015. Fee and commission expense decreased by £45 million, or 5 per cent, to £943 million compared with £988 million in 2015. The decrease in net fee and commission income largely reflects lower levels of current account and credit and debit card fees as well as reduced income from commercial banking activities. Net trading income decreased by £586 million, or 38 per cent, to £942 million in 2016 compared to £1,528 million in 2015. Other operating income was £1,144 million lower at £443 million in 2016 compared to £1,587 million in 2015 as a gain of £484 million on sale of the Group's investment in VISA Europe business was more than offset by a loss of £993 million arising on transactions related to Lloyds Banking Group's tender offers and redemptions in respect of its Enhanced Capital Notes which completed in March 2016 and a loss of £1,026 million which arose pursuant to a restructuring of the Bank's capital instruments in June 2016.

Operating expenses decreased by £2,851 million, or 20 per cent to £11,751 million in 2016 compared with £14,602 million in 2015; the main reason for the decrease being the £2,461 million reduction in charges for redress payments to customers in respect of PPI and other conduct related matters from £4,732 million in 2015 to £2,271 million in 2016 and a charge of £665 million in 2015 in relation to the disposal of TSB. Excluding these items from both years, operating expenses were £275 million, or 3 per cent, higher at £9,480 million in 2016 compared to £9,205 million in 2015. Staff costs were £154 million, or 3 per cent, higher at £4,628 million in 2016 compared with £4,474 million in 2015; although annual pay rises have been more than offset by the impact of headcount reductions resulting from the sale of TSB and the Group's rationalisation programmes, there has been an increase in severance costs in relation to restructuring initiatives. Premises and equipment costs were £21 million or 3 per cent, lower at £667 million in 2016 compared with £688 million in 2015. Other expenses, excluding the charge relating to the TSB disposal, were £107 million lower at £1,885 million in 2016 compared with £1,992 million in 2015. Depreciation and amortisation costs were £249 million, or 12 per cent, higher at £2,300 million in 2016 compared to £2,051 million in 2015, in line with increased asset balances, particularly operating lease assets and capitalised software.

Impairment losses increased by £362 million, or 93 per cent, to £752 million in 2016 compared with £390 million in 2015. Impairment losses in respect of loans and advances to customers were £149 million, or 34 per cent, higher at £592 million in 2016 compared with £443 million in 2015; this reflects a lower level of releases and recoveries rather than a deterioration in quality of the underlying portfolio. There was a credit of £13 million in respect of undrawn commitments in 2016, compared to a credit of £55 million in 2015. In addition there was an impairment charge of £173 million in respect of certain equity investments in the Group's available-for-sale portfolio.

In 2016, the Group recorded a tax charge of £947 million compared to a tax charge of £694 million in 2015, an effective tax rate of 48 per cent, compared to the standard UK corporation tax rate of 20 per cent, principally as a result of the banking surcharge, restrictions on the deductibility of conduct provisions, and the negative impact on the net deferred tax asset of the change in corporation tax rate.

Discontinued operations

Profit before tax from the Group's discontinued operations was £434 million higher at £579 million in 2016 compared to £145 million in 2015.

Total income increased by £17,228 million to £24,050 million in 2016 compared with £6,822 million in 2015, comprising a £19,112 million increase in other income partly offset by a decrease of £1,884 million in net interest income.

Net interest income was an expense of £2,147 million in 2016; a decrease of £1,884 million compared to an expense of £263 million in 2015. There was a negative impact of £1,813 million in 2016 from an increase in the amounts payable to unit holders in those Open-Ended Investment Companies (OEICs) included in the consolidated results of the Group, reflecting different levels of investment returns on the assets held by the OEICs.

Other income was £19,112 million higher at £26,197 million in 2016 compared to £7,085 million in 2015. Net fee and commission income was an expense of £211 million compared to an expense of £280 million in 2015. Net trading income increased by £15,172 million to £17,590 million in 2016 compared to £2,418 million in 2015; this increase reflected an improvement in gains on policyholder investments held within the insurance business as a result of market conditions over 2016 relative to those in 2015. Insurance premium income was £3,276 million, or 68 per cent, higher at £8,068 million in 2016 compared with £4,792 million in 2015; there was an increase of £3,289 million in life insurance premiums and a £13 million decrease in general insurance premiums. Premium income in 2015 had 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 £1,330 million, or 23 per cent, higher at £7,210 million in 2016 compared to £5,880 million in 2015, reflecting significant new bulk annuities business, more than offsetting reductions in protection and corporate pensions business. General insurance earned premiums were little changed, £13 million, or 1 per cent, lower at £858 million in 2016 compared with £871 million in 2015 as a result of the continuing run-off of closed business. Other operating income was £595 million higher at £750 million in 2016 compared to £155 million in 2015 reflecting an improvement in income from the value of in-force insurance business as a result of business growth and positive economic variance.

Insurance claims expense was £16,615 million higher at £22,344 million in 2016 compared to £5,729 million in 2015. The insurance claims expense in respect of life and pensions business was £16,619 million higher at £21,978 million in 2016 compared to £5,359 million in 2015; this increase was matched by a similar improvement in net trading income, reflecting the relative performance of policyholder investments. Insurance claims in respect of general insurance business were £4 million or 1 per cent, lower at £366 million in 2016 compared to £370 million in 2015.

Operating expenses increased by £179 million, or 19 per cent to £1,127 million in 2016 compared with £948 million in 2015.

Balance sheet and capital

The assets and liabilities of the disposal group are combined into single lines within assets and liabilities on the face of the consolidated balance sheet and detail on the make-up of those assets and liabilities is given in note 12.

Loans and advances to customers were £3,893 million, or 1 per cent, lower at £451,282 million at 31 December 2016 compared to £455,175 million at 31 December 2015; an £8,304 million increase in reverse repurchase agreement balances together with growth in SME lending and the UK consumer finance business was more than offset by the impact of the disposal group and the continued reduction in the portfolio of assets which are outside of the Group's risk appetite and lower UK mortgage balances, as the Group concentrates on protecting margin in the current market. Available-for-sale financial assets were £23,492 million, or 71 per cent, higher at £56,524 million compared to £33,032 million at 31 December 2015; during 2016, the Group reviewed its holding of government securities classified as held-to-maturity (£19,808 million at 31 December 2015) in light of the prevailing low interest rate environment and they have been reclassified as available-for-sale.

Total liabilities were £9,540 million, or 1 per cent, higher at £780,676 million at 31 December 2016 compared to £771,136 million at 31 December 2015. Customer deposits were £2,866 million, or 1 per cent, lower at £415,460 million compared to £418,326 million at 31 December 2015.

Total assets were £12,438 million, or 2 per cent, higher at £830,927 million at 31 December 2016 compared to £818,489 million at 31 December 2015. Total equity was £2,898 million, or 6 per cent, higher at £50,251 million at 31 December 2016 compared to £47,353 million at 31 December 2015; this reflected, in particular, the issuance of £3,217 million of other equity instruments as positive revaluation movements in the available-for-sale and cash flow hedging reserves have been largely offset by dividends of £3,040 million paid to ordinary shareholders.

During the year ended 31 December 2016, the Bank redeemed all of its outstanding Floating Rate Non-Cumulative Callable Preference Shares callable 2016 (US$1,000 million), 7.875% Non-cumulative Preference Shares callable 2013 (€500 million) and 7.875% Non-cumulative Preference Shares callable 2013 (US$1,250 million) which had been accounted for as subordinated liabilities. On redemption an amount of £1,840 million was transferred from retained profits to the share premium account. There was no impact on total shareholders' equity.

During 2016 the Bank also reduced its share premium account by Special Resolution and the balance of £37,373 million was transferred to retained profits.

The Group's common equity tier 1 capital ratio reduced to 15.1 per cent (31 December 2015: 15.2 per cent), largely driven by dividends paid out during the year and movements in the defined benefit pension schemes, offset by underlying profits, a positive movement in the available-for-sale revaluation reserve and lower risk-weighted assets. The tier 1 capital ratio increased to 17.7 per cent (31 December 2015: 16.8 per cent) following the issue of AT1 securities to Lloyds Banking Group plc in June 2016. The total capital ratio reduced to 21.2 per cent (31 December 2015: 22.2 per cent), reflecting managed reductions in tier 2 capital, largely due to calls and redemptions, offset by the increase in tier 1 capital and the reduction in risk-weighted assets.

Risk-weighted assets reduced by £7,837 million, or 3 per cent, to £216,183 million at 31 December 2016, compared to £224,020 million at 31 December 2015, largely relating to active portfolio management, disposals, an improvement in credit quality and capital efficient securitisation activity, partially offset by model updates related to UK mortgage portfolios and foreign exchange movements reflecting the depreciation in Sterling.

Future developments

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

Capital position at 31 December 2016

The Group's capital position applying CRD IV transitional rules as at 31 December 2016 is set out in the following section.

Table 1.1: Capital resources

Capital resources (audited)	2016 £m	2015[1] £m
Common equity tier 1		
Shareholders' equity per balance sheet	46,289	46,962
Adjustment to retained earnings for foreseeable dividends	(1,568)	(1,427)
Deconsolidation adjustments[1]	911	578
Adjustment for own credit	87	67
Cash flow hedging reserve	(2,224)	(915)
Other adjustments	(90)	(61)
	43,405	45,204
Less: deductions from common equity tier 1		
Goodwill and other intangible assets	(1,623)	(1,719)
Prudent valuation adjustments	(630)	(372)
Excess of expected losses over impairment provisions and value adjustments	(602)	(270)
Removal of defined benefit pension surplus	(267)	(721)
Securitisation deductions	(217)	(169)
Significant investments[1]	(3,986)	(4,001)
Deferred tax assets	(3,536)	(3,911)
Common equity tier 1 capital	32,544	34,041
Additional tier 1		
Additional tier 1 instruments	7,061	4,761
Less: deductions from tier 1		
Significant investments	(1,329)	(1,177)
Total tier 1 capital	38,276	37,625
Tier 2		
Tier 2 instruments	8,920	13,562
Eligible provisions	186	221
Less: deductions from tier 2		
Significant investments	(1,571)	(1,756)
Total tier 2 capital	7,535	12,027
Total capital resources	45,811	49,652
Risk-weighted assets	216,183	224,020
Common equity tier 1 capital ratio	15.1%	15.2%
Tier 1 capital ratio	17.7%	16.8%
Total capital ratio	21.2%	22.2%

[1] For regulatory capital purposes, the Group's insurance business is deconsolidated and replaced by the amount of the Group's investment in the business. A part of this amount is deducted from capital (shown as 'significant investments' in the table above) and the remaining amount is risk weighted, forming part of threshold risk-weighted assets. The presentation of the deconsolidation of the Group's insurance entities has been amended for 2016 with comparative figures restated accordingly.

Table 1.2: Risk-weighted assets (unaudited)

	2016 £m	2015 £m
Risk-weighted assets		
Foundation IRB Approach	**64,907**	68,990
Retail IRB Approach	**64,970**	63,912
Other IRB Approach	**17,788**	18,661
IRB Approach	**147,665**	151,563
Standardised Approach	**18,956**	20,443
Credit risk	**166,621**	172,006
Counterparty credit risk	**8,419**	7,981
Contributions to the default fund of a central counterparty	**340**	488
Credit valuation adjustment risk	**864**	1,684
Operational risk	**25,292**	26,123
Market risk	**3,147**	3,775
Underlying risk-weighted assets	**204,683**	212,057
Threshold risk-weighted assets	**11,500**	11,963
Total risk-weighted assets	**216,183**	224,020

Principal risks and uncertainties
The most significant risks faced by the Group which could impact the delivery of our long-term strategic objectives and our response, are detailed below.

Lloyds Banking Group has considered many of the potential implications following the UK's vote to leave the European Union and the impact to its customers, colleagues and products as well as legal, regulatory, tax, finance and capital implications. Continued uncertainty surrounding the political and macroeconomic environment remains but the potential impacts of external factors have been considered in all principal risks and uncertainties to ensure any material uncertainties continue to be monitored and are appropriately mitigated.

Credit risk
Principal risks
The risk that customers and/or other counterparties with whom we have either lent money to or entered into a financial contract with, 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 or the credit quality and/or behaviour of the Group's customers and counterparties could reduce the value of our assets and potentially increase 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, 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, voluntary codes of practice and their interpretation in the markets in which the Group operates 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
Ensure Lloyds Banking Group develop comprehensive plans for delivery of all legal and regulatory changes and track 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 industry bodies on forthcoming regulatory changes, market reviews and 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
Conduct risk appetite metrics provide a granular view on how our products and services are performing for customers.

Product approval, review processes and outcome testing supported by conduct management information.

Learning from past mistakes through root cause analysis and clear customer accountabilities for colleagues, with rewards driven by customer-centric metrics.

The development of a refined framework for addressing thematic issues impacting customers in vulnerable circumstances.

Operational risk
Principal risks
Significant operational risks which may result in financial loss, disruption of services to customers and damage to the Group's reputation. These include the availability, resilience and security of core IT systems and the potential for failings in customer processes.

Mitigating actions
Continual review of the Group's IT environment to ensure that systems and processes can effectively support customers' requirements.

Enhancing the resilience of systems that support critical business processes 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 and responding to findings from third party industry testing.

People risk
Principal risks
Key people risks include the risk that the Group fails to maintain organisational skills, capability, resilience and capacity levels in response to increasing volumes of organisational, political and external market change.

Mitigating actions
Focused action on strategy to attract, retain and develop high calibre people. Delivering initiatives which reinforce behaviours to generate the best outcomes for customers and colleagues.

Managing organisational capability and capacity to ensure there are the right skills and resources to meet our customers' needs.

Effective remuneration arrangements to promote appropriate colleague behaviours and meet regulatory expectations.

Insurance risk
Principal risks
Key insurance risks within the Insurance business are longevity, persistency and property insurance. Longevity risk is expected to increase as our presence in the bulk annuity market increases. 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. Longevity and bulk pricing experts support the 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 are mitigated by a broad reinsurance programme.

Capital risk
Principal risks
The risk that the Group has a sub-optimal quantity 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, including dividend policy appropriately.

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

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

Funding and liquidity risk
Principal risks
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.

Mitigating actions
Holding liquid assets to meet potential cash and collateral outflows, regulatory requirements and maintaining a further 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, maintaining a contingency funding plan detailing 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 requirement to improve the resolvability of Lloyds Banking Group and to ring-fence core UK financial services and activities from January 2019 and further requirements under the SM&CR which come into force from March 2017.

Mitigating actions
Leveraging our considerable change experience to meet ring-fencing and resolution planning requirements and the continuing evolution of SM&CR.

Programme in place to address ring-fencing and resolution planning. In close and regular contact with regulators to develop plans for our anticipated operating and legal structure.

Evolving risk and governance arrangements that continue to be appropriate to comply with regulatory objectives.

Market risk
Principal risks
The risk that the Group's capital or earnings profile is affected by adverse market movements, in particular interest rates and credit spreads in the Banking business, equity and credit spreads in the Insurance business, and credit spreads in 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 spreads are closely monitored and, where appropriate, asset liability matching is undertaken to mitigate risk.

The Group's Defined Benefit Pension Schemes have increased their credit allocation and hedged against nominal rate/inflation movements.

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 48 on page 92. 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 2016 Strategic Report has been approved by the Board of Directors.

On behalf of the Board

Lord Blackwell
Lloyds Bank plc
9 March 2017

Directors' report

Results

The consolidated income statement on page 15 shows a statutory profit before tax from continuing operations for the year ended 31 December 2016 of £1,977 million (year ended 31 December 2015: £1,227 million).

Dividends

During the year the Bank paid interim dividends of £2,430 million and £610 million, a cumulative total of £3,040 million (2015: £540 million). The Directors have not recommended a final dividend for the year ended 31 December 2016 (2015: nil).

Post balance sheet events

Details of events since the balance sheet date are set out in note 55 on page 136.

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 7 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, from the date of approval of the financial statements.

Directors

The names of the current Directors are shown on page 11. Changes to the composition of the Board since 1 January 2016 up to the date of this report are shown in the table below:

	Joined the Board	Retired from the Board
Stuart Sinclair	4 January 2016	
Dyfrig John		11 May 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 2016. In addition, Lloyds Banking Group plc had appropriate Directors' and Officers' liability insurance cover in place throughout 2016. Deeds for existing Directors are available for inspection at the Bank's registered office.

Lloyds Banking Group plc has also granted deeds of indemnity by deed poll and by way of entering into individual deeds, which constitute '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. Such deeds were in force during the financial year ended 31 December 2016 and remain in force as at the date of this report. Qualifying pension scheme indemnities have also been granted to the Trustees of Lloyds Banking Group's Pension Schemes, which were in force for the whole of the financial year and remain in force as at the date of this report.

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

The Board has a comprehensive procedure for reviewing and, as permitted by the Companies Act 2016 and the Bank's articles of association, approving actual and potential conflicts of interests.

Directors have a continuing duty to notify the Chairman and Company Secretary as soon as they become aware of actual or potential conflict situations. Changes to the commitments of all Directors are reported to 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.

Stuart Sinclair is 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.

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 39 on page 81. This information is incorporated into this report by reference.

The Bank did not repurchase any of its shares during 2016 (2015: 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, widens and promotes Inclusion & Diversity (I&D) through the Group Executive Committee, executive level I&D sponsors, quarterly I&D forum and I&D Operational committee, which oversees implementation of I&D strategy. During 2016, Lloyds Banking Group launched a new Group-wide 'everyone' campaign to explain the relevance and importance of inclusion to all colleagues, introduced a new 'Family Matters' network for parents and carers and re-launched the REACH (Race, Ethnicity and Cultural Heritage) network. Lloyds Banking Group became the first UK company to include gender dysphoria in its Private Medical Benefit provision and were ranked number one private sector employer in the Stonewall Top 100. Lloyds Banking Group was also named a Times Top 50 Employer for Women and Top 10 Employer for Working Families.

Lloyds Banking Group is committed to being a more disability confident employer. More than 5,000 colleagues disclosed a disability in the most recent colleague survey, and is recognised as a leading employer for disabled people with cutting edge practices for customers and colleagues; in 2016 Lloyds Banking Group won a Business Disability SMART Award for the third year running for workplace adjustments processes and were highly commended for their colleague disability network. A range of programmes are available to support colleagues who become disabled or develop a long-term health condition, the workplace adjustments process, which includes physical equipment, has supported over 18,000 colleagues to date. Since 2002 Lloyds Banking Group have been running Personal Development and Career Development Programmes for disabled colleagues, 1,500 colleagues have completed this programme to date. Lloyds Banking Group aims to appoint the best person available into any role and to attract talented people from diverse backgrounds, encouraging and giving full and fair consideration to job applications from people with a disability, being unbiased in the assessment, selection, appointment, training and promotion of people. Lloyds Banking Group offers a guaranteed interview scheme for candidates who declare a disability and meet the minimum requirements of the role, and continues to run a Disability Work Experience Programme in partnership with Remploy. This is one of the largest disability-focused work experience initiatives in the financial services sector.

Lloyds Banking Group offers a competitive and fair reward package that supports its aims as a responsible business. After a detailed review in 2015 of the variable pay arrangements used to incentivise customer-facing colleagues, variable pay for colleagues in the Retail division is no longer linked to individual or branch level sales or product targets. To build on these changes, a single variable pay arrangement was introduced for these colleagues in 2016. Customer-facing colleagues in Retail are now incentivised by reference to balanced scorecard metrics with clearly identified performance descriptors, in line with the Lloyds Banking Group annual bonus plan approach. These changes ensure that colleagues are rewarded for action and behaviour which puts customers first. Lloyds Banking Group have recognition agreements with two trade unions, Accord and Unite, which collectively negotiate and consult on behalf of around 95 per cent of colleagues.

Lloyds Banking Group regularly provides colleagues with information on its performance and matters that concern their role, such as changes in the economic and regulatory environment, organisational changes and reward and remuneration. Colleagues are offered share schemes as part of wider incentive arrangements, to encourage shared ownership of the business.

Significant contracts
Details of related party transactions are set out in note 46 on pages 86 to 88.

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 Bank and Group 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 Bank and the Group and of the profit or loss of the Bank and the 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 as at the date of this report and whose names are shown on page 11 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.

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

Directors' report

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 2017 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
9 March 2017

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

Nick Luff

Deborah McWhinney

Nick Prettejohn

Stuart Sinclair

Anthony Watson CBE

Sara Weller CBE

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:

- Lloyds Bank plc's Group financial statements and Bank financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Bank's affairs as at 31 December 2016 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 financial statements, included within the Report and Accounts (the "Annual Report"), comprise:

- the Balance sheets as at 31 December 2016;
- 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 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, and applicable law.

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, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group, the Bank and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report 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 9, 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 and 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 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.

Independent auditors' report

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.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

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

9 March 2017

(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 2016

	Note	2016 £ million	2015 £ million
Interest and similar income		**16,671**	17,655
Interest and similar expense		**(5,477)**	(6,641)
Net interest income	5	**11,194**	11,014
Fee and commission income		**2,844**	3,078
Fee and commission expense		**(943)**	(988)
Net fee and commission income	6	**1,901**	2,090
Net trading income	7	**942**	1,528
Other operating income	8	**443**	1,587
Other income		**3,286**	5,205
Total income		**14,480**	16,219
Regulatory provisions		**(2,271)**	(4,732)
Other operating expenses		**(9,480)**	(9,870)
Total operating expenses	9	**(11,751)**	(14,602)
Trading surplus		**2,729**	1,617
Impairment	10	**(752)**	(390)
Profit before tax – continuing operations		**1,977**	1,227
Taxation	11	**(947)**	(694)
Profit after tax – continuing operations		**1,030**	533
Profit after tax – discontinued operations	12	**173**	226
Profit for the year		**1,203**	759
Profit attributable to ordinary shareholders		**983**	663
Profit attributable to other equity holders[1]		**119**	–
Profit attributable to equity holders		**1,102**	663
Profit attributable – non-controlling interests		**101**	96
Profit for the year		**1,203**	759

[1] The profit after tax attributable to other equity holders of £119 million (2015: £nil) is partly offset in reserves by a tax credit attributable to ordinary shareholders of £33 million (2015: £nil).

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

Statements of comprehensive income

for the year ended 31 December 2016

The Group	2016 £ million	2015 £ million
Profit for the year	**1,203**	759
Other comprehensive income		
Items that will not subsequently be reclassified to profit or loss:		
Post-retirement defined benefit scheme remeasurements:		
Remeasurements before taxation	**(1,348)**	(274)
Taxation	**320**	59
	(1,028)	(215)
Items that may subsequently be reclassified to profit or loss:		
Movements in revaluation reserve in respect of available-for-sale financial assets:		
Adjustment on transfer from held-to-maturity portfolio	**1,544**	–
Change in fair value	**356**	(313)
Income statement transfers in respect of disposals	**(575)**	(51)
Income statement transfers in respect of impairment	**173**	4
Taxation	**(301)**	(9)
	1,197	(369)
Movements in cash flow hedging reserve:		
Effective portion of changes in fair value taken to other comprehensive income	**2,284**	524
Net income statement transfers	**(531)**	(983)
Taxation	**(444)**	17
	1,309	(442)
Currency translation differences, (tax: nil)	**(9)**	(44)
Other comprehensive income for the year, net of tax	**1,469**	(1,070)
Total comprehensive income for the year	**2,672**	(311)
Total comprehensive income attributable to ordinary shareholders arising from continuing operations	**2,342**	(609)
Total comprehensive income attributable to ordinary shareholders arising from discontinued operations	**110**	202
Total comprehensive income attributable to ordinary shareholders	**2,452**	(407)
Total comprehensive income attributable to other equity holders	**119**	–
Total comprehensive income attributable to equity holders	**2,571**	(407)
Total comprehensive income attributable to non-controlling interests	**101**	96
Total comprehensive income for the year	**2,672**	(311)

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

Statements of comprehensive income

for the year ended 31 December 2016

The Bank	2016 £ million	2015 £ million
Profit for the year	**1,953**	10,911
Other comprehensive income:		
Items that will not subsequently be reclassified to profit or loss:		
Post-retirement defined benefit scheme remeasurements:		
Remeasurements before taxation	**(682)**	31
Taxation	**184**	(1)
	(498)	30
Items that may subsequently be reclassified to profit or loss:		
Movements in revaluation reserve in respect of available-for-sale financial assets:		
Adjustment on transfer from held-to-maturity portfolio	**1,544**	–
Change in fair value	**268**	(300)
Income statement transfers in respect of disposals	**(507)**	(14)
Income statement transfers in respect of impairment	**172**	1
Taxation	**(269)**	(17)
	1,208	(330)
Movements in cash flow hedging reserve:		
Effective portion of changes in fair value taken to other comprehensive income	**1,290**	294
Net income statement transfers	**(241)**	(421)
Taxation	**(258)**	(76)
	791	(203)
Currency translation differences (tax: nil)	**19**	(13)
Other comprehensive income for the year, net of tax	**1,520**	(516)
Total comprehensive income for the year	**3,473**	10,395
Total comprehensive income attributable to ordinary shareholders	**3,354**	10,395
Total comprehensive income attributable to other equity holders	**119**	–
Total comprehensive income for the year	**3,473**	10,395

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

Balance sheets

at 31 December 2016

	Note	The Group 2016 £ million	The Group 2015[1] £ million	The Bank 2016 £ million	The Bank 2015[1] £ million
Assets					
Cash and balances at central banks		**47,452**	58,417	**44,595**	55,919
Items in the course of collection from banks		**706**	697	**512**	518
Trading and other financial assets at fair value through profit or loss	13	**51,198**	141,149	**48,309**	52,064
Derivative financial instruments	14	**33,859**	28,922	**36,714**	30,992
Loans and receivables:					
Loans and advances to banks	15	**5,583**	25,117	**4,379**	2,625
Loans and advances to customers	16	**451,282**	455,175	**161,161**	158,117
Debt securities		**3,397**	4,191	**2,818**	2,865
Due from fellow Lloyds Banking Group undertakings		**5,624**	11,630	**152,260**	132,784
		465,886	496,113	**320,618**	296,391
Available-for-sale financial assets	20	**56,524**	33,032	**55,122**	32,476
Held-to-maturity investments		**–**	19,808	**–**	19,808
Goodwill	21	**180**	2,016	**–**	–
Value of in-force business	22	**–**	4,596	**–**	–
Other intangible assets	23	**1,520**	1,838	**893**	720
Property, plant and equipment	24	**9,294**	12,979	**3,644**	3,522
Current tax recoverable		**28**	44	**420**	250
Deferred tax assets	36	**3,603**	4,018	**2,286**	3,490
Investment in subsidiary undertakings	25	**–**	–	**31,135**	39,241
Retirement benefit assets	35	**342**	901	**254**	402
Assets of held-for-sale disposal group	12, 25	**158,194**	–	**7,622**	–
Other assets	26	**2,141**	13,959	**1,168**	916
Total assets		**830,927**	818,489	**553,292**	536,709

[1] See note 1.

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

Balance sheets

at 31 December 2016

Equity and liabilities	Note	The Group 2016 £ million	The Group 2015[1] £ million	The Bank 2016 £ million	The Bank 2015[1] £ million
Liabilities					
Deposits from banks	27	**15,690**	16,925	**9,450**	13,614
Customer deposits	28	**415,460**	418,326	**213,135**	205,717
Due to fellow Lloyds Banking Group undertakings		**5,444**	5,926	**86,803**	70,656
Items in course of transmission to banks		**548**	717	**292**	326
Trading and other financial liabilities at fair value through profit or loss	29	**54,504**	51,863	**55,776**	56,332
Derivative financial instruments	14	**33,896**	26,347	**38,591**	31,040
Notes in circulation		**1,402**	1,112	**–**	–
Debt securities in issue	30	**74,733**	82,056	**74,366**	78,430
Liabilities arising from insurance contracts and participating investment contracts	31	**–**	80,317	**–**	–
Liabilities arising from non-participating investment contracts	33	**–**	22,777	**–**	–
Liabilities of held-for-sale disposal group	12	**150,938**	–	**–**	–
Other liabilities	34	**4,732**	30,197	**3,295**	2,988
Retirement benefit obligations	35	**692**	365	**399**	148
Current tax liabilities		**446**	298	**3**	–
Deferred tax liabilities	36	**–**	33	**–**	–
Other provisions	37	**4,933**	5,687	**2,833**	3,421
Subordinated liabilities	38	**17,258**	28,190	**10,575**	19,709
Total liabilities		**780,676**	771,136	**495,518**	482,381
Equity					
Share capital	39	**1,574**	1,574	**1,574**	1,574
Share premium account	40	**–**	35,533	**–**	35,533
Other reserves	41	**8,484**	5,987	**2,593**	575
Retained profits[2]	42	**36,231**	3,868	**50,390**	16,646
Shareholders' equity		**46,289**	46,962	**54,557**	54,328
Other equity instruments	43	**3,217**	–	**3,217**	–
Total equity excluding non-controlling interests		**49,506**	46,962	**57,774**	54,328
Non-controlling interests		**745**	391	**–**	–
Total equity		**50,251**	47,353	**57,774**	54,328
Total equity and liabilities		**830,927**	818,489	**553,292**	536,709

[1] See note 1.

[2] The Bank recorded a profit after tax for the year of £1,953 million (2015: £10,911 million).

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

The directors approved the financial statements on 9 March 2017.

Lord Blackwell
Chairman

António Horta-Osório
Chief Executive

George Culmer
Chief Financial Officer

Statements of changes in equity

for the year ended 31 December 2016

The Group	Attributable to equity shareholders: Share capital and premium £ million	Other reserves £ million	Retained profits £ million	Total £ million	Other equity instruments £ million	Non-controlling interests £ million	Total £ million
Balance at 1 January 2015	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 tax	–	–	(215)	(215)	–	–	(215)
Movements in revaluation reserve in respect of available-for-sale financial assets, net of tax	–	(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 (note 44)	–	–	(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)	–	–	–	–	–	(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
Comprehensive income							
Profit for the year	**–**	**–**	**1,102**	**1,102**	**–**	**101**	**1,203**
Other comprehensive income							
Post-retirement defined benefit scheme remeasurements, net of tax	**–**	**–**	**(1,028)**	**(1,028)**	**–**	**–**	**(1,028)**
Movements in revaluation reserve in respect of available-for-sale financial assets, (tax: nil)	**–**	**1,197**	**–**	**1,197**	**–**	**–**	**1,197**
Movements in cash flow hedging reserve, net of tax	**–**	**1,309**	**–**	**1,309**	**–**	**–**	**1,309**
Currency translation differences (tax: nil)		**(9)**	**–**	**(9)**	**–**	**–**	**(9)**
Total other comprehensive income	**–**	**2,497**	**(1,028)**	**1,469**	**–**	**–**	**1,469**
Total comprehensive income	**–**	**2,497**	**74**	**2,571**	**–**	**101**	**2,672**
Transactions with owners							
Dividends (note 44)	**–**	**–**	**(3,040)**	**(3,040)**	**–**	**(29)**	**(3,069)**
Distributions on other equity instruments, net of tax	**–**	**–**	**(86)**	**(86)**	**–**	**–**	**(86)**
Issue of other equity instruments (note 43)	**–**	**–**	**–**	**–**	**3,217**	**–**	**3,217**
Redemption of preference shares (note 40)	**1,840**	**–**	**(1,840)**	**–**	**–**	**–**	**–**
Capital restructuring (note 40)	**(37,373)**	**–**	**37,373**	**–**	**–**	**–**	**–**
Capital contribution received	**–**	**–**	**323**	**323**	**–**	**–**	**323**
Return of capital contributions	**–**	**–**	**(441)**	**(441)**	**–**	**–**	**(441)**
Other changes in non-controlling interests	**–**	**–**	**–**	**–**	**–**	**282**	**282**
Total transactions with owners	**(35,533)**	**–**	**32,289**	**(3,244)**	**3,217**	**253**	**226**
Balance at 31 December 2016	**1,574**	**8,484**	**36,231**	**46,289**	**3,217**	**745**	**50,251**

Further details of movements in the Group's share capital and reserves are provided in notes 39, 40, 41, 42 and 43.

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

Statements of changes in equity

for the year ended 31 December 2016

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	Other equity instruments £ million	Total £ million
Balance at 1 January 2015	37,107	1,121	7,102	–	45,330
Comprehensive income					
Profit for the year[1]	–	–	10,911	–	10,911
Other comprehensive income					
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	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 (note 44)	–	–	(1,080)	–	(1,080)
Capital contributions 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
Comprehensive income					
Profit for the year	**–**	**–**	**1,953**	**–**	**1,953**
Other comprehensive income					
Post-retirement defined benefit scheme remeasurements, net of tax	**–**	**–**	**(498)**	**–**	**(498)**
Movements in revaluation reserve in respect of available-for-sale financial assets, net of tax	**–**	**1,208**	**–**	**–**	**1,208**
Movements in cash flow hedging reserve, net of tax	**–**	**791**	**–**	**–**	**791**
Currency translation differences (tax: nil)	**–**	**19**	**–**	**–**	**19**
Total other comprehensive income	**–**	**2,018**	**(498)**	**–**	**1,520**
Total comprehensive income	**–**	**2,018**	**1,455**	**–**	**3,473**
Transactions with owners					
Dividends (note 44)	**–**	**–**	**(3,040)**	**–**	**(3,040)**
Distributions on other equity instruments, net of tax	**–**	**–**	**(86)**	**–**	**(86)**
Issue of other equity instruments (note 43)	**–**	**–**	**–**	**3,217**	**3,217**
Redemption of preference shares (note 40)	**1,840**	**–**	**(1,840)**	**–**	**–**
Capital restructuring (note 40)	**(37,373)**	**–**	**37,373**	**–**	**–**
Capital contribution received	**–**	**–**	**323**	**–**	**323**
Return of capital contributions	**–**	**–**	**(441)**	**–**	**(441)**
Total transactions with owners	**(35,533)**	**–**	**32,289**	**3,217**	**(27)**
Balance at 31 December 2016	**1,574**	**2,593**	**50,390**	**3,217**	**57,774**

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

Cash flow statements

for the year ended 31 December 2016

	Note	The Group 2016 £ million	The Group 2015 £ million	The Bank 2016 £ million	The Bank 2015 £ million
Profit before tax[1]		**2,556**	1,372	**2,030**	10,968
Adjustments for:					
Change in operating assets	53(a)	**(3,300)**	34,961	**(20,951)**	27,936
Change in operating liabilities	53(b)	**(2,525)**	(10,990)	**20,757**	(21,446)
Non-cash and other items	53(c)	**13,871**	(7,049)	**(1,913)**	(10,687)
Tax received (paid)		**(130)**	(100)	**654**	768
Net cash provided by operating activities		**10,472**	18,194	**577**	7,539
Cash flows from investing activities					
Purchase of other equity instruments issued by subsidiaries		**–**	–	**–**	(1,500)
Purchase of financial assets		**(4,930)**	(19,354)	**(4,664)**	(7,903)
Proceeds from sale and maturity of financial assets		**6,335**	22,000	**6,429**	7,055
Purchase of fixed assets		**(3,760)**	(3,417)	**(1,122)**	(1,279)
Proceeds from sale of fixed assets		**1,684**	1,537	**19**	61
Additional capital injections to subsidiaries	53(e)	**–**	–	**(81)**	(64)
Dividends received from subsidiaries		**–**	–	**3,984**	12,820
Acquisition of businesses, net of cash acquired	53(e)	**(20)**	(5)	**–**	–
Disposal of businesses, net of cash disposed	53(f)	**5**	(4,071)	**3**	850
Net cash (used in) provided by investing activities		**(686)**	(3,310)	**4,568**	10,040
Cash flows from financing activities					
Dividends paid to ordinary shareholders		**(3,040)**	(1,080)	**(3,040)**	(1,080)
Distributions on other equity instruments		**(119)**	–	**(119)**	–
Dividends paid to non-controlling interests		**(29)**	(52)	**–**	–
Return of capital contribution		**(441)**	(600)	**(441)**	(600)
Interest paid on subordinated liabilities		**(2,003)**	(2,307)	**(1,516)**	(1,755)
Proceeds from issue of Additional Tier 1 securities		**3,217**	–	**3,217**	–
Proceeds from issue of subordinated liabilities		**2,753**	–	**2,753**	–
Repayment of subordinated liabilities		**(15,207)**	(4,002)	**(13,200)**	(1,266)
Borrowings from parent company		**305**	1,157	**–**	1,157
Repayments to parent company		**(4,585)**	(1,155)	**(3,387)**	(1,155)
Other changes in non-controlling interests		**297**	(41)	**–**	–
Net cash used in financing activities		**(18,852)**	(8,080)	**(15,733)**	(4,699)
Effect of exchange rate changes on cash and cash equivalents		**21**	2	**2**	–
Change in cash and cash equivalents		**(9,045)**	6,806	**(10,586)**	12,880
Cash and cash equivalents at beginning of year		**71,953**	65,147	**55,852**	42,972
Cash and cash equivalents at end of year	53(d)	**62,908**	71,953	**45,266**	55,852

[1] Group profit before tax comprises £1,977 million in respect of continuing operations and £579 million in respect of discontinued operations (2015: £1,227 million in respect of continuing operations and £145 million in respect of discontinued operations).

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

Discontinued operations
The impact of the Group's discontinued operations on the above Cash flow statements is as follows:

	The Group 2016 £ million	The Group 2015 £ million
Net cash provided by operating activities	**804**	1,341
Net cash from investing activities	**471**	479
Net cash used in financing activities	**(417)**	(1,096)
Change in cash and cash equivalents	**858**	724

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 6 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 the year the Group has reviewed its holding of government securities classified as held-to-maturity in light of the current low interest rate environment and they have been reclassified as available-for-sale; this has resulted in a credit of £1,544 million to the available-for-sale revaluation reserve (£1,127 million after tax) for the Group and the Bank.

During 2016 the Company has also reviewed the treatment of certain preference shares issued to its parent company, Lloyds Banking Group plc. As a result amounts due from fellow Lloyds Banking Group undertakings and subordinated liabilities have been increased by £585 million; comparatives have been restated accordingly.

Details of those IFRS pronouncements which will be relevant to the Group but which were not effective at 31 December 2016 and which have not been applied in preparing these financial statements are given in note 56.

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 140 to 148.

(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 and the movements in these interests in interest expense.

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 2p). 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.

b Goodwill
Goodwill arises on business combinations and 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. 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
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: up to 7 years for capitalised software; 10 to 15 years for brands and other intangibles.

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, including 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.

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.

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 (m) 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 (ie when the obligation is discharged), cancelled or expire.

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

Held for trading: 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.

Classified at fair value through profit and loss: 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:

– 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.
– 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. Refer to note 48(3) (Financial instruments: Financial assets and liabilities carried at fair value) for details of valuation techniques and significant inputs to valuation models.

(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. Such assets are 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

2 Accounting policies (continued)

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 otherwise have met the definition of loans and receivables at the time of reclassification 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.

(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. Securities which carry a discretionary coupon and have no fixed maturity or redemption date are classified as other equity instruments. Interest payments on these securities are recognised, net of tax, as distributions from equity in the period in which they are paid. 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
Derivatives are classified as trading except those designated as effective hedging instruments which meet the crtieria under IAS 39. All derivatives are recognised at their fair value. 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 48(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

2 Accounting policies (continued)

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.

(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.

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, including the identification of fraud, 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, 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. Impairment allowances for portfolios of smaller balance homogenous loans such as most residential mortgages, personal loans and credit card balances 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.

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.

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.

(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

2 Accounting policies (continued)

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: the shorter of 50 years and the remaining period of the lease for freehold/long and short leasehold premises; the shorter of 10 years and, if lease renewal is not likely, the remaining period of the lease for leasehold improvements; 10 to 20 years for fixtures and furnishings; and 2 to 8 years for other equipment and motor vehicles.

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 accretion or both, primarily within the life insurance funds. In accordance with the guidance published by the Royal Institution of Chartered Surveyors, investment property is carried at fair value based on current prices for similar properties, adjusted for the specific characteristics of the property (such as location or condition). If this information is not available, the Group uses alternative valuation methods such as discounted cash flow projections or recent prices in less active markets. These valuations are reviewed at least annually by independent professionally qualified valuers. Investment property being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be valued at fair value.

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.

(1) Pension schemes

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.

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.

2 Accounting policies (continued)

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

(2) 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.

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

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. Dependent on their complexity, provisions are based on management's interpretation of the relevant tax legislation, precedents and guidance as well as external tax advice. The provision is the best estimate of the consideration expected to be required to settle the particular obligation taking into account management's judgement of the relevant risks and uncertainties.

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.

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.

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

– *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).

2 Accounting policies (continued)

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.

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. 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.

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 its recoverability is reviewed 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 on a basis that reflects the length of time for which contracts have been in force and the projected incidence of risk over the term of the contract 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.

2 Accounting policies (continued)

(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.

n 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'). 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 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; and 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.

o 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.

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.

p Share capital

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

q 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.

r Investment in subsidiaries

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

s Disposal groups held for sale and discontinued operations

Disposal groups are classified as held for sale if the Group will recover the carrying amount principally through a sale transaction rather than through continuing use and a sale is considered highly probable. Disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Assets and liabilities of disposal groups classified as held for sale are shown separately on the face of the balance sheet.

A discontinued operation is a cash generating unit or a group of cash generating units that has been disposed of, or is classified as held for sale, and (a) represents a separate major line of business or geographical area of operations, (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or (c) is a subsidiary acquired exclusively with a view to resale. The results after tax of discontinued operations are shown as a single line item on the face of the income statement.

3 Critical accounting estimates

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 (note 19);
- Valuation of assets and liabilities arising from insurance business (notes 22 and 31);
- Defined benefit pension scheme obligations (note 35);
- Recoverability of deferred tax assets (note 36);
- Payment protection insurance and other regulatory provisions (note 37); and
- Fair value of financial instruments (note 48).

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 (GEC) 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; this has remained the case throughout 2015 and 2016. Since the chief operating decision maker's review includes the Lloyds Banking Group's insurance operations, the Scottish Widows group is not treated as a discontinued operation for the Bank's segmental reporting purposes.

The segmental results and comparatives are presented on an underlying basis, the basis reviewed by the chief operating decision maker. The effects of the following are excluded in arriving at underlying profit:

- losses on redemption of the Enhanced Capital Notes and the volatility in the value of the embedded equity conversion feature;
- market volatility and other items, which includes the effects of certain asset sales, the volatility relating to the Group's own debt and hedging arrangements as well as that arising in the insurance businesses, insurance gross up, the unwind of acquisition-related fair value adjustments and the amortisation of purchased intangible assets;
- restructuring costs, comprising severance related costs relating to the Simplification programme announced in October 2014 and the costs of implementing regulatory reform and ring fencing;
- TSB build and dual running costs and the loss relating to the TSB sale in 2015; and
- payment protection insurance and other conduct provisions.

The Group's activities are organised into four financial reporting segments: Retail; Commercial Banking; Consumer Finance and Insurance. The Group's unsecured personal lending portfolio, previously part of Retail, is now managed by Consumer Finance and elements of the Group's business in the Channel Islands and Isle of Man were transferred from Retail to Commercial Banking; comparatives have been restated accordingly.

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

Commercial Banking is client-led, helping UK-based clients and international clients with a link to the UK. Through its four client facing divisions – SME, Mid Markets, Global Corporates and Financial Institutions – it provides clients with a range of products and services such as lending, transactional banking, working capital management, risk management, debt capital markets services, as well as access to private equity through Lloyds Development Capital.

Consumer Finance comprises all the Group's consumer lending products including motor finance, credit cards, and unsecured personal loans along with its European business.

Insurance provides a range of protection, pension and investment products to meet the needs of its customers.

Other includes certain assets previously reported as outside of the Group's risk appetite and the results of businesses disposed. 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.

4 Segmental analysis (continued)

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

	Retail £m	Commercial Banking £m	Consumer Finance £m	Insurance £m	Other £m	Underlying basis total £m
Year ended 31 December 2016						
Net interest income	6,497	2,735	1,941	(146)	408	11,435
Other income, net of insurance claims	1,053	1,987	1,338	1,755	(68)	6,065
Total underlying income, net of insurance claims	7,550	4,722	3,279	1,609	340	17,500
Operating lease depreciation[1]	–	(105)	(775)	–	(15)	(895)
Net income	7,550	4,617	2,504	1,609	325	16,605
Operating costs	(4,174)	(2,133)	(939)	(772)	(75)	(8,093)
Impairment	(373)	(16)	(282)	–	26	(645)
Underlying profit (loss)	3,003	2,468	1,283	837	276	7,867
External income	8,460	3,668	3,885	1,311	176	17,500
Inter-segment income	(910)	1,054	(606)	298	164	–
Segment underlying income, net of insurance claims	7,550	4,722	3,279	1,609	340	17,500
Segment external assets	300,085	188,296	40,992	153,936	134,484	817,793
Segment customer deposits	271,005	132,628	7,920	–	3,907	415,460
Segment external liabilities	275,006	221,395	12,494	146,836	113,247	768,978
Other segment items reflected in income statement above:						
Depreciation and amortisation	459	286	888	168	579	2,380
Increase in value of in-force business	–	–	–	472	–	472
Defined benefit scheme charges	134	45	10	13	85	287
Other segment items:						
Additions to fixed assets	278	126	2,086	481	789	3,760
Investments in joint ventures and associates at end of year	1	–	5	–	53	59

[1] Net of profits on disposal of operating lease assets of £58 million.

4 Segmental analysis (continued)

	Retail[1] £m	Commercial Banking[1] £m	Consumer Finance[1] £m	Insurance £m	Other £m	Underlying basis total £m
Year ended 31 December 2015						
Net interest income	6,664	2,576	1,954	(163)	451	11,482
Other income, net of insurance claims	1,115	2,072	1,359	1,827	(218)	6,155
Total underlying income, net of insurance claims	7,779	4,648	3,313	1,664	233	17,637
Operating lease depreciation[2]	–	(30)	(720)	–	(14)	(764)
Net income	7,779	4,618	2,593	1,664	219	16,873
Operating costs	(4,339)	(2,162)	(977)	(702)	(131)	(8,311)
Impairment	(349)	22	(235)	–	(6)	(568)
TSB	–	–	–	–	118	118
Underlying profit	3,091	2,478	1,381	962	200	8,112
External income	8,545	3,636	3,772	2,065	(381)	17,637
Inter-segment income	(766)	1,012	(459)	(401)	614	–
Segment underlying income, net of insurance claims	7,779	4,648	3,313	1,664	233	17,637
Segment external assets	307,887	178,838	36,501	143,217	140,245	806,688
Segment customer deposits	273,719	131,998	11,082	–	1,527	418,326
Segment external liabilities	278,933	226,106	15,462	137,233	101,974	759,708
Other segment items reflected in income statement above:						
Depreciation and amortisation	408	204	839	124	537	2,112
Decrease in value of in-force business	–	–	–	(162)	–	(162)
Defined benefit scheme charges	123	30	9	11	142	315
Other segment items:						
Additions to fixed assets	383	153	1,752	343	786	3,417
Investments in joint ventures and associates at end of year	1	–	4	–	42	47

[1] Restated – see page 32.

[2] Net of profits on disposal of operating lease assets of £66 million.

Reconciliation of underlying basis to statutory results

	Lloyds Bank Group			Impact of other entities in the Lloyds Banking Group[1] £m	Removal of:				Underlying basis £m
	Continuing operations £m	Discontinued operations £m	Adjustments £m		Volatility and other items[2] £m	Insurance gross up[3] £m	PPI £m	Other conduct provisions £m	
Year ended 31 December 2016									
Net interest income	**11,194**	**(2,147)**	**30**	**197**	**263**	**1,898**	**–**	**–**	**11,435**
Other income, net of insurance claims	**3,286**	**3,853**	**(516)**	**1,370**	**121**	**(2,110)**	**–**	**61**	**6,065**
Total income, net of insurance claims	**14,480**	**1,706**	**(486)**	**1,567**	**384**	**(212)**	**–**	**61**	**17,500**
Operating lease depreciation[4]					**(895)**	**–**	**–**	**–**	**(895)**
Net income	**14,480**	**1,706**	**(486)**	**1,567**	**(511)**	**(212)**	**–**	**61**	**16,605**
Operating expenses	**(11,751)**	**(1,127)**	**486**	**(235)**	**1,948**	**212**	**1,350**	**1,024**	**(8,093)**
Impairment	**(752)**	**–**	**–**	**–**	**107**	**–**	**–**	**–**	**(645)**
Profit before tax	**1,977**	**579**	–	**1,332**	**1,544**	**–**	**1,350**	**1,085**	**7,867**

4 Segmental analysis (continued)

	Lloyds Bank Group			Impact of other entities in the Lloyds Banking Group[1] £m	Removal of:					Underlying basis £m
	Continuing operations £m	Discontinued operations £m	Adjustments £m		Volatility and other items[5] £m	TSB[6] £m	Insurance gross up[3] £m	PPI £m	Other conduct provisions £m	
Year ended 31 December 2015										
Net interest income	11,014	(263)	–	567	318	(192)	38	–	–	11,482
Other income, net of insurance claims	5,205	1,356	(454)	(4)	209	(31)	(126)	–	–	6,155
Total income, net of insurance claims	16,219	1,093	(454)	563	527	(223)	(88)	–	–	17,637
Operating lease depreciation[4]					(764)	–	–	–	–	(764)
Net income	16,219	1,093	(454)	563	(237)	(223)	(88)	–	–	16,873
Operating expenses	(14,602)	(948)	454	(291)	2,065	86	88	4,000	837	(8,311)
Impairment	(390)	–	–	–	(197)	19	–	–	–	(568)
TSB					–	118	–	–	–	118
Profit	1,227	145	–	272	1,631	–	–	4,000	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 write-off of the ECN embedded derivative and premium paid on redemption of the remaining notes in the first quarter (loss of £790 million); the effects of asset sales (gain of £217 million); volatile items (gain of £99 million); liability management (gain of £123 million); the amortisation of purchased intangibles (£340 million); restructuring costs (£622 million, principally comprising the severance related costs related to phase II of the Simplification programme); and the fair value unwind and other items (loss of £231 million).

[3] The Group's insurance businesses' income statements include income and expenditure which are attributable to the policyholders of the Group's long-term assurance funds. These items have no impact in total upon the profit attributable to equity shareholders and, in order to provide a clearer representation of the underlying trends within the business, these items are shown net within the underlying results.

[4] Net of profits on disposal of operating lease assets of £58 million (2015: £66 million; 2014: £67 million).

[5] Comprises market movements on the ECN embedded derivative (loss of £101 million); the effects of asset sales (gain of £54 million); volatile items (loss of £107 million); liability management (loss of £28 million); the amortisation of purchased intangibles (£342 million); restructuring costs (£170 million); TSB costs (£745 million); and the fair value unwind and other items (loss of £192 million).

[6] Comprises the underlying results of TSB.

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			
	2016 %	2015 %	**2016 £m**	2015 £m
Interest and similar income:				
Loans and advances to customers	**3.35**	3.54	**15,344**	16,423
Loans and advances to banks	**0.35**	0.33	**243**	242
Debt securities held as loans and receivables	**2.37**	3.18	**90**	68
Interest receivable on loans and receivables	**2.96**	3.10	**15,677**	16,733
Available-for-sale financial assets	**1.88**	1.77	**763**	725
Held-to-maturity investments	**1.44**	1.49	**231**	197
Total interest and similar income	**2.84**	2.97	**16,671**	17,655
Interest and similar expense:				
Deposits from banks, excluding liabilities under sale and repurchase agreements[1]	**0.69**	0.41	**(68)**	(43)
Customer deposits, excluding liabilities under sale and repurchase agreements	**0.75**	0.93	**(2,716)**	(3,522)
Debt securities in issue[2]	**0.95**	0.67	**(785)**	(560)
Subordinated liabilities	**11.49**	9.16	**(1,870)**	(2,482)
Liabilities under sale and repurchase agreements	**0.49**	0.61	**(38)**	(34)
Total interest and similar expense	**1.14**	1.31	**(5,477)**	(6,641)
Net interest income			**11,194**	11,014

[1] Includes £51 million (2015: £nil) of interest expense on assets with negative interest rates.

[2] The impact of the Group's hedging arrangements is included on this line; excluding this impact the weighted average effective interest rate in respect of debt securities in issue would be 2.76 per cent (2015: 2.78 per cent).

Included within interest and similar income is £205 million (2015: £248 million) in respect of impaired financial assets. Net interest income also includes a credit of £531 million (2015: credit of £983 million) transferred from the cash flow hedging reserve (see note 41).

6 Net fee and commission income

	2016 £m	2015 £m
Fee and commission income:		
Current accounts	**753**	803
Credit and debit card fees	**875**	918
Other	**1,216**	1,355
Total fee and commission income	**2,844**	3,076
Fee and commission expense	**(943)**	(986)
Net fee and commission income	**1,901**	2,090

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

	2016 £m	2015 £m
Foreign exchange translation gains	**761**	28
Gains on foreign exchange trading transactions	**535**	322
Total foreign exchange	**1,296**	350
Investment property gains (note 24)	**2**	7
Securities and other (losses) gains (see below)	**(356)**	1,171
Net trading income	**942**	1,528

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:

	2016 £m	2015 £m
Net income (expense) arising on assets held at fair value through profit or loss:		
Debt securities, loans and advances	**85**	348
Equity shares	**263**	386
Total net income arising on assets held at fair value through profit or loss	**348**	734
Net (expense) income arising on liabilities held at fair value through profit or loss – debt securities in issue	**(154)**	14
Total net gains arising on assets and liabilities held at fair value through profit or loss	**194**	748
Net (losses) gains on financial instruments held for trading	**(550)**	423
Securities and other (losses) gains	**(356)**	1,171

8 Other operating income

	2016 £m	2015 £m
Operating lease rental income	**1,225**	1,165
Rental income from investment properties (note 24)	**3**	8
Gains less losses on disposal of available-for-sale financial assets (note 41)	**575**	51
Liability management	**(2,019)**	(28)
Share of results of joint ventures and associates	**(1)**	(3)
Other income	**660**	394
Total other operating income	**443**	1,587

Liability management
Losses of £2,019 million (2015: losses of £28 million) arose on transactions undertaken as part of the Group's management of wholesale funding and capital; the loss in 2016 principally reflected transactions related to the Lloyds Banking Group's tender offers and redemptions in respect of its Enhanced Capital Notes which completed in March 2016 and a loss of £1,026 million which arose pursuant to a restructuring of the Bank's capital instruments in June 2016.

Notes to the accounts

9 Operating expenses

	2016 £m	2015 £m
Staff costs:		
Salaries	**2,609**	2,684
Performance-based compensation	**475**	409
Social security costs	**345**	335
Pensions and other post-retirement benefit schemes (note 35)	**525**	522
Restructuring costs	**241**	103
Other staff costs	**433**	421
	4,628	4,474
Premises and equipment:		
Rent and rates	**363**	363
Repairs and maintenance	**186**	173
Other	**118**	152
	667	688
Other expenses:		
Communications and data processing	**846**	891
Advertising and promotion	**197**	252
Professional fees	**233**	257
TSB disposal	**–**	665
Other	**609**	592
	1,885	2,657
Depreciation and amortisation:		
Depreciation of property, plant and equipment (note 24)	**1,759**	1,555
Amortisation of other intangible assets (note 23)	**541**	496
	2,300	2,051
Total operating expenses, excluding payment protection insurance provision	**9,480**	9,870
Regulatory provisions		
Payment protection insurance provision (note 37)	**1,350**	3,991
Other regulatory provisions (note 37)	**921**	741
	2,271	4,732
Total operating expenses	**11,751**	14,602

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

	2016	2015
UK	**76,914**	82,247
Overseas	**812**	781
Total	**77,726**	83,028

9 Operating expenses (continued)

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

	2016 £m	2015 £m
Fees payable for the audit of the Bank's current year annual report	**3.0**	2.8
Fees payable for other services:		
Audit of the Bank's subsidiaries pursuant to legislation	**10.6**	11.3
Other services supplied pursuant to legislation	**2.6**	1.6
Other services – audit-related fees	**0.1**	0.6
Taxation compliance services	**0.2**	0.2
All other services	**0.2**	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:

	2016 £m	2015 £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
Acquisition due diligence and other work performed in respect of potential venture capital investments	**1.0**	–

10 Impairment

	2016 £m	2015 £m
Impairment losses on loans and receivables:		
Loans and advances to customers	**592**	443
Debt securities classified as loans and receivables	**–**	(2)
Total impairment losses on loans and receivables (note 19)	**592**	441
Impairment of available-for-sale financial assets	**173**	4
Other credit risk provisions	**(13)**	(55)
Total impairment charged to the income statement	**752**	390

11 Taxation

a Analysis of tax charge for the year

	2016 £m	2015 £m
UK corporation tax:		
Current tax on profit for the year	**(460)**	(247)
Adjustments in respect of prior years	**155**	(104)
	(305)	(351)
Foreign tax:		
Current tax on profit for the year	**(20)**	(25)
Adjustments in respect of prior years	**2**	26
	(18)	1
Current tax charge	**(323)**	(350)
Deferred tax (note 36):		
Origination and reversal of temporary differences	**(376)**	(318)
Due to change in UK corporation tax rate	**(241)**	(83)
Adjustments in respect of prior years	**(7)**	57
	(624)	(344)
Tax charge	**(947)**	(694)

The charge for tax on the profit for 2016 is based on a UK corporation tax rate of 20 per cent (2015: 20.25 per cent).

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:

	2016 £m	2015 £m
Profit before tax from continuing operations	**1,977**	1,227
Tax charge thereon at UK corporation tax rate of 20 per cent (2015: 20.25 per cent)	**(395)**	(248)
Factors affecting charge:		
Impact of bank surcharge	**(266)**	–
Impact of changes in UK corporation tax rates	**(241)**	(83)
Disallowed items[1]	**(433)**	(575)
Non-taxable items	**147**	127
Overseas tax rate differences	**11**	(8)
Gains exempted	**18**	114
Tax losses not previously recognised	**62**	–
Adjustments in respect of previous years	**150**	(22)
Effect of profit in joint ventures and associates	**(1)**	(1)
Other items	**1**	2
Tax charge on profit from continuing operations	**(947)**	(694)

[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 £289 million (2015: £459 million).

The Finance (No. 2) Act 2015 introduced an additional surcharge of 8 per cent on banking profits from 1 January 2016.

The Finance Act 2016 was enacted on 15 September 2016. The Act further reduced the corporation tax rate applicable from 1 April 2020 to 17 per cent and further restricts the amount of banks' profits that can be offset by carried forward losses for the purposes of calculating corporation tax liabilities from 50 per cent to 25 per cent with effect from 1 April 2016.

The corporation tax changes enacted have resulted in a reduction in the Group's net deferred tax asset at 31 December 2016 of £199 million, comprising a £241 million charge included in the income statement and a £42 million credit included in equity.

12 Disposal group

The Group expects to complete the sale of the Scottish Widows group to its ultimate holding company, Lloyds Banking Group plc, in the next 12 months. This represents the entirety of the Group's insurance operations. The assets and liabilities associated with these operations are therefore classified as a held-for-sale disposal group at 31 December 2016 and shown separately on the face of the balance sheet.

The Group has not recognisied any impairment relating to disposal groups classified as held for sale during 2016.

These operations have been classified as discontinued operations and the profit after tax from these activities reported as a single line on the Group's income statement.

In order to fairly reflect the results and financial position of the Group's continuing operations and its discontinued operations, transactions that the continuing operations have with the discontinued operations are reported on the relevant line in the Group's income statement or balance sheet, with the matching transaction similarly reported in the discontinued operations income statement or balance sheet within the Group's disposal group. All such transactions fully eliminate within the Group's statutory consolidation and there is no net impact on profit before tax or equity.

(1) Income statement

The results of the discontinued operations are as follows:

	2016 £ million	2015 £ million
Interest and similar income	**78**	173
Interest and similar expense	**(2,225)**	(436)
Net interest income	**(2,147)**	(263)
Fee and commission income	**465**	535
Fee and commission expense	**(676)**	(815)
Net fee and commission income	**(211)**	(280)
Net trading income (see (a) below)	**17,590**	2,418
Insurance premium income (see (b) below)	**8,068**	4,792
Other operating income	**750**	155
Other income	**26,197**	7,085
Total income	**24,050**	6,822
Insurance claims (see (c) below)	**(22,344)**	(5,729)
Total income, net of insurance claims	**1,706**	1,093
Operating expenses	**(1,127)**	(948)
Profit before tax	**579**	145
Taxation	**(406)**	81
Profit after tax from discontinued operations	**173**	226

(a) Net trading income

	2016 £m	2015 £m
Foreign exchange translation gains	**293**	(157)
Gains on foreign exchange trading transactions	**7**	14
Total foreign exchange	**300**	(143)
Investment property gains	**(85)**	409
Securities and other gains (see below)	**17,375**	2,152
Net trading income	**17,590**	2,418

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:

	2016 £m	2015 £m
Net income arising on assets held at fair value through profit or loss:		
Debt securities, loans and advances	**4,714**	108
Equity shares	**12,269**	2,000
Total net gains arising on assets held at fair value through profit or loss	**16,983**	2,108
Net gains on financial instruments held for trading	**392**	44
Securities and other gains	**17,375**	2,152

12 Disposal group (continued)

(b) Insurance premium income

	2016 £m	2015 £m
Life insurance		
Gross premiums:		
Life and pensions	**5,613**	3,613
Annuities	**1,685**	430
	7,298	4,043
Ceded reinsurance premiums	**(88)**	(122)
Net earned premiums	**7,210**	3,921
Non-life insurance		
Net earned premiums	**858**	871
Total net earned premiums	**8,068**	4,792

Premium income in 2015 was 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.

(c) Insurance claims

Insurance claims comprise:	2016 £m	2015 £m
Life insurance and participating investment contracts		
Claims and surrenders	**(8,617)**	(7,983)
Change in insurance and participating investment contracts	**(14,160)**	2,898
Change in non-participating investment contracts	**679**	(438)
	(22,098)	(5,523)
Reinsurers' share	**106**	101
	(21,992)	(5,422)
Change in unallocated surplus	**14**	63
Total life insurance and participating investment contracts	**(21,978)**	(5,359)
Non-life insurance		
Total non-life insurance claims, net of reinsurance	**(366)**	(370)
Total insurance claims	**(22,344)**	(5,729)
Life insurance and participating investment contracts gross claims and surrenders can also be analysed as follows:		
Deaths	**(635)**	(631)
Maturities	**(1,347)**	(1,348)
Surrenders	**(5,444)**	(4,811)
Annuities	**(949)**	(902)
Other	**(242)**	(291)
Total life insurance gross claims and surrenders	**(8,617)**	(7,983)

12 Disposal group (continued)

(2) Balance sheet
The assets and liabilities of the disposal group are comprised as follows:

	2016 £ million	2015 £ million
Assets		
Trading and other financial assets at fair value through profit or loss (see (a) below)	**109,687**	–
Derivative financial instruments	**3,800**	–
Loans and receivables:		
Loans and advances to banks	**21,319**	–
Due from fellow Lloyds Banking Group undertakings	**2,015**	–
	23,334	–
Goodwill (see (b) below)	**1,836**	–
Value of in-force business (see note 22)	**5,042**	–
Other intangible assets	**161**	–
Property, plant and equipment	**3,678**	–
Current tax recoverable	**–**	–
Deferred tax assets	**–**	–
Other assets (see (c) below)	**10,656**	–
Total assets of disposal group	**158,194**	–

	2016 £ million	2015 £ million
Liabilities		
Deposits from banks	**695**	–
Due to fellow Lloyds Banking Group undertakings	**2,386**	–
Derivative financial instruments	**3,008**	–
Debt securities in issue	**1,746**	–
Liabilities arising from insurance contracts and participating investment contracts (see note 31)	**94,409**	–
Liabilities arising from non-participating investment contracts (see note 33)	**20,112**	–
Other liabilities (see (d) below)	**24,767**	–
Retirement benefit obligations	**130**	–
Current tax liabilities	**97**	–
Deferred tax liabilities	**935**	–
Other provisions	**285**	–
Subordinated liabilities	**2,368**	–
Total liabilities of disposal group	**150,938**	–

(a) Trading and other financial assets at fair value through profit or loss

	2016 £m
Debt securities:	
Government securities	**13,776**
Other public sector securities	**1,324**
Asset-backed securities:	
Mortgage-backed securities	**660**
Other asset-backed securities	**7,813**
Corporate and other debt securities	**18,537**
Total debt securities	**42,110**
Equity shares	**67,577**
Total trading and other financial assets at fair value through profit or loss	**109,687**

12 Disposal group (continued)

These comprise financial assets backing insurance contracts and investment contracts 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 £15,611 million (see note 18).

(b) Goodwill

Goodwill held on the balance sheet is tested at least annually for impairment. 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, the related run-off of existing business in force 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. New business 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.

(c) Other assets

	2016 £m
Assets arising from reinsurance contracts held	**714**
Deferred acquisition and origination costs	**81**
Corporate pension asset	**6,645**
Other assets and prepayments	**3,216**
Total other assets	**10,656**

(d) Other liabilities

	2016 £m
Unitholders' interest in Open Ended Investment Companies	**22,947**
Unallocated surplus within insurance businesses	**243**
Other creditors and accruals	**1,577**
	24,767

Cumulative other comprehensive income relating to discontinued operations was a deficit of £184 million (2015: a deficit of £121 million).

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

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Trading assets	**45,824**	42,670	**46,787**	47,400
Other financial assets at fair value through profit or loss	**5,374**	98,479	**1,522**	4,664
Total	**51,198**	141,149	**48,309**	52,064

These assets are comprised as follows:

	The Group				The Bank			
	2016		2015		**2016**		2015	
	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	**31,050**	**–**	30,109	–	**31,993**	**–**	34,830	–
Loans and advances to banks	**2,606**	**–**	3,065	–	**2,606**	**–**	3,065	–
Debt securities:								
Government securities	**11,828**	**1,127**	8,269	13,848	**11,828**	**1,127**	8,269	4,664
Other public sector securities	**–**	**–**	–	2,039	**–**	**–**	–	–
Bank and building society certificates of deposit	**–**	**244**	–	135	**–**	**–**	–	–
Asset-backed securities:								
Mortgage-backed securities	**47**	**–**	516	842	**47**	**–**	516	–
Other asset-backed securities	**69**	**–**	85	762	**69**	**–**	85	–
Corporate and other debt securities	**224**	**3,397**	621	19,704	**244**	**395**	635	–
	12,168	**4,768**	9,491	37,330	**12,188**	**1,522**	9,505	4,664
Equity shares	**–**	**586**	5	61,075	**–**	**–**	–	–
Treasury bills and other bills	**–**	**20**	–	74	**–**	**–**	–	–
Total	**45,824**	**5,374**	42,670	98,479	**46,787**	**1,522**	47,400	4,664

At 31 December 2016 £15,141 million (2015: £92,525 million) of trading and other financial assets at fair value through profit or loss of the Group and £13,151 million (2015: £12,593 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 include private equity investments of £2,245 million (2015: £2,415 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.

At 31 December 2015 other financial assets at fair value through profit or loss included financial assets backing insurance contracts and investment contracts of £90,492 million which were 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 were investments in unconsolidated structured entities of £13,282 million (see note 18).

For amounts included above which are subject to repurchase and reverse repurchase agreements see note 51.

14 Derivative financial instruments

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

The Group	2016 Contract/ notional amount £m	2016 Fair value assets £m	2016 Fair value liabilities £m	2015 Contract/ notional amount £m	2015 Fair value assets £m	2015 Fair value liabilities £m
Trading						
Exchange rate contracts:						
Spot, forwards and futures	30,515	1,090	1,293	39,817	852	774
Currency swaps	289,161	6,903	6,486	293,536	5,585	4,323
Options purchased	15,192	808	–	20,352	751	–
Options written	17,878	–	985	22,708	–	984
	352,746	8,801	8,764	376,413	7,188	6,081
Interest rate contracts:						
Interest rate swaps	2,150,066	18,440	18,107	2,316,071	14,442	13,083
Forward rate agreements	628,962	13	87	1,159,099	6	57
Options purchased	38,254	2,793	–	55,962	3,003	–
Options written	39,847	–	3,227	52,202	–	3,116
Futures	113,557	2	–	105,475	7	8
	2,970,686	21,248	21,421	3,688,809	17,458	16,264
Credit derivatives	7,671	364	656	4,566	295	407
Equity and other contracts	7,074	734	801	14,174	1,295	1,145
Total derivative assets/liabilities held for trading	3,338,177	31,147	31,642	4,083,962	26,236	23,897
Hedging						
Derivatives designated as fair value hedges:						
Cross currency swaps	1,454	19	22	2,649	52	107
Interest rate swaps (including swap options)	195,889	1,462	1,027	121,331	1,572	737
Derivatives designated as cash flow hedges:						
Cross currency swaps	8,121	417	36	11,228	243	72
Interest rate swaps	384,182	814	1,166	460,829	816	1,534
Futures	53,115	–	3	150,085	3	–
Total derivative assets/liabilities held for hedging	642,761	2,712	2,254	746,122	2,686	2,450
Total recognised derivative assets/liabilities	3,980,938	33,859	33,896	4,830,084	28,922	26,347

The notional 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 51 Credit risk.

14 Derivative financial instruments (continued)

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 51; and
- Derivatives held in policyholders funds as permitted by the investment strategies of those funds.

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 used credit default swaps to securitise, in combination with external funding, £455 million of corporate and commercial banking loans at 31 December 2015; these arrangements were wound up during 2016.
- 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.

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.

2016	**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	**172**	**198**	**415**	**372**	**391**	**1,215**	**102**	**45**	**2,910**
Forecast payable cash flows	**(565)**	**(722)**	**(692)**	**(599)**	**(429)**	**(1,541)**	**(806)**	**(262)**	**(5,616)**
Hedged forecast cash flows affect profit or loss:									
Forecast receivable cash flows	**211**	**223**	**418**	**363**	**472**	**1,070**	**99**	**54**	**2,910**
Forecast payable cash flows	**(777)**	**(713)**	**(671)**	**(521)**	**(415)**	**(1,477)**	**(787)**	**(255)**	**(5,616)**

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)

There were no transactions for which cash flow hedge accounting had to be ceased in 2015 or 2016 as a result of the highly probable cash flows no longer being expected to occur.

At 31 December 2016 £28,744 million of total recognised derivative assets of the Group and £29,062 million of total recognised derivative liabilities of the Group (2015: £24,406 million of assets and £21,824 million of liabilities) had a contractual residual maturity of greater than one year.

14 Derivative financial instruments (continued)

The Bank	2016 Contract/ notional amount £m	2016 Fair value assets £m	2016 Fair value liabilities £m	2015 Contract/ notional amount £m	2015 Fair value assets £m	2015 Fair value liabilities £m
Trading						
Exchange rate contracts:						
Spot, forwards and futures	28,541	1,228	1,282	34,851	877	639
Currency swaps	306,726	7,438	7,160	318,189	6,082	5,139
Options purchased	15,073	800	–	20,257	746	–
Options written	17,717	–	979	22,577	–	979
	368,057	9,466	9,421	395,874	7,705	6,757
Interest rate contracts:						
Interest rate swaps	2,364,053	22,736	22,198	2,829,018	18,703	17,668
Forward rate agreements	634,121	14	88	1,198,211	20	68
Options purchased	39,297	2,665	–	54,872	2,681	–
Options written	39,711	12	2,989	51,795	–	2,850
Futures	107,599	2	–	147,036	1	6
	3,184,781	25,429	25,275	4,280,932	21,405	20,592
Credit derivatives	8,123	378	664	4,365	306	408
Equity and other contracts	7,422	369	471	6,788	770	750
Total derivative assets/liabilities held for trading	3,568,383	35,642	35,831	4,687,959	30,186	28,507
Hedging						
Derivatives designated as fair value hedges:						
Cross currency swaps	1,442	19	22	2,443	38	100
Interest rate swaps (including swap options)	204,068	938	2,695	129,062	693	2,400
Derivatives designated as cash flow hedges:						
Currency swaps	8,121	–	–	–	–	–
Interest rate swaps	381,662	115	40	164,826	72	33
Futures	50,299	–	3	77,400	3	–
Total derivative assets/liabilities held for hedging	645,592	1,072	2,760	373,731	806	2,533
Total recognised derivative assets/liabilities	4,213,975	36,714	38,591	5,061,690	30,992	31,040

14 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.

2016	**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	**96**	**49**	**210**	**158**	**189**	**813**	**33**	**7**	**1,555**
Forecast payable cash flows	**(79)**	**(69)**	**(23)**	**(11)**	**(3)**	**(1)**	**(15)**	**(42)**	**(243)**
Hedged forecast cash flows affect profit or loss:									
Forecast receivable cash flows	**145**	**66**	**231**	**152**	**239**	**690**	**26**	**6**	**1,555**
Forecast payable cash flows	**(103)**	**(48)**	**(22)**	**(9)**	**(3)**	**–**	**(16)**	**(42)**	**(243)**

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)

There were no transactions for which cash flow hedge accounting had to be ceased in 2015 or 2016 as a result of the highly probable cash flows no longer being expected to occur.

At 31 December 2016 £31,616 million of total recognised derivative assets of the Bank and £33,390 million of total recognised derivative liabilities of the Bank (2015: £26,366 million of assets and £25,983 million of liabilities) had a contractual residual maturity of greater than one year.

15 Loans and advances to banks

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Lending to banks	**2,438**	2,273	**1,843**	1,006
Money market placements with banks	**3,145**	22,844	**2,536**	1,619
Total loans and advances to banks	**5,583**	25,117	**4,379**	2,625

At 31 December 2016 £3,403 million (2015: £4,472 million) of loans and advances to banks of the Group and £2,959 million (2015: £2,002 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 51.

16 Loans and advances to customers

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Agriculture, forestry and fishing	**6,860**	6,924	**3,018**	2,936
Energy and water supply	**2,320**	3,247	**2,037**	2,966
Manufacturing	**7,285**	5,953	**6,556**	5,211
Construction	**4,535**	4,952	**2,859**	3,256
Transport, distribution and hotels	**13,320**	13,526	**10,041**	9,942
Postal and telecommunications	**2,564**	2,563	**2,009**	2,343
Property companies	**29,243**	32,228	**22,266**	21,866
Financial, business and other services	**46,077**	43,072	**36,677**	29,958
Personal:				
Mortgages	**306,484**	312,877	**55,489**	61,636
Other	**20,761**	20,579	**9,939**	10,194
Lease financing	**2,628**	2,751	**571**	435
Hire purchase	**11,617**	9,536	**10,735**	8,597
Total loans and advances to customers before allowance for impairment losses	**453,694**	458,208	**162,197**	159,340
Allowance for impairment losses (note 19)	**(2,412)**	(3,033)	**(1,036)**	(1,223)
Total loans and advances to customers	**451,282**	455,175	**161,161**	158,117

At 31 December 2016 £383,165 million (2015: £397,831 million) of loans and advances to customers of the Group and £116,962 million (2015: £123,855 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 51.

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

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Gross investment in finance leases, receivable:				
Not later than 1 year	**551**	497	**130**	73
Later than 1 year and not later than 5 years	**1,618**	1,225	**391**	274
Later than 5 years	**1,561**	2,407	**166**	158
	3,730	4,129	**687**	505
Unearned future finance income on finance leases	**(1,038)**	(1,316)	**(99)**	(60)
Rentals received in advance	**(64)**	(62)	**(17)**	(10)
Net investment in finance leases	**2,628**	2,751	**571**	435

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

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Not later than 1 year	**361**	319	**112**	85
Later than 1 year and not later than 5 years	**1,282**	859	**357**	265
Later than 5 years	**985**	1,573	**102**	85
Net investment in finance leases	**2,628**	2,751	**571**	435

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 2016 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 (2015: £nil).

17 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 30.

	2016		2015	
	Loans and advances securitised £m	**Notes in issue £m**	Loans and advances securitised £m	Notes in issue £m
Securitisation programmes[1]				
UK residential mortgages	**35,146**	**17,705**	39,154	20,931
Commercial loans	**7,395**	**8,179**	9,345	8,720
Credit card receivables	**7,610**	**5,723**	7,305	5,277
Dutch residential mortgages	**2,033**	**2,081**	1,981	2,044
PPP/PFI and project finance loans	**–**	**–**	305	94
	52,184	**33,688**	58,090	37,066
Less held by the Group		**(25,751)**		(29,303)
Total securitisation programmes (note 30)		**7,937**		7,763
Covered bond programmes				
Residential mortgage-backed	**33,881**	**30,021**	43,323	29,697
Social housing loan-backed	**2,087**	**1,200**	2,544	1,700
	35,968	**31,221**	45,867	31,397
Less held by the Group		**(700)**		(4,197)
Total covered bond programmes (note 30)		**30,521**		27,200
Total securitisation and covered bond programmes		**38,458**		34,963

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

Cash deposits of £9,018 million (2015: £8,383 million) which support the debt securities issued by the structured entities, the term advances related to covered bonds and other legal obligations are held by the Group. Additionally, the Group had certain contractual arrangements to provide liquidity facilities to some of these structured entities. At 31 December 2016 these obligations had not been triggered and the maximum exposure under these facilities was £328 million (2015: £381 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 2016 (2015: none). Such repurchases are made in order to ensure that the expected maturity dates of the notes issued from these programmes are met.

18 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 17 for securitisations and covered bond vehicles, note 35 for structured entities associated with the Group's pension schemes, and below in parts (A) and (B); the consolidated vehicles and partnerships discussed in part (B) are within the disposal group at 31 December 2016 (see note 12). 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 17, which are used for securitisation and covered bond programmes, the Group sponsors an active asset-backed conduit, Cancara, which invests in client receivables and debt securities. The total consolidated exposure of Cancara at 31 December 2016 was £6,840 million (2015: £7,295 million), comprising £6,684 million of loans and advances (2015: £6,440 million) and £156 million of debt securities (2015: £855 million).

All lending assets and debt securities 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. During 2016 there has been a planned drawdown on certain liquidity facilities for balance sheet management purposes, supporting the programme to provide funding alongside the proceeds of the asset-backed commercial paper issuance. The Group could be asked to provide further support under the contractual terms of these arrangements including, for example, if Cancara experienced a shortfall in external funding, which may occur in the event of market disruption. As at 31 December 2015 there had been no drawdowns on these liquidity facilities.

The external assets in Cancara are consolidated in the Group's financial statements.

(B) Consolidated collective investment vehicles and limited partnerships

The assets and liabilities of the Insurance business held in consolidated collective investment vehicles, such as Open-Ended Investment Companies 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 2016, the total carrying value of these consolidated collective investment vehicle assets and liabilities held by the Group was £75,669 million (2015: £67,122 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 £15,611 million at 31 December 2016 (2015: £13,282 million), included within financial assets designated at fair value through profit and loss in the disposal group (see note 12). These investments include both those entities managed by third parties and those managed by the Group. At 31 December 2016, the total asset value of these unconsolidated structured entities, including the portion in which the Group has no interest, was £1,849 billion (2015: £603 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 2016, are reported within discontinued operations (see note 12).

19 Allowance for impairment losses on loans and receivables

Critical accounting estimates and judgments

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. Assets are reviewed on a regular basis and those showing potential or actual vulnerability are placed on a watchlist 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. 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.

Collective impairment allowances are generally established for smaller balance homogenous portfolios such as the retail portfolios. For these portfolios 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 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. 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. 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.

The value of collateral supporting the Group's UK mortgage portfolio is estimated by applying changes in the house price indices to the original assessed value of the property. Given the relative size of the portfolio, this is a key variable in determining the Group's impairment charge for loans and receivables. If average house prices were ten per cent lower than those estimated at 31 December 2016, the impairment charge would increase by approximately £190 million in respect of UK mortgages.

In addition, 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 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 assets being impaired at the balance sheet date and being identified subsequently; the length of time taken to identify that an impairment event has occurred is known as the loss emergence period. 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. This provision is sensitive to changes in 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 £33 million (2015: £36 million).

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

The Group	2016 Loans and advances to customers £m	2016 Debt securities £m	2016 Total £m	2015 Loans and advances to customers £m	2015 Debt securities £m	2015 Total £m
At 1 January	**3,033**	**97**	**3,130**	6,414	126	6,540
Exchange and other adjustments	**69**	**–**	**69**	(246)	–	(246)
Disposal of businesses	**–**	**–**	**–**	(82)	–	(82)
Advances written off	**(2,111)**	**(22)**	**(2,133)**	(4,204)	(31)	(4,235)
Recoveries of advances written off in previous years	**861**	**1**	**862**	764	4	768
Unwinding of discount	**(32)**	**–**	**(32)**	(56)	–	(56)
Charge to the income statement (note 10)	**592**	**–**	**592**	443	(2)	441
At 31 December	**2,412**	**76**	**2,488**	3,033	97	3,130

Of the Group's total allowance in respect of loans and advances to customers, £1,876 million (2015: £2,425 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, £1,208 million (2015: £1,170 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	2016 £m	2015 £m
At 1 January	**1,223**	1,631
Exchange and other adjustments	**15**	(16)
Advances written off	**(973)**	(742)
Recoveries of advances written off in previous years	**365**	133
Unwinding of discount	**(44)**	(76)
Charge to the income statement	**450**	293
At 31 December	**1,036**	1,223

Of the Bank's total allowance in respect of loans and advances to customers, £774 million (2015: £931 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, £527 million (2015: £546 million) was assessed on a collective basis.

20 Available-for-sale financial assets

The Group	2016 £m	2015 £m
Debt securities:		
Government securities	**48,714**	25,329
Bank and building society certificates of deposit	**142**	186
Asset-backed securities:		
Mortgage-backed securities	**108**	197
Other asset-backed securities	**317**	319
Corporate and other debt securities	**6,030**	5,808
	55,311	31,839
Equity shares	**1,213**	1,193
Total available-for-sale financial assets	**56,524**	33,032

The Bank	2016 £m	2015 £m
Debt securities:		
Government securities	**48,576**	25,213
Bank and building society certificates of deposit	**142**	169
Asset-backed securities:		
Mortgage-backed securities	**71**	88
Other asset-backed securities	**127**	110
Corporate and other debt securities	**5,475**	6,083
	54,391	31,663
Equity shares	**731**	813
Total available-for-sale financial assets	**55,122**	32,476

At 31 December 2016 £55,204 million (2015: £31,945 million) of available-for-sale financial assets of the Group and £52,302 million (2015: £25,277 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).

During 2016 government securities with a fair value at the point of transfer of £22,830 million were reclassified from held-to-maturity investments (see note 1).

At 31 December 2015, the Bank had sold £20 million of debt securities to one of its subsidiary undertakings; however the related agreement was such that the Bank had retained substantially all of the risks and rewards of ownership and, as a consequence, the debt securities continued to be recognised on the Bank's balance sheet; this arrangement has unwound during 2016.

21 Goodwill of the Group

	2016 £m	2015 £m
At 1 January	**2,016**	2,016
Transfer to disposal group (note 12)	**(1,836)**	–
At 31 December	**180**	2,016
Cost[1]	**526**	2,362
Accumulated impairment losses	**(346)**	(346)
At 31 December	**180**	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 £180 million (2015: £2,016 million), £170 million, or 94 per cent of the total (2015: £170 million, 8 per cent of the total) has been allocated to Motor Finance. £1,836 million, or 91 per cent, of the goodwill at 31 December 2015 had been allocated to Scottish Widows; at 31 December 2016 this is reported within the disposal group (see note 12).

The recoverable amount of the goodwill relating to Motor 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 Motor Finance participates. Management believes that any reasonably possible change in the key assumptions above would not cause the recoverable amount of Motor Finance to fall below its balance sheet carrying value.

22 Value of in-force business of the Group

Critical accounting estimates and judgments
The value of in-force business asset (2016: £4,702 million, included in the disposal group (note 12); 2015: £4,219 million) represents the present value of future profits expected to arise from the portfolio of in-force life insurance and participating investment contracts. The valuation of this asset requires assumptions to be made about future economic and operating conditions which are inherently uncertain and changes could significantly affect the value attributed to this asset. The methodology used to value this asset and the key assumptions that have been made in determining the carrying value of the value of in-force business asset at 31 December 2016 are set out below.

Key assumptions
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. In determining the market premium for illiquidity, we consider a range of inputs which reflect actual asset allocation and relevant observable market data. The illiquidity premium is estimated to be 138 basis points at 31 December 2016 (2015: range of 85 to 144 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:

	2016 %	2015 %
Risk-free rate (value of in-force non-annuity business)[1]	**0.00 to 4.20**	0.00 to 4.20
Risk-free rate (value of in-force annuity business)[1]	**1.38 to 5.58**	0.85 to 5.64
Risk-free rate (financial options and guarantees)[1]	**0.00 to 4.20**	0.00 to 2.54
Retail price inflation	**3.50**	3.27
Expense inflation	**3.73**	3.65

[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.

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

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 31 and the effect of changes in key assumptions is given in note 32.

The gross value of in-force business asset is as follows:

	2016[1] £m	2015 £m
Acquired value of in-force non-participating investment contracts	340	377
Value of in-force insurance and participating investment contracts	4,702	4,219
Total value of in-force business	5,042	4,596

[1] At 31 December 2016 these balances are included in the disposal group (note 12).

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

	2016 £m	2015 £m
At 1 January	377	418
Amortisation taken to income statement (note 9)	(37)	(41)
Transfer to disposal group (see note 12)	(340)	–
At 31 December	–	377

The acquired value of in-force non-participating investment contracts includes £206 million (2015: £228 million) in relation to OEIC business.

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

	2016 £m	2015 £m
At 1 January	4,219	4,446
Exchange and other adjustments	11	(5)
Movements in the year:		
New business	428	454
Existing business:		
Expected return	(210)	(365)
Experience variances	(137)	(130)
Assumption changes	127	(209)
Economic variance	264	88
Movement in the value of in-force business taken to income statement (note 8)	472	(162)
Disposal of businesses	–	(60)
Transfer to disposal group (see note 12)	(4,702)	–
At 31 December	–	4,219

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.

23 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 2015	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
Additions	**–**	**–**	**–**	**–**	**463**	**463**	**338**
Disposals	**–**	**–**	**–**	**–**	**(110)**	**(110)**	**(1)**
Transfer to disposal group (see note 12)	**–**	**–**	**–**	**(67)**	**(286)**	**(353)**	**–**
At 31 December 2016	**596**	**2,770**	**315**	**471**	**1,881**	**6,033**	**1,583**
Accumulated amortisation:							
At 1 January 2015	128	2,160	305	456	609	3,658	388
Charge for the year (note 9)	21	300	4	16	196	537	138
At 31 December 2015	149	2,460	309	472	805	4,195	526
Charge for the year (note 9)	**22**	**297**	**2**	**27**	**234**	**582**	**164**
Disposals	**–**	**–**	**–**	**–**	**(72)**	**(72)**	**–**
Transfer to disposal group (see note 12)	**–**	**–**	**–**	**(66)**	**(126)**	**(192)**	**–**
At 31 December 2016	**171**	**2,757**	**311**	**433**	**841**	**4,513**	**690**
Balance sheet amount at 31 December 2016	**425**	**13**	**4**	**38**	**1,040**	**1,520**	**893**
Balance sheet amount at 31 December 2015	447	310	6	66	1,009	1,838	720

Included within brands above are assets of £380 million (2015: £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 2016 shown above will become fully amortised during 2017.

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.

24 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 2015	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
Exchange and other adjustments	**13**	**2**	**6**	**112**	**133**	**–**	**1**	**37**	**38**
Additions	**–**	**59**	**806**	**2,088**	**2,953**	**29**	**755**	**–**	**784**
Expenditure on investment properties (see below)	**344**	**–**	**–**	**–**	**344**	**–**	**–**	**–**	**–**
Change in fair value of investment properties (note 7)	**(83)**	**–**	**–**	**–**	**(83)**	**–**	**–**	**–**	**–**
Disposals	**(871)**	**(100)**	**(113)**	**(1,017)**	**(2,101)**	**(47)**	**(82)**	**–**	**(129)**
Transfer to disposal group (see note 12)	**(3,660)**	**(47)**	**(33)**	**–**	**(3,740)**	**–**	**–**	**–**	**–**
At 31 December 2016	**104**	**2,503**	**5,932**	**6,206**	**14,745**	**1,675**	**5,922**	**215**	**7,812**
Accumulated depreciation and impairment:									
At 1 January 2015	–	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 9)	–	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
Exchange and other adjustments	**–**	**(1)**	**(8)**	**49**	**40**	**–**	**1**	**5**	**6**
Depreciation charge for the year (note 9)	**–**	**136**	**672**	**953**	**1,761**	**68**	**583**	**6**	**657**
Disposals	**–**	**(49)**	**(89)**	**(410)**	**(548)**	**(32)**	**(60)**	**–**	**(92)**
Transfer to disposal group (see note 12)	**–**	**(32)**	**(30)**	**–**	**(62)**	**–**	**–**	**–**	**–**
At 31 December 2016	**–**	**1,301**	**2,641**	**1,509**	**5,451**	**1,048**	**3,090**	**30**	**4,168**
Balance sheet amount at 31 December 2016	**104**	**1,202**	**3,291**	**4,697**	**9,294**	**627**	**2,832**	**185**	**3,644**
Balance sheet amount at 31 December 2015	4,361	1,342	3,170	4,106	12,979	681	2,682	159	3,522

Expenditure on investment properties is comprised as follows:

	2016 £m	2015 £m
Acquisitions of new properties	**251**	165
Additional expenditure on existing properties	**93**	107
	344	272

Rental income of £229 million, of which £226 million was in discontinued operations, (2015: £268 million, of which £260 million was in discontinued operations) and direct operating expenses arising from properties that generate rental income of £26 million, of which £26 million was in discontinued operations, (2015: £27 million, of which £27 million was in discontinued operations) 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 £65 million (2015: £37 million).

The table above analyses movements in investment properties, all of which are categorised as level 3. See note 48 for details of levels in the fair value hierarchy.

24 Property, plant and equipment (continued)

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

	2016 £m	2015 £m
Receivable within 1 year	**1,120**	1,003
1 to 5 years	**1,373**	1,163
Over 5 years	**347**	172
Total future minimum rentals receivable	**2,840**	2,338

Equipment leased to customers under operating leases primarily relates to vehicle contract hire arrangements. During 2015 and 2016 no contingent rentals in respect of operating leases were recognised in the income statement.

In addition, total future minimum sub-lease income of £82 million for the Group and £26 million for the Bank at 31 December 2016 (£72 million for the Group and £11 million for the Bank at 31 December 2015) is expected to be received under non-cancellable sub-leases of premises.

25 Investment in subsidiary undertakings of the Bank

	2016 £m	2015 £m
At 1 January	**39,241**	38,818
Additional capital injections and transfers	**310**	1,665
Disposals	**(231)**	(711)
Impairment	**(563)**	(531)
Investment held for sale[1]	**(7,622)**	–
At 31 December	**31,135**	39,241

[1] The investment held for sale is shown separately on the face of the balance sheet.

Details of the subsidiaries and related undertakings are given on pages 140 to 148 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.

26 Other assets

	The Group		The Bank	
	2016 £m	2015 £m	2016 £m	2015 £m
Assets arising from reinsurance contracts held (notes 31 and 33)[1]	**–**	675	**–**	–
Deferred acquisition and origination costs[1]	**–**	106	**–**	–
Settlement balances	**533**	264	**416**	95
Corporate pension asset [1]	**–**	7,725	**–**	–
Investments in joint ventures and associates	**59**	47	**5**	5
Other assets and prepayments	**1,549**	5,142	**747**	816
Total other assets	**2,141**	13,959	**1,168**	916

[1] At 31 December 2016 these balances are held in the disposal group (see note 12).

27 Deposits from banks

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Liabilities in respect of securities sold under repurchase agreements	**7,279**	7,061	**2,758**	7,044
Other deposits from banks	**8,411**	9,864	**6,692**	6,570
Total deposits from banks	**15,690**	16,925	**9,450**	13,614

At 31 December 2016 £8,255 million (2015: £3,130 million) of deposits from banks of the Group and £2,139 million (2015: £1,575 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 51.

28 Customer deposits

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Non-interest bearing current accounts	**61,804**	48,518	**42,478**	30,440
Interest bearing current accounts	**90,978**	85,491	**55,509**	54,771
Savings and investment accounts	**208,227**	224,137	**74,946**	75,700
Liabilities in respect of securities sold under repurchase agreements	**2,462**	–	**2,462**	–
Other customer deposits	**51,989**	60,180	**37,740**	44,806
Total customer deposits	**415,460**	418,326	**213,135**	205,717

At 31 December 2016 £20,851 million (2015: £23,896 million) of customer deposits of the Group and £3,942 million (2015: £2,503 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 51.

Included in the amounts above for the Group are deposits of £219,106 million (2015: £230,110 million) which are protected under the UK Financial Services Compensation Scheme.

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

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Liabilities held at fair value through profit or loss	**9,425**	7,879	**9,423**	7,878
Trading liabilities:				
Liabilities in respect of securities sold under repurchase agreements	**42,067**	38,431	**43,011**	42,359
Other deposits	**530**	1,113	**860**	1,655
Short positions in securities	**2,482**	4,440	**2,482**	4,440
	45,079	43,984	**46,353**	48,454
Trading and other financial liabilities at fair value through profit or loss	**54,504**	51,863	**55,776**	56,332

At 31 December 2016, the Group had £10,133 million (2015: £10,369 million) and the Bank had £10,182 million (2015: £10,418 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 2016 was £16,079 million (2015: £12,034 million), which was £6,656 million higher than the balance sheet carrying value (2015: £4,156 million higher). At 31 December 2016 there was a cumulative £95 million increase (2015: £67 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, an increase of £28 million arose in 2016 and a decrease of £114 million arose in 2015.

For the fair value of collateral pledged in respect of repurchase agreements see note 51.

30 Debt securities in issue

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Medium-term notes issued	**24,867**	29,329	**23,571**	27,625
Covered bonds (note 17)	**30,521**	27,200	**41,037**	35,216
Certificates of deposit issued	**8,127**	11,101	**8,126**	11,269
Securitisation notes (note 17)	**7,937**	7,763	**501**	772
Commercial paper	**3,281**	6,663	**1,131**	3,548
Total debt securities in issue	**74,733**	82,056	**74,366**	78,430

At 31 December 2016 £49,888 million (2015: £56,986 million) of debt securities in issue of the Group and £54,985 million (2015: £57,437 million) of the Bank had a contractual residual maturity of greater than one year.

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

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

	2016[1]			2015		
	Gross £m	**Reinsurance[2] £m**	**Net £m**	Gross £m	Reinsurance[1] £m	Net £m
Life insurance (see (1) below):						
Insurance contracts	**79,812**	**(671)**	**79,141**	66,145	(629)	65,516
Participating investment contracts	**13,984**	**–**	**13,984**	13,460	–	13,460
	93,796	**(671)**	**93,125**	79,605	(629)	78,976
Non-life insurance contracts (see (2) below):						
Unearned premiums	**404**	**(14)**	**390**	461	(12)	449
Claims outstanding	**209**	**–**	**209**	251	–	251
	613	**(14)**	**599**	712	(12)	700
Total	**94,409**	**(685)**	**93,724**	80,317	(641)	79,676

[1] At 31 December 2016 these balances are included in the disposal group (see note 12).

[2] Reinsurance balances are reported within the disposal group (note 12) at 31 December 2016 and within other assets (note 26) at 31 December 2015.

(1) 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 2015	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	(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
New business	**4,422**	**28**	**4,450**	**(5)**	**4,445**
Changes in existing business	**9,210**	**496**	**9,706**	**(37)**	**9,669**
Change in liabilities charged to the income statement	**13,632**	**524**	**14,156**	**(42)**	**14,114**
Exchange and other adjustments	**35**	**–**	**35**	**–**	**35**
Transfer to disposal group	**(79,812)**	**(13,984)**	**(93,796)**	**671**	**(93,125)**
At 31 December 2016	**–**	**–**	**–**	**–**	**–**

[1] Reinsurance balances are reported within the disposal group (note 12) as at 31 December 2016 and within other assets (note 26) at 31 December 2015.

31 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:

	2016[1]			2015		
	With-profit fund £m	Non-profit fund £m	Total £m	With-profit fund £m	Non-profit fund £m	Total £m
Insurance contracts	9,147	70,665	79,812	9,023	57,122	66,145
Participating investment contracts	8,860	5,124	13,984	9,341	4,119	13,460
Total	18,007	75,789	93,796	18,364	61,241	79,605

[1] Balances at 31 December 2016 are included in the disposal group (see note 12).

With-profit fund realistic liabilities

(i) Business description

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.

(iii) Assumptions

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

Investment returns and discount rates

With-profit fund liabilities are valued on a market-consistent basis, 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.

(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 2016 of £2.7 billion (2015: £2.5 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.

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

As noted above, 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 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 of interest used are determined 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 2016 resulted in the following key impacts on profit before tax:

- Change in persistency assumptions (£48 million decrease).
- Change in the assumption in respect of current and future mortality and morbidity rates (£194 million increase).
- Change in expenses assumptions (£109 million decrease).

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 £82 million (2015: £68 million) in respect of those guarantees.

(2) Non-life insurance

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

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

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

	2016 £m	2015 £m
Provisions for unearned premiums		
Gross provision at 1 January	461	424
Increase in the year	827	934
Release in the year	(884)	(897)
Change in provision for unearned premiums charged to income statement	(57)	37
Gross provision at 31 December	404	461
Reinsurers' share	(14)	(12)
Transfer to disposal group (see note 12)	(390)	–
Net provision at 31 December	–	449

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

	2016 £m	2015 £m
Claims outstanding		
Gross claims outstanding at 1 January	251	224
Cash paid for claims settled in the year	(408)	(342)
Increase/(decrease) in liabilities[1]	366	369
Change in liabilities charged to the income statement	(42)	27
Gross claims outstanding at 31 December	209	251
Reinsurers' share	–	–
Transfer to disposal group (see note 12)	(209)	–
Net claims outstanding at 31 December	–	251
Notified claims[2]	122	217
Incurred but not reported[2]	87	34
Net claims outstanding at 31 December[2]	209	251

[1] Of which an increase of £363 million (2015: £393 million) was in respect of current year claims and an increase of £3 million (2015: decrease of £23 million) was in respect of prior year claims.

[2] At 31 December 2016 these balances are included in the disposal group (see note 12).

32 Life insurance sensitivity analysis of the Group

Critical accounting estimates and judgments

Elements of the valuations of liabilities arising from insurance contracts and participating investment contracts 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 methodology used to value these liabilities and the key assumptions that have been made in determining their carrying value are set out in note 31.

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.

		2016		2015	
31 December 2016	**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	**25**	**21**	32	26
Annuitant mortality[2]	5% reduction	**(287)**	**(238)**	(190)	(156)
Lapse rates[3]	10% reduction	**48**	**40**	85	70
Future maintenance and investment expenses[4]	10% reduction	**318**	**264**	231	190
Risk-free rate[5]	0.25% reduction	**(74)**	**(62)**	(44)	(37)
Guaranteed annuity option take-up[6]	5% addition	**(12)**	**(10)**	2	2
Equity investment volatility[7]	1% addition	**(10)**	**(8)**	(7)	(5)
Widening of credit default spreads on corporate bonds[8]	0.25% addition	**(200)**	**(166)**	(183)	(151)
Increase in illiquidity premia[9]	0.10% addition	**152**	**126**	120	98

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.

33 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:

	2016 £m	2015 £m
At 1 January	**22,777**	27,248
New business	**560**	539
Changes in existing business	**(3,225)**	(4,461)
Disposal of businesses	**–**	(549)
Transfer to disposal group (see note 12)	**(20,112)**	–
At 31 December	**–**	22,777

The balances above are shown gross of reinsurance. At 31 December 2016, related reinsurance balances were £29 million (2015: £34 million); reinsurance balances are reported within the disposal group (note 12) at 31 December 2016 and within other assets (note 26) at 31 December 2015. Liabilities arising from non-participating investment contracts are categorised as level 2. See note 48 for details of levels in the fair value hierarchy.

34 Other liabilities

	The Group		The Bank	
	2016 £m	2015 £m	2016 £m	2015 £m
Settlement balances	**346**	467	**252**	68
Unitholders' interest in Open Ended Investment Companies[1]	**–**	22,621	**–**	–
Unallocated surplus within insurance businesses[1]	**–**	257	**–**	–
Other creditors and accruals	**4,386**	6,852	**3,043**	2,920
	4,732	30,197	**3,295**	2,988

[1] At 31 December 2016 these balances are within the disposal group (see note 12).

35 Retirement benefit obligations

	2016 £m	2015 £m
Charge to the Group income statement		
Defined benefit pension schemes	**263**	290
Other post-retirement benefit schemes	**8**	8
Total defined benefit schemes	**271**	298
Defined contribution pension schemes	**254**	224
Total charge to the income statement – continuing operations (note 9)	**525**	522

In addition, there was a charge of £30 million (2015: £26 million) within discontinued operations (see note 12).

35 Retirement benefit obligations (continued)

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Amounts recognised in the balance sheet				
Retirement benefit assets	**342**	901	**254**	402
Retirement benefit obligations	**(692)**	(365)	**(399)**	(148)
Total amounts recognised in the balance sheet	**(350)**	536	**(145)**	254

The total amount recognised in the balance sheet relates to:

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Defined benefit pension schemes	**(114)**	736	**(23)**	363
Other post-retirement benefit schemes	**(236)**	(200)	**(122)**	(109)
Total amounts recognised in the balance sheet	**(350)**	536	**(145)**	254

Pension schemes

Defined benefit schemes

Critical accounting estimates and judgments

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 in the currency and with a term 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 similar 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 life expectancy of the members. The Group considers latest market practice and actual experience in determining the appropriate assumptions for both current mortality expectations and the rate of future mortality improvement. 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 (iii) below.

(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 2016 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 these schemes are operated as separate legal entities under trust law by the trustees and are 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 between the Group and the scheme Trustee and sent to the Pensions Regulator for review. 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 2016 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 2016 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 in the form of interests in limited liability partnerships for each of the two schemes which hold assets to provide security for the Group's obligations to the two schemes. At 31 December 2016, the limited liability partnerships held assets of approximately £5.4 billion. The limited liability partnerships are consolidated fully in the Group's balance sheet (see note 18).

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 2016 these held assets of approximately £4.8 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 2016.

The Group currently expects to pay contributions of approximately £560 million to its defined benefit schemes in 2017.

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.

35 Retirement benefit obligations (continued)

(ii) Amounts in the financial statements

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Amount included in the balance sheet				
Present value of funded obligations	**(44,363)**	(36,903)	**(27,924)**	(19,542)
Fair value of scheme assets	**44,249**	37,639	**27,901**	19,905
Net amount recognised in the balance sheet	**(114)**	736	**(23)**	363

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Net amount recognised in the balance sheet				
At 1 January	**736**	890	**363**	268
Net defined benefit pension charge	**(279)**	(307)	**(133)**	(160)
Actuarial gains (losses) on defined benefit obligation	**(8,770)**	607	**(8,293)**	370
Return on plan assets	**7,455**	(879)	**7,624**	(336)
Employer contributions	**623**	427	**420**	232
Exchange and other adjustments	**(9)**	(2)	**(4)**	(11)
Transfer to disposal group (see note 12)	**130**	–	**–**	–
At 31 December	**(114)**	736	**(23)**	363

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Movements in the defined benefit obligation				
At 1 January	**(36,903)**	(37,243)	**(19,542)**	(19,742)
Current service cost	**(257)**	(302)	**(121)**	(150)
Interest expense	**(1,401)**	(1,340)	**(864)**	(805)
Remeasurements:				
Actuarial gains – experience	**535**	195	**306**	106
Actuarial (losses) gains – demographic assumptions	**195**	(747)	**115**	(422)
Actuarial (losses) gains – financial assumptions	**(9,500)**	1,159	**(8,714)**	686
Benefits paid	**1,580**	1,371	**921**	796
Past service cost	**(20)**	(12)	**(3)**	(4)
Employee contributions	**–**	(1)	**–**	–
Settlements	**12**	8	**–**	–
Exchange and other adjustments	**(63)**	9	**(22)**	(7)
Transfer to disposal group	**1,459**	–	**–**	–
At 31 December	**(44,363)**	(36,903)	**(27,924)**	(19,542)

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Analysis of the defined benefit obligation:				
Active members	**(9,533)**	(7,530)	**(5,233)**	(3,339)
Deferred members	**(16,368)**	(12,723)	**(10,385)**	(6,792)
Pensioners	**(16,956)**	(15,312)	**(11,170)**	(8,539)
Dependants	**(1,506)**	(1,338)	**(1,136)**	(872)
	(44,363)	(36,903)	**(27,924)**	(19,542)

35 Retirement benefit obligations (continued)

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Changes in the fair value of scheme assets				
At 1 January	**37,639**	38,133	**19,905**	20,010
Return on plan assets excluding amounts included in interest income	**7,455**	(879)	**7,624**	(336)
Interest income	**1,441**	1,383	**879**	816
Employer contributions	**623**	427	**420**	232
Employee contributions	**–**	1	**–**	–
Benefits paid	**(1,580)**	(1,371)	**(921)**	(796)
Settlements	**(18)**	(14)	**–**	–
Administrative costs paid	**(36)**	(30)	**(24)**	(17)
Exchange and other adjustments	**54**	(11)	**18**	(4)
Transfer to disposal group	**(1,329)**	–	**–**	–
At 31 December	**44,249**	37,639	**27,901**	19,905

Composition of scheme assets:

	2016			2015		
The Group	**Quoted £m**	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Equity instruments	**1,114**	**–**	**1,114**	947	–	947
Debt instruments[1]:						
Fixed interest government bonds	**5,663**	**–**	**5,663**	4,841	–	4,841
Index-linked government bonds	**13,999**	**–**	**13,999**	9,944	–	9,944
Corporate and other debt securities	**7,452**	**–**	**7,452**	7,243	–	7,243
Asset-backed securities	**100**	**–**	**100**	74	–	74
	27,214	**–**	**27,214**	22,102	–	22,102
Property	**–**	**497**	**497**	–	439	439
Pooled investment vehicles	**3,569**	**12,115**	**15,684**	3,464	10,620	14,084
Money market instruments, derivatives, cash and other assets and liabilities	**1,435**	**(1,695)**	**(260)**	525	(458)	67
At 31 December	**33,332**	**10,917**	**44,249**	27,038	10,601	37,639

[1] Of the total debt instruments, £25,219 million (31 December 2015: £18,428 million) were investment grade (credit ratings equal to or better than 'BBB').

	2016			2015		
The Bank	**Quoted £m**	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Equity instruments	**405**	**–**	**405**	288	–	288
Debt instruments[1]:						
Fixed interest government bonds	**768**	**–**	**768**	721	–	721
Index-linked government bonds	**10,546**	**–**	**10,546**	6,008	–	6,008
Corporate and other debt securities	**4,419**	**–**	**4,419**	3,709	–	3,709
Asset-backed securities	**–**	**–**	**–**	–	–	–
	15,733	**–**	**15,733**	10,438	–	10,438
Property	**–**	**13**	**13**	–	17	17
Pooled investment vehicles	**2,873**	**8,992**	**11,865**	2,181	6,106	8,287
Money market instruments, derivatives, cash and other assets and liabilities	**298**	**(413)**	**(115)**	183	692	875
At 31 December	**19,309**	**8,592**	**27,901**	13,090	6,815	19,905

[1] Of the total debt instruments, £14,222 million (31 December 2015: £8,338 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.

35 Retirement benefit obligations (continued)

The pension schemes' pooled investment vehicles comprise:

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Equity funds	**2,628**	2,412	**2,244**	1,588
Hedge and mutual funds	**2,347**	2,078	**1,118**	899
Liquidity funds	**484**	918	**2**	2
Bond and debt funds	**3,032**	2,807	**2,837**	2,098
Other	**7,193**	5,869	**5,664**	3,700
At 31 December	**15,684**	14,084	**11,865**	8,287

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

	The Group	
	2016 £m	2015 £m
Current service cost	**257**	302
Net interest amount	**(40)**	(43)
Past service credits and curtailments	**–**	–
Settlements	**6**	6
Past service cost – plan amendments	**20**	12
Plan administration costs incurred during the year	**36**	30
Total defined benefit pension expense[1]	**279**	307

[1] Of the total defined benefit pension expense, £16 million (2015: £17 million) is included in discontinued operations (see note 12).

Assumptions

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

	2016 %	2015 %
Discount rate	**2.76**	3.87
Rate of inflation:		
Retail Prices Index	**3.23**	2.99
Consumer Price Index	**2.18**	1.99
Rate of salary increases	**0.00**	0.00
Weighted-average rate of increase for pensions in payment	**2.74**	2.58
	2016 Years	2015 Years
Life expectancy for member aged 60, on the valuation date:		
Men	**28.1**	28.1
Women	**30.3**	30.4
Life expectancy for member aged 60, 15 years after the valuation date:		
Men	**29.3**	29.5
Women	**31.7**	31.9

The mortality assumptions used in the scheme valuations are based on standard tables published by the Institute and Faculty of Actuaries which were adjusted in line with the actual experience of the relevant schemes. The table shows that a member retiring at age 60 at 31 December 2016 is assumed to live for, on average, 28.1 years for a male and 30.3 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:

35 Retirement benefit obligations (continued)

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

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

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

Investment risk: Scheme assets are invested in a diversified portfolio of debt securities, equities and other return-seeking assets. If the assets underperform the discount rate used to calculate the defined benefit obligation, it will reduce the surplus or increase the deficit. Volatility in asset values and the discount rate will lead to volatility in the net pension liability on the Group's balance sheet and in other comprehensive income. To a lesser extent this will also lead to volatility in the 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**	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Inflation (including pension increases):[1]				
Increase of 0.1 per cent	**19**	17	**491**	363
Decrease of 0.1 per cent	**(14)**	(16)	**(458)**	(346)
Discount rate:[2]				
Increase of 0.1 per cent	**(30)**	(29)	**(821)**	(605)
Decrease of 0.1 per cent	**30**	30	**847**	621
Expected life expectancy of members:				
Increase of one year	**42**	43	**1,213**	952
Decrease of one year	**(37)**	(41)	**(1,178)**	(927)

[1] At 31 December 2016, the assumed rate of RPI inflation is 3.23 per cent and CPI inflation 2.18 per cent (2015: RPI 2.99 per cent and CPI 1.99 per cent).

[2] At 31 December 2016, the assumed discount rate is 2.76 per cent (2015: 3.87 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

35 Retirement benefit obligations (continued)

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.

At 31 December 2016 the asset-liability matching strategy mitigated 89 per cent of the liability sensitivity to interest rate movements and 102 per cent of the liability sensitivity to inflation movements. Much of the residual interest rate sensitivity is mitigated through holdings of corporate and other debt securities.

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

	The Group		The Bank	
	2016 Years	2015 Years	**2016 Years**	2015 Years
Duration of the defined benefit obligation	**20**	19	**19**	18

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Maturity analysis of benefits expected to be paid				
Benefits expected to be paid within 12 months	**1,549**	1,370	**951**	820
Benefits expected to be paid between 1 and 2 years	**1,156**	1,121	**811**	753
Benefits expected to be paid between 2 and 5 years	**3,889**	3,759	**2,706**	2,514
Benefits expected to be paid between 5 and 10 years	**7,852**	7,710	**5,338**	5,047
Benefits expected to be paid between 10 and 15 years	**9,212**	9,102	**6,051**	5,730
Benefits expected to be paid between 15 and 25 years	**19,615**	19,882	**12,217**	11,791
Benefits expected to be paid between 25 and 35 years	**18,090**	18,631	**10,766**	10,451
Benefits expected to be paid between 35 and 45 years	**12,915**	13,878	**7,270**	7,307
Benefits expected to be paid in more than 45 years	**7,122**	8,857	**3,541**	4,007

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 2016 the charge to the continuing operations income statement in respect of defined contribution schemes was £254 million (2015: £224 million), representing the contributions payable by the employer in accordance with each scheme's rules. In addition, £14 million (2015: £9 million) was charged within discontinued operations (see note 12).

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 6.84 per cent (2015: 6.59 per cent).

Movements in the other post-retirement benefits obligation:

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
At 1 January	**(200)**	(196)	**(109)**	(107)
Actuarial loss	**(33)**	(2)	**(13)**	(3)
Insurance premiums paid	**7**	6	**5**	5
Charge for the year	**(8)**	(8)	**(3)**	(4)
Exchange and other adjustments	**(2)**	–	**(2)**	–
At 31 December	**(236)**	(200)	**(122)**	(109)

36 Deferred tax

Critical accounting estimates and judgments

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 board approved operating plan and the expected future economic outlook as set out in the Group Chief Executive's Review and Market Overview, as well as the risks associated with future regulatory change.

The Group's total deferred tax asset includes £4,254 million (2015: £4,890 million), and the Bank's total deferred tax asset includes £2,606 million (2015: £3,192 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 Lloyds Bank plc.

The deferred tax asset is expected to be utilised over different time periods in each of the entities in which the losses arise. Under current UK tax law there is no expiry date for unused tax losses. Following the enactment of the Finance Acts in 2015 and 2016, there is 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 additional restriction in 2016 has increased the period over which the Group expects to fully utilise its tax losses from 2025 to 2031.

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

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Asset at 1 January	**3,985**	4,136	**3,490**	3,691
Exchange and other adjustments	**(14)**	8	**(2)**	10
Disposals	**–**	(74)	**–**	–
Income statement charge in respect of continuing operations (note 11):				
Due to change in UK corporation tax rate and related impacts	**(241)**	(83)	**(160)**	(101)
Origination and reversal of temporary differences	**(383)**	(261)	**(749)**	(16)
	(624)	(344)	**(909)**	(117)
Income statement (charge) credit in respect of discontinued operations	**(309)**	193	**–**	–
Amount credited (charged) to equity:				
Post retirement defined benefit scheme remeasurements	**320**	59	**184**	(1)
Available-for-sale financial assets (note 41)	**(246)**	(10)	**(219)**	(17)
Cash flow hedges (note 41)	**(444)**	17	**(258)**	(76)
	(370)	66	**(293)**	(94)
Transfer to disposal group (see note 12)	**935**	–	**–**	–
Asset at 31 December	**3,603**	3,985	**2,286**	3,490

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	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Statutory position				
Deferred tax assets	**3,603**	4,018	**2,286**	3,490
Deferred tax liabilities	**–**	(33)	**–**	–
Net deferred tax asset	**3,603**	3,985	**2,286**	3,490
Tax disclosure				
Deferred tax assets	**5,394**	6,350	**3,296**	4,027
Deferred tax liabilities	**(1,791)**	(2,365)	**(1,010)**	(537)
Net deferred tax asset	**3,603**	3,985	**2,286**	3,490

36 Deferred tax (continued)

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

	2016 £m	2015 £m
Accelerated capital allowances	**(128)**	385
Pensions and other post-retirement benefits	**(102)**	(38)
Long-term assurance business	**–**	–
Allowances for impairment losses	**–**	7
Trading losses carried forward	**(613)**	(762)
Tax on fair value of acquired assets	**86**	166
Other temporary differences	**133**	(102)
Deferred tax charge in the income statement	**(624)**	(344)

Deferred tax assets and liabilities are comprised as follows:

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Deferred tax assets:				
Pensions and other post retirement benefits	**111**	–	**49**	–
Other provisions	**40**	29	**36**	38
Tax losses carried forward	**4,254**	4,890	**2,606**	3,192
Accelerated capital allowances	**937**	1,089	**577**	688
Other temporary differences	**52**	342	**28**	109
Total deferred tax assets	**5,394**	6,350	**3,296**	4,027
Deferred tax liabilities:				
Pensions and other post retirement benefits	**–**	(72)	**–**	(44)
Long-term assurance business	**–**	(641)	**–**	–
Tax on fair value of acquired assets	**(745)**	(891)	**–**	–
Available for sale asset revaluation	**(233)**	(11)	**(225)**	–
Derivatives	**(656)**	(431)	**(648)**	(389)
Other temporary differences	**(157)**	(319)	**(137)**	(104)
Total deferred tax liabilities	**(1,791)**	(2,365)	**(1,010)**	(537)

The Finance (No. 2) Act 2015 introduced an additional surcharge of 8 per cent on banking profits from 1 January 2016.

The Finance Act 2016 was enacted on 15 September 2016. The Act further reduced the corporation tax rate applicable from 1 April 2020 to 17 per cent and further restricts the amount of banks' profits that can be offset by carried forward losses for the purposes of calculating corporation tax liabilities from 50 per cent to 25 per cent with effect from 1 April 2016.

The corporation tax changes enacted have resulted in a reduction in the Group's net deferred tax asset at 31 December 2016 of £199 million, comprising a £241 million charge included in the income statement and a £42 million credit included in equity.

Deferred tax assets not recognised
Deferred tax assets of £92 million for the Group (2015: £140 million) and £72 million for the Bank (2015: £60 million) have not been recognised in respect of capital losses carried forward as there are no predicted future capital profits. Capital losses can be carried forward indefinitely.

Deferred tax assets of £84 million (2015: £893 million) for the Group and nil (2015: £nil) for the Bank have not been recognised in respect of trading losses carried forward, mainly in respect of temporary differences in certain overseas companies. Trading losses can be carried forward indefinitely, except for losses in the USA which expire after 20 years.

In addition, deferred tax assets have not been recognised in respect of unrelieved foreign tax carried forward as at 31 December 2016 of £46 million for the Group (2015: £76 million) and £7 million (2015: £37 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.

37 Other provisions

Critical accounting estimates and judgments
At 31 December 2016, the Group carried provisions of £3,723 million (2015: £4,463 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 (2016: £2,602 million; 2015: £3,458 million).

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.

More detail on the nature of the assumptions that have been made and key sensitivities is set out below.

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 2016	**50**	**3,458**	**1,005**	**37**	**1,137**	**5,687**
Exchange and other adjustments	**19**	**–**	**10**	**4**	**64**	**97**
Provisions applied	**–**	**(2,200)**	**(761)**	**(14)**	**(282)**	**(3,257)**
Charge (release) for the year	**(13)**	**1,350**	**1,085**	**24**	**245**	**2,691**
Transfer to disposal group (see note 12)	**–**	**(6)**	**(218)**	**–**	**(61)**	**(285)**
At 31 December 2016	**56**	**2,602**	**1,121**	**51**	**1,103**	**4,933**

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 2016	**24**	**2,138**	**322**	**10**	**927**	**3,421**
Exchange and other adjustments	**–**	**–**	**11**	**2**	**4**	**17**
Provisions applied	**–**	**(1,577)**	**(561)**	**(5)**	**(180)**	**(2,323)**
Charge (release) for the year	**(3)**	**952**	**527**	**22**	**220**	**1,718**
At 31 December 2016	**21**	**1,513**	**299**	**29**	**971**	**2,833**

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 £1,350 million in 2016, bringing the total amount provided to £17,375 million.

The charge to the provision in 2016 was largely driven by a higher total volume of complaints expected as a result of the Financial Conduct Authority's (FCA) industry deadline being extended to the end of August 2019, as well as changes to the rules and guidance that should apply when firms handle PPI complaints in light of the Supreme Court's decision in Plevin v Paragon Personal Finance Limited [2014] UKSC 61 (Plevin). Final rules and guidance were published by the FCA on 2 March 2017 (PS17/3).

As at 31 December 2016, a provision of £2,602 million remained unutilised relating to complaints and associated administration costs. Total cash payments were £2,200 million during the year to 31 December 2016. Spend continues to reduce following the completion of the re-review of previously handled cases (remediation).

The provision is consistent with total expected reactive complaint volumes of 5.2 million (including complaints falling under the Plevin rules and guidance) in light of the FCA Policy Statement PS 17/3. Weekly complaint levels in the second half of 2016 have been approximately 8,300 versus approximately 8,600 in the first half, and are expected to vary significantly through to the industry deadline, now confirmed to be August 2019.

Sensitivities
The Group estimates that it has sold approximately 16 million PPI policies since 2000. These include policies that were not mis-sold and those that have been successfully claimed upon. Since the commencement of the PPI redress programme in 2011 the Group estimates that it has contacted, settled or provided for approximately 50 per cent of the policies sold since 2000.

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 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 regulatory changes, FCA media campaign and Claims Management Companies and customer activity.

37 Other provisions (continued)

Key metrics and sensitivities are highlighted in the table below:

Sensitivities (exclude claims where no PPI policy was held)	Actuals to date	Anticipated future[3]	Sensitivity[3]
Customer initiated complaints since origination (m)[1]	3.9	1.3	0.1 = £190m
Average uphold rate per policy[2]	74%	89%	1% = £35m
Average redress per upheld policy[2]	£1,700	£1,250	£100 = £150m
Administrative expenses (£m)	3,190	490	1 case = £375

[1] Sensitivity includes complaint handling costs.

[2] Actuals to date are based on the last six months to 31 December 2016.

[3] Anticipated future and sensitivities are impacted by a proportion of complaints and re-complaints falling under the Plevin rules and guidance in light of the FCA Policy Statement PS 17/3.

Other regulatory provisions

Packaged bank accounts

In the year ended 31 December 2016 the Group has provided an additional £280 million in respect of complaints relating to alleged mis-selling of packaged bank accounts raising the total amount provided to £505 million. As at 31 December 2016, £215 million of the provision remained unutilised. The total amount provided 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.

Arrears handling related activities

Following a review of the Group's secured and unsecured arrears handling activities, the Group has put in place a number of actions to further improve its handling of customers in these areas. As a result, the Group has provided an additional £261 million in the year ended 31 December 2016 (bringing the total provision to £397 million), for the costs of identifying and rectifying certain arrears management fees and activities. As at 31 December 2016, the unutilised provision was £383 million (31 December 2015: £136 million).

Customer claims in relation to insurance branch business in Germany

The Group continues to receive claims in Germany from customers relating to policies issued by Clerical Medical Investment Group Limited (subsequently renamed Scottish Widows Limited). The German industry-wide issue regarding notification of contractual 'cooling off' periods has continued to lead to an increasing number of claims in 2016. Accordingly a provision increase of £94 million was recognised in the year ended 31 December 2016 giving a total provision of £639 million; the remaining unutilised provision as at 31 December 2016 is £168 million (31 December 2015: £124 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 be known only once all relevant claims have been resolved.

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. In the year ended 31 December 2016, the Group charged an additional £450 million in respect of matters across all divisions. At 31 December 2016, the Group held unutilised provisions totalling £573 million for these other legal actions and regulatory matters.

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 3 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 in 2015, 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; £611 million of this provision remained unutilised at 31 December 2016.

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. At 31 December 2016 provisions of £239 million (31 December 2015: £201 million) were held.

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 £35 million at 31 December 2016 represents management's current best estimate of the cost after having regard to actuarial estimates of future losses.

38 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 2015	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	247	48	(76)	219
At 31 December 2015[1]	6,257	1,601	20,332	28,190
Issued during the year:				
4.293% Subordinated Fixed Rate Note 2021 ($824 million)	**–**	**–**	**605**	**605**
4.503% Subordinated Fixed Rate Note 2021 ($1,353 million)	**–**	**–**	**993**	**993**
4.553% Subordinated Fixed Rate Note 2021 ($1,500 million)	**–**	**–**	**1,155**	**1,155**
	–	**–**	**2,753**	**2,753**
Repurchases and redemptions during the year:				
7.875% Non–cumulative Preference Shares callable 2013	**(367)**	**–**	**–**	**(367)**
7.875% Non–cumulative Preference Shares callable 2013	**(844)**	**–**	**–**	**(844)**
6.267% Non–Cumulative Callable Fixed to Floating Rate Preference Shares callable 2016	**(675)**	**–**	**–**	**(675)**
7.286% Perpetual Regulatory Tier One Securities (Series A)	**(150)**	**–**	**–**	**(150)**
4.939% Non–voting Non–cumulative Perpetual Preferred Securities	**(32)**	**–**	**–**	**(32)**
Primary Capital Undated Floating Rate Notes:				
Series 1	**–**	**(101)**	**–**	**(101)**
Series 3	**–**	**(142)**	**–**	**(142)**
Series 2	**–**	**(110)**	**–**	**(110)**
5.125% Undated Subordinated Step–up Notes callable 2016	**–**	**(2)**	**–**	**(2)**
6% Undated Subordinated Step–up Guaranteed Bonds callable 2032	**–**	**(114)**	**–**	**(114)**
7.5% Undated Subordinated Step–up Notes	**–**	**(5)**	**–**	**(5)**
4.25% Subordinated Undated Instruments	**–**	**(7)**	**–**	**(7)**
Floating Rate Primary Capital Notes	**–**	**(108)**	**–**	**(108)**
13% Subordinated Fixed to Fixed Rate Notes 2021 callable 2016	**–**	**–**	**(244)**	**(244)**
10.125% Subordinated Fixed to Fixed Rate Notes 2021 callable 2016	**–**	**–**	**(233)**	**(233)**
11.875% Subordinated Fixed to Fixed Rate Notes 2021 callable 2016	**–**	**–**	**(960)**	**(960)**
10.75% Subordinated Fixed to Fixed Rate Notes 2021 callable 2016	**–**	**–**	**(466)**	**(466)**
9.875% Subordinated Fixed to Fixed Rate Notes 2021 callable 2016	**–**	**–**	**(456)**	**(456)**
10.25% Subordinated Notes 2020	**–**	**–**	**(388)**	**(388)**
10.26% Subordinated Notes 2020	**–**	**–**	**(417)**	**(417)**

38 Subordinated liabilities (continued)

The Group	Preferred securities £m	Undated subordinated liabilities £m	Dated subordinated liabilities £m	Total £m
Subordinated Non–Interest Bearing loan on rolling 6 year notice	–	–	**(150)**	**(150)**
10.23% Subordinated Notes 2019	–	–	**(894)**	**(894)**
10.31% Subordinated Notes 2020	–	–	**(748)**	**(748)**
10.38% Subordinated Notes 2020	–	–	**(653)**	**(653)**
10.42% Subordinated Notes 2020	–	–	**(532)**	**(532)**
10.45% Subordinated Notes 2022	–	–	**(93)**	**(93)**
10.54% Subordinated Notes 2019	–	–	**(91)**	**(91)**
10.56% Subordinated Notes 2019	–	–	**(297)**	**(297)**
10.59% Subordinated Notes 2019	–	–	**(4)**	**(4)**
10.58% Subordinated Notes 2020	–	–	**(196)**	**(196)**
10.60% Subordinated Notes 2019	–	–	**(136)**	**(136)**
10.62% Subordinated Notes 2023	–	–	**(97)**	**(97)**
10.59% Subordinated Notes 2020	–	–	**(61)**	**(61)**
10.62% Subordinated Notes 2024	–	–	**(79)**	**(79)**
10.64% Subordinated Notes 2020	–	–	**(138)**	**(138)**
10.65% Subordinated Notes 2024	–	–	**(37)**	**(37)**
10.66% Subordinated Notes 2020	–	–	**(39)**	**(39)**
10.73% Subordinated Notes 2024	–	–	**(85)**	**(85)**
10.88% Subordinated Notes 2023	–	–	**(53)**	**(53)**
10.91% Subordinated Notes 2023	–	–	**(66)**	**(66)**
11.14% Subordinated Notes 2029	–	–	**(89)**	**(89)**
11.19% Subordinated Notes 2032	–	–	**(81)**	**(81)**
10.25% Subordinated Notes 2020	–	–	**(251)**	**(251)**
10.27% Subordinated Notes 2020	–	–	**(779)**	**(779)**
10.30% Subordinated Notes 2020	–	–	**(601)**	**(601)**
9.95% Subordinated Notes 2020	–	–	**(28)**	**(28)**
10.22% Subordinated Notes 2020	–	–	**(56)**	**(56)**
10.29% Subordinated Notes 2020	–	–	**(140)**	**(140)**
10.36% Subordinated Notes 2021	–	–	**(171)**	**(171)**
9.84% Subordinated Notes 2019	–	–	**(400)**	**(400)**
10.19% Subordinated Notes 2020	–	–	**(82)**	**(82)**
10.76% Subordinated Notes 2029	–	–	**(86)**	**(86)**
Callable Floating Rate Subordinated Notes 2016	–	–	**(186)**	**(186)**
Callable Floating Rate Subordinated Notes 2016	–	–	**(144)**	**(144)**
Subordinated Callable Notes 2016	–	–	**(382)**	**(382)**
	(2,068)	**(589)**	**(11,089)**	**(13,746)**
Foreign exchange and other movements	**577**	**199**	**1,653**	**2,429**
Transfer to disposal group (see note 12)	**(18)**	**(586)**	**(1,764)**	**(2,368)**
At 31 December 2016	**4,748**	**625**	**11,885**	**17,258**

[1] See note 1.

38 Subordinated liabilities (continued)

The Bank	Preferred securities £m	Undated subordinated liabilities £m	Dated subordinated liabilities £m	Total £m
At 1 January 2015	4,575	807	16,208	21,590
Repurchases and redemptions during the year:				
6.625% Subordinated Notes 2015	–	–	(350)	(350)
6.9625% Callable Subordinated Fixed to Floating Rate Notes 2020 callable 2015	–	–	(737)	(737)
6.50% Subordinated Fixed Rate Notes 2020	–	–	(764)	(764)
	–	–	(1,851)	(1,851)
Foreign exchange and other movements	141	25	(196)	(30)
At 31 December 2015[1]	4,716	832	14,161	19,709
Issued in the year:				
4.293% Subordinated Fixed Rate Note 2021 ($824 million)	**–**	**–**	**605**	**605**
4.503% Subordinated Fixed Rate Note 2021 ($1,353 million)	**–**	**–**	**993**	**993**
4.553% Subordinated Fixed Rate Note 2021 ($1,500 million)	**–**	**–**	**1,155**	**1,155**
	–	**–**	**2,753**	**2,753**
Repurchases and redemptions during the year:				
7.875% Non-cumulative Preference Shares callable 2013	**(367)**	**–**	**–**	**(367)**
7.875% Non-cumulative Preference Shares callable 2013	**(844)**	**–**	**–**	**(844)**
6.267% Non-Cumulative Callable Fixed to Floating Rate Preference Shares callable 2016	**(675)**	**–**	**–**	**(675)**
Primary Capital Undated Floating Rate Notes:				
Series 1	**–**	**(101)**	**–**	**(101)**
Series 3	**–**	**(142)**	**–**	**(142)**
Series 2	**–**	**(110)**	**–**	**(110)**
5.125% Undated Subordinated Step-up Notes callable 2016	**–**	**(2)**	**–**	**(2)**
6% Undated Subordinated Step-up Guaranteed Bonds callable 2032	**–**	**(114)**	**–**	**(114)**
13% Subordinated Fixed to Fixed Rate Notes 2021 callable 2016	**–**	**–**	**(244)**	**(244)**
10.125% Subordinated Fixed to Fixed Rate Notes 2021 callable 2016	**–**	**–**	**(233)**	**(233)**
11.875% Subordinated Fixed to Fixed Rate Notes 2021 callable 2016	**–**	**–**	**(960)**	**(960)**
10.75% Subordinated Fixed to Fixed Rate Notes 2021 callable 2016	**–**	**–**	**(466)**	**(466)**
9.875% Subordinated Fixed to Fixed Rate Notes 2021 callable 2016	**–**	**–**	**(456)**	**(456)**
10.25%Subordinated Notes 2020	**–**	**–**	**(388)**	**(388)**
10.26%Subordinated Notes 2020	**–**	**–**	**(417)**	**(417)**
Subordinated Non-Interest Bearing loan on rolling 6 year notice	**–**	**–**	**(150)**	**(150)**
10.23% Subordinated Notes 2019	**–**	**–**	**(894)**	**(894)**
10.31% Subordinated Notes 2020	**–**	**–**	**(748)**	**(748)**
10.38% Subordinated Notes 2020	**–**	**–**	**(653)**	**(653)**
10.42% Subordinated Notes 2020	**–**	**–**	**(532)**	**(532)**
10.45% Subordinated Notes 2022	**–**	**–**	**(93)**	**(93)**
10.54% Subordinated Notes 2019	**–**	**–**	**(91)**	**(91)**
10.56% Subordinated Notes 2019	**–**	**–**	**(297)**	**(297)**
10.59% Subordinated Notes 2019	**–**	**–**	**(4)**	**(4)**
10.58% Subordinated Notes 2020	**–**	**–**	**(196)**	**(196)**
10.60% Subordinated Notes 2019	**–**	**–**	**(136)**	**(136)**
10.62% Subordinated Notes 2023	**–**	**–**	**(97)**	**(97)**
10.59% Subordinated Notes 2020	**–**	**–**	**(61)**	**(61)**
10.62% Subordinated Notes 2024	**–**	**–**	**(79)**	**(79)**
10.64% Subordinated Notes 2020	**–**	**–**	**(138)**	**(138)**
10.65% Subordinated Notes 2024	**–**	**–**	**(37)**	**(37)**
10.66% Subordinated Notes 2020	**–**	**–**	**(39)**	**(39)**
10.73% Subordinated Notes 2024	**–**	**–**	**(85)**	**(85)**

38 Subordinated liabilities (continued)

The Bank	Preferred securities £m	Undated subordinated liabilities £m	Dated subordinated liabilities £m	Total £m
10.88% Subordinated Notes 2023	–	–	(53)	(53)
10.91% Subordinated Notes 2023	–	–	(66)	(66)
11.14% Subordinated Notes 2029	–	–	(89)	(89)
11.19% Subordinated Notes 2032	–	–	(81)	(81)
10.25% Subordinated Notes 2020	–	–	(251)	(251)
10.27% Subordinated Notes 2020	–	–	(779)	(779)
10.30% Subordinated Notes 2020	–	–	(601)	(601)
9.95% Subordinated Notes 2020	–	–	(28)	(28)
10.22% Subordinated Notes 2020	–	–	(56)	(56)
10.29% Subordinated Notes 2020	–	–	(140)	(140)
10.36% Subordinated Notes 2021	–	–	(171)	(171)
9.84% Subordinated Notes 2019	–	–	(400)	(400)
10.19% Subordinated Notes 2020	–	–	(82)	(82)
10.76% Subordinated Notes 2029	–	–	(86)	(86)
	(1,886)	(469)	(10,377)	(12,732)
Foreign exchange and other movements	264	87	494	845
At 31 December 2016	**3,094**	**450**	**7,031**	**10,575**

[1] See note 1.

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 (2015: none).

39 Share capital

(1) Authorised share capital

	Group and Bank 2016 £m	Group and Bank 2015 £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

	2016 Number of shares	2015 Number of shares	2016 £m	2015 £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 2016, 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 38.

40 Share premium account

	Group and Bank 2016 £m	Group and Bank 2015 £m
At 1 January	**35,533**	35,533
Redemption of preference shares[1]	**1,840**	–
Capital restructuring[2]	**(37,373)**	–
At 31 December	**–**	35,533

[1] During the year ended 31 December 2016, the Bank redeemed all of its outstanding Floating Rate Non-Cumulative Callable Preference Shares callable 2016 (US$1,000 million), 7.875% Non-cumulative Preference Shares callable 2013 (€500 million) and 7.875% Non-cumulative Preference Shares callable 2013 (US$1,250 million) which had been accounted for as subordinated liabilities. On redemption an amount of £1,840 million was transferred from retained profits to the share premium account.

[2] During 2016 the Bank reduced its share premium account by Special Resolution which was confirmed by an order of the High Court of Justice, Chancery Division on 23 November 2016. The balance on the share premium account of £37,373 million has been transferred to retained profits.

41 Other reserves

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Other reserves comprise:				
Merger reserve	**6,348**	6,348	**–**	–
Revaluation reserve in respect of available-for-sale financial assets	**92**	(1,105)	**667**	(541)
Cash flow hedging reserve	**2,224**	915	**1,845**	1,054
Foreign currency translation reserve	**(180)**	(171)	**81**	62
At 31 December	**8,484**	5,987	**2,593**	575

Movements in other reserves were as follows:

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Merger reserve				
At 1 January and 31 December	**6,348**	6,348	**–**	–

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Revaluation reserve in respect of available-for-sale financial assets				
At 1 January	**(1,105)**	(736)	**(541)**	(211)
Adjustment on transfer from held-to-maturity portfolio	**1,544**	–	**1,544**	–
Deferred tax	**(417)**	–	**(417)**	–
	1,127	–	**1,127**	–
Change in fair value of available-for-sale financial assets	**356**	(313)	**268**	(300)
Deferred tax	**(25)**	(21)	**(20)**	(20)
Current tax	**(3)**	2	**–**	–
	328	(332)	**248**	(320)
Income statement transfers:				
Disposals (see note 8)	**(575)**	(51)	**(507)**	(14)
Deferred tax	**196**	3	**218**	3
Current tax	**(52)**	(1)	**(50)**	–
	(431)	(49)	**(339)**	(11)
Impairment	**173**	4	**172**	1
Deferred tax	**–**	8	**–**	–
	173	12	**172**	1
At 31 December	**92**	(1,105)	**667**	(541)

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Cash flow hedging reserve				
At 1 January	**915**	1,357	**1,054**	1,257
Change in fair value of hedging derivatives	**2,284**	524	**1,290**	294
Deferred tax	**(583)**	(183)	**(321)**	(161)
	1,701	341	**969**	133
Income statement transfers	**(531)**	(983)	**(241)**	(421)
Deferred tax	**139**	200	**63**	85
	(392)	(783)	**(178)**	(336)
At 31 December	**2,224**	915	**1,845**	1,054

41 Other reserves (continued)

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Foreign currency translation reserve				
At 1 January	**(171)**	(127)	**62**	75
Currency translation differences arising in the year	**(115)**	(61)	**(62)**	(23)
Foreign currency gains on net investment hedges (tax: £nil)	**106**	17	**81**	10
At 31 December	**(180)**	(171)	**81**	62

42 Retained profits

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
At 1 January	**3,868**	4,828	**16,646**	7,102
Profit for the year[1]	**1,102**	663	**1,953**	10,911
Dividends paid (note 44)	**(3,040)**	(1,080)	**(3,040)**	(1,080)
Distributions on other equity instruments, net of tax	**(86)**	–	**(86)**	–
Redemption of preference shares (note 40)	**(1,840)**	–	**(1,840)**	–
Capital restructuring (note 40)	**37,373**	–	**37,373**	–
Post-retirement defined benefit scheme remeasurements	**(1,028)**	(215)	**(498)**	30
Capital contribution received	**323**	271	**323**	283
Value of employee services	**–**	1	**–**	–
Return of capital contribution	**(441)**	(600)	**(441)**	(600)
At 31 December	**36,231**	3,868	**50,390**	16,646

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

43 Other equity instruments

	The Group and Bank	
	2016 £m	2015 £m
At 1 January	**–**	–
Additional Tier 1 securities issued in the year:		
Sterling notes (£1,376 million nominal)	**1,376**	–
Euro notes (€736 million nominal)	**612**	–
US dollar notes ($1,642 million nominal)	**1,229**	–
	3,217	–

In June 2016 the Bank issued £3,217 million of Sterling, Dollar and Euro Additional Tier 1 (AT1) securities to Lloyds Banking Group plc. The AT1 securities are fixed rate resetting or floating rate Perpetual Subordinated Permanent Write-Down Securities with no fixed maturity or redemption date.

The principal terms of the AT1 securities are described below:

- The securities rank behind the claims against the Bank of unsubordinated creditors on a Winding-Up.
- The fixed rate reset securities bear a fixed rate of interest until the first call date. After the initial call date, in the event that they are not redeemed, the fixed rate reset AT1 securities will bear interest at rates fixed periodically in advance. The floating rate AT1 securities will be reset quarterly both prior to and following the first call date.
- Interest on the securities will be due and payable only at the sole discretion of the Bank and the Bank may at any time elect to cancel any Interest Payment (or any part thereof) which would otherwise be payable on any Interest Payment Date. There are also certain restrictions on the payment of interest as specified in the terms.
- The securities are undated and are repayable, at the option of the Bank, in whole at the first call date, or at any Interest Payment date thereafter. In addition, the AT1 securities are repayable, at the option of the Bank, in whole for certain regulatory or tax reasons. Any repayments require the prior consent of the Prudential Regulation Authority.
- The securities will be subject to a Permanent Write Down should the fully Loaded Common Equity Tier 1 ratio of the Bank fall below 7.0 per cent.

44 Ordinary dividends

	2016 £m	2015 £m
Dividends paid in the year were as follows:		
Final dividend for previous year paid during the current year	–	540
Interim dividends	**3,040**	540
	3,040	1,080

45 Share-based payments

During the year ended 31 December 2016 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 9), was £420 million (2015: £370 million) with a further £22 million (2015: £17 million) included within discontinued operations (see note 12).

Deferred bonus plans
The Group operates a number of deferred bonus plans that are equity settled. Bonuses in respect of employee performance in 2016 have been recognised in the charge in line with the proportion of the deferral period completed.

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 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:

	2016		2015	
	Number of options	**Weighted average exercise price (pence)**	Number of options	Weighted average exercise price (pence)
Outstanding at 1 January	**850,146,220**	**50.99**	783,626,383	48.73
Granted	**454,667,560**	**47.49**	156,797,949	60.70
Exercised	**(401,286,043)**	**40.74**	(32,683,177)	41.83
Forfeited	**(10,590,490)**	**56.02**	(27,740,207)	48.69
Cancelled	**(204,238,535)**	**60.23**	(24,943,674)	56.04
Expired	**(10,005,816)**	**57.08**	(4,911,054)	48.34
Outstanding at 31 December	**678,692,896**	**51.76**	850,146,220	50.99
Exercisable at 31 December	**–**	**–**	533,654	180.66

The weighted average share price at the time that the options were exercised during 2016 was £0.67 (2015: £0.77). The weighted average remaining contractual life of options outstanding at the end of the year was 2.9 years (2015: 1.9 years).

The weighted average fair value of SAYE options granted during 2016 was £0.13 (2015: £0.17). 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 2016 and the outstanding options lapsed on 31 December 2016. The options outstanding at 31 December 2015 had an exercise price of £1.8066 and a weighted average remaining contractual life of 0.4 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.

45 Share-based payments (continued)

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

	2016		2015	
	Number of options	**Weighted average exercise price (pence)**	Number of options	Weighted average exercise price (pence)
Outstanding at 1 January	**221,397,597**	**Nil**	233,389,084	Nil
Granted	**4,298,701**	**Nil**	9,813,363	Nil
Exercised	**(2,700,679)**	**Nil**	(13,313,421)	Nil
Forfeited	**(3,863,477)**	**Nil**	(8,374,250)	Nil
Lapsed	**(169,861)**	**Nil**	(117,179)	Nil
Outstanding at 31 December	**218,962,281**	**Nil**	221,397,597	Nil
Exercisable at 31 December	**4,504,392**	**Nil**	3,972,911	Nil

The weighted average fair value of options granted in the year was £0.68 (2015: £0.75). 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 2016 was £0.64 (2015: £0.83). The weighted average remaining contractual life of options outstanding at the end of the year was 5.1 years (2015: 6.1 years).

Other share plans

Lloyds Banking Group Long-Term Incentive Plan

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

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

At the end of the performance period for the 2013 grant, the targets had not been fully met and therefore these awards vested in 2016 at a rate of 94.18 per cent.

	2016 Number of shares	2015 Number of shares
Outstanding at 1 January	**398,066,746**	522,836,111
Granted	**132,194,032**	121,676,131
Vested	**(140,879,465)**	(196,193,904)
Forfeited	**(33,713,900)**	(50,251,592)
Dividend award	**2,560,615**	–
Outstanding at 31 December	**358,228,028**	398,066,746

Awards in respect of the 2014 grant will vest in 2017 at a rate of 55 per cent.

The weighted average fair value of awards granted in the year was £0.64 (2015: £0.78).

The fair value calculations at 31 December 2016 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 Plan**
Weighted average risk-free interest rate	**0.25%**	**0.36%**	**0.39%**	**0.43%**
Weighted average expected life	**3.2 years**	**1.9 years**	**3.0 years**	**0.8 years**
Weighted average expected volatility	**30%**	**26%**	**24%**	**33%**
Weighted average expected dividend yield	**4.5%**	**3.1%**	**0.0%**	**4.5%**
Weighted average share price	**£0.59**	**£0.69**	**£0.73**	**£0.78**
Weighted average exercise price	**£0.47**	**nil**	**nil**	**nil**

Expected volatility is a measure of the amount by which the Group's shares are expected to fluctuate during the life of an option. The expected volatility is estimated based on the historical volatility of the closing daily share price over the most recent period that is commensurate with the expected life of the option. The historical volatility is compared to the implied volatility generated from market traded options in the Group's shares to assess the reasonableness of the historical volatility and adjustments made where appropriate.

45 Share-based payments (continued)

Matching shares
The 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 2016 was 35,956,224 (2015: 18,001,413), with an average fair value of £0.61 (2015: £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 2016 was 10,031,272 (2015: 8,237,469).

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

46 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:

	2016 £m	2015 £m
Compensation		
Salaries and other short-term benefits	**17**	14
Post-employment benefits	**–**	–
Share-based payments	**23**	18
Total compensation	**40**	32

The aggregate of the emoluments of the directors was £13.6 million (2015: £11.0 million).

Aggregate company contributions in respect of key management personnel to defined contribution pension schemes were £0.1 million (2015: £0.1 million).

The total for the highest paid director (António Horta-Osório) was £6,289,000 (2015: (António Horta-Osório) £5,161,000); this did not include any gain on exercise of Lloyds Banking Group plc shares in either year.

	2016 million	2015 million
Share options over Lloyds Banking Group plc shares		
At 1 January	**9**	13
Granted, including certain adjustments (includes entitlements of appointed key management personnel)	**3**	3
Exercised/lapsed (includes entitlements of former key management personnel)	**(9)**	(7)
At 31 December	**3**	9

	2016 million	2015 million
Share plans settled in Lloyds Banking Group plc shares		
At 1 January	**82**	102
Granted, including certain adjustments (includes entitlements of appointed key management personnel)	**29**	37
Exercised/lapsed (includes entitlements of former key management personnel)	**(46)**	(57)
At 31 December	**65**	82

46 Related party transactions (continued)

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:

	2016 £m	2015 £m
Loans		
At 1 January	**5**	3
Advanced (includes loans of appointed key management personnel)	**3**	4
Repayments (includes loans of former key management personnel)	**(4)**	(2)
At 31 December	**4**	5

The loans are on both a secured and unsecured basis and are expected to be settled in cash. The loans attracted interest rates of between 2.49 per cent and 23.95 per cent in 2016 (2015: 3.99 per cent and 23.95 per cent).

No provisions have been recognised in respect of loans given to key management personnel (2015: £nil).

	2016 £m	2015 £m
Deposits		
At 1 January	**13**	16
Placed (includes deposits of appointed key management personnel)	**41**	58
Withdrawn (includes deposits of former key management personnel)	**(42)**	(61)
At 31 December	**12**	13

Deposits placed by key management personnel attracted interest rates of up to 4.0 per cent (2015: 4.7 per cent).

At 31 December 2016, the Group did not provide any guarantees in respect of key management personnel (2015: none).

At 31 December 2016, 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 £0.4 million with five directors and two connected persons (2015: £1 million with four 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:

	2016 £m	2015 £m
Assets, included within:		
Derivative financial instruments	**9,512**	9,701
Trading and other assets designated at fair value through profit or loss	**963**	4,733
Loans and receivables: due from fellow Lloyds Banking Group undertakings	**148,619**	121,683
Available-for-sale financial assets	**1,872**	4,261
	160,966	140,378
Liabilities, included within:		
Due to fellow Lloyds Banking Group undertakings	**82,545**	67,198
Trading and other financial liabilities at fair value through profit or loss	**1,273**	4,773
Derivative financial instruments	**8,544**	9,741
Debt securities in issue	**19,670**	17,929
Subordinated liabilities	**60**	65
	112,092	99,706

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 2016 the Bank earned interest income on the above asset balances of £2,484 million (2015: £2,468 million) and incurred interest expense on the above liability balances of £1,025 million (2015: £1,193 million).

In addition, the Bank raised recharges of £922 million (2015: £1,037 million) on its subsidiaries in respect of costs incurred and also received fees of £135 million (2015: £232 million), and paid fees of £104 million (2015: £113 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 47.

46 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	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Assets, included within:				
Loans and receivables: due from fellow Lloyds Banking Group undertakings	**5,624**	11,630	**3,641**	11,101
Trading and other financial assets at fair value through profit or loss	**1,911**	9	**577**	11
Derivative financial instruments	**195**	–	**195**	–
	7,730	11,639	**4,413**	11,112
Liabilities, included within:				
Due to fellow Lloyds Banking Group undertakings	**5,444**	5,926	**4,258**	3,458
Derivative financial instruments	**1,787**	46	**1,533**	46
Debt securities in issue	**818**	–	**18**	–
Subordinated liabilities	**3,815**	10,890	**3,614**	10,358
	11,864	16,862	**9,423**	13,862

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 2016 the Group earned £110 million and the Bank earned £56 million interest income on the above asset balances (2015: Group £130 million; Bank £112 million); the Group incurred £576 million and the Bank incurred £505 million interest expense on the above liability balances (2015: Group £1,105 million; Bank £1,033 million).

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

Other related party transactions
Pension funds
The Group provides banking and some investment management services to certain of its pension funds. At 31 December 2016, customer deposits of £171 million (2015: £145 million) and investment and insurance contract liabilities of £406 million (2015: £694 million), at 31 December 2016 reported within the disposal group (see note 12), related to the Group's pension funds.

Collective investment vehicles
Through its discontinued operations, the Group manages 139 (2015: 168) collective investment vehicles, such as Open Ended Investment Companies (OEICs), and of these 83 (2015: 95) are consolidated. The Group invested £265 million (2015: £818 million) and redeemed £826 million (2015: £616 million) in the unconsolidated collective investment vehicles during the year and had investments, at fair value, of £2,405 million (2015: £2,129 million) at 31 December. The Group earned fees of £192 million from the unconsolidated collective investment vehicles during 2016 (2015: £187 million).

Joint ventures and associates
At 31 December 2016 there were loans and advances to customers of £173 million (2015: £225 million) outstanding and balances within customer deposits of £15 million (2015: £8 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 2016, these companies had total assets of approximately £4,712 million (2015: £3,911 million), total liabilities of approximately £5,033 million (2015: £4,104 million) and for the year ended 31 December 2016 had turnover of approximately £4,401 million (2015: £4,660 million) and made a net loss of approximately £27 million (2015: net loss of £181 million). In addition, the Group has provided £1,550 million (2015: £1,710 million) of financing to these companies on which it received £127 million (2015: £125 million) of interest income in the year.

47 Contingent liabilities and commitments

Interchange fees
With respect to multi-lateral interchange fees (MIFs), the Group is not directly involved in the ongoing investigations and litigation (as described below) which involve card schemes such as Visa and MasterCard. However, the 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. It is also possible that new claims may be issued.
- Any ultimate impact on the Group of the above investigations and the litigation against Visa and MasterCard remains uncertain at this time.

Visa Inc completed its acquisition of Visa Europe on 21 June 2016. The Group's share of the sale proceeds comprised cash consideration of approximately £330 million (of which approximately £300 million was received on completion of the sale and £30 million is deferred for three years) and preferred stock, which the Group measures at fair value. The preferred stock is convertible into Class A Common Stock of Visa Inc or its equivalent upon the occurrence of certain events. As part of this transaction, the Group and certain other UK banks also entered into a Loss Sharing Agreement (LSA) with Visa Inc, which clarifies the allocation of liabilities between the parties should the litigation referred to above result in Visa Inc being liable for damages payable by Visa Europe. The

47 Contingent liabilities and commitments (continued)

maximum amount of liability to which the Group may be subject under the LSA is capped at the cash consideration which was received by the Group at completion. 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.

LIBOR and other trading rates

In July 2014, the 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 Group companies' submissions to the British Bankers' Association (BBA) London Interbank Offered Rate (LIBOR) and Sterling Repo Rate. The 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 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 and the Australian BBSW Reference Rate. 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 US anti-trust laws, were dismissed by the US Federal Court for Southern District of New York (the District Court). In November 2015 OTC and exchange-based plaintiffs' claims against the Group were dismissed for lack of personal jurisdiction. On 20 December 2016, the Federal Court for Southern District of New York dismissed all antitrust class action claims against LBG and its affiliates in the Multi District Litigation arising from the alleged manipulation of USD LIBOR. Further appeals in relation to the anti-trust claims remain possible.

Certain 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 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 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 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 2016, the end of the latest FSCS scheme year for which it has published accounts, the principal balance outstanding on these loans was £15,655 million (31 March 2015: £15,797 million). Although it is anticipated that 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 Group is in discussion with HMRC (including the tax treatment of certain costs arising from the divestment of TSB Banking Group plc); 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 Group's practice with respect to the recalculation of contractual monthly instalments of customers in arrears. The FCA is actively engaged with the industry in relation to these considerations. The 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 FCA has issued a consultation on new guidance on the treatment of customers with mortgage payment shortfalls. The guidance covers remediation for mortgage customers who may have been affected by the way firms calculate these customers' monthly mortgage instalments. The output from this consultation is expected in the first quarter of 2017.

Update to the Financial Conduct Authority's announcement in November 2015 on a deadline for PPI complaints and Plevin v Paragon Personal Finance Limited

On 2 August 2016, the Financial Conduct Authority (FCA) published a further consultation paper (CP16/20: Rules and guidance on payment protection insurance complaints: feedback on CP15/39 and further consultation), following on from the original consultation published in November 2015. The consultation papers proposed the introduction of a two year deadline by which consumers would need to make their PPI complaints and the rules and guidance that should apply when firms handle PPI complaints in light of the Supreme Court's decision in Plevin v Paragon Personal Finance Limited [2014] UKSC 61. On 2 March 2017 the FCA confirmed that the deadline would be 29 August 2019, and new rules for Plevin would come into force in August 2017.

47 Contingent liabilities and commitments (continued)

Mortgage arrears handling activities
On 26 May 2016, the Group was informed that an enforcement team at the FCA had commenced an investigation in connection with the Group's mortgage arrears handling activities. This investigation is ongoing and it is currently not possible to make a reliable assessment of the liability, if any, that may result from the investigation.

HBOS Reading – customer review
The Group is commencing a review into a number of customer cases from the former HBOS Impaired Assets Office based in Reading. This review follows the conclusion of a criminal trial in which a number of individuals, including two former HBOS employees, were convicted of conspiracy to corrupt, fraudulent trading and associated money laundering offences which occurred prior to the acquisition of HBOS by the Group in 2009. The review is at an early stage and it is currently not possible to determine the ultimate financial impact on the Group.

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

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Contingent liabilities				
Acceptances and endorsements	**21**	52	**20**	52
Other:				
Other items serving as direct credit substitutes	**779**	458	**760**	443
Performance bonds and other transaction-related contingencies	**2,237**	2,123	**2,091**	1,979
	3,016	2,581	**2,851**	2,422
Total contingent liabilities	**3,037**	2,633	**2,871**	2,474

	The Bank	
	2016 £m	2015 £m
Incurred on behalf of fellow Lloyds Banking Group undertakings	**5**	4

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.

47 Contingent liabilities and commitments (continued)

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Commitments				
Forward asset purchases and forward deposits placed	**648**	421	**620**	397
Undrawn formal standby facilities, credit lines and other commitments to lend:				
Less than 1 year original maturity:				
Mortgage offers made	**10,749**	9,995	**697**	682
Other commitments	**62,697**	57,809	**37,974**	35,367
	73,446	67,804	**38,671**	36,049
1 year or over original maturity	**40,074**	44,691	**36,375**	39,261
Total commitments	**114,168**	112,916	**75,666**	75,707

	The Bank	
	2016 £m	2015 £m
Incurred on behalf of fellow Lloyds Banking Group undertakings	**5,274**	7,290

Of the amounts shown above in respect of undrawn formal standby facilities, credit lines and other commitments to lend £63,203 million (2015: £63,086 million) for the Group and £45,976 million (2015: £46,908 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	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Not later than 1 year	**264**	267	**141**	133
Later than 1 year and not later than 5 years	**855**	885	**461**	455
Later than 5 years	**944**	1,049	**429**	490
Total operating lease commitments	**2,063**	2,201	**1,031**	1,078

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 24), capital expenditure contracted but not provided for at 31 December 2016 amounted to £543 million (2015: £388 million) for the Group and £2 million (2016: £7 million) for the Bank. Of this amount for the Group, £541 million (2015: £380 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.

48 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 2016								
Financial assets								
Cash and balances at central banks	–	–	–	–	–	47,452	–	47,452
Items in the course of collection from banks	–	–	–	–	–	706	–	706
Trading and other financial assets at fair value through profit or loss	–	45,824	5,374	–	–	–	–	51,198
Derivative financial instruments	2,712	31,147	–	–	–	–	–	33,859
Loans and receivables:								
Loans and advances to banks	–	–	–	–	5,583	–	–	5,583
Loans and advances to customers	–	–	–	–	451,282	–	–	451,282
Debt securities	–	–	–	–	3,397	–	–	3,397
Due from fellow Lloyds Banking Group undertakings	–	–	–	–	5,624	–	–	5,624
	–	–	–	–	465,886	–	–	465,886
Available-for-sale financial assets	–	–	–	56,524	–	–	–	56,524
Assets of continuing operations	2,712	76,971	5,374	56,524	465,886	48,158	–	655,625
Assets in the disposal group (note 12)	–	3,800	109,687	–	21,319	–	–	134,806
Total financial assets	2,712	80,771	115,061	56,524	487,205	48,158	–	790,431
Financial liabilities								
Deposits from banks	–	–	–	–	–	15,690	–	15,690
Customer deposits	–	–	–	–	–	415,460	–	415,460
Due to fellow Lloyds Banking Group undertakings	–	–	–	–	–	5,444	–	5,444
Items in course of transmission to banks	–	–	–	–	–	548	–	548
Trading and other financial liabilities at fair value through profit or loss	–	45,079	9,425	–	–	–	–	54,504
Derivative financial instruments	2,254	31,642	–	–	–	–	–	33,896
Notes in circulation	–	–	–	–	–	1,402	–	1,402
Debt securities in issue	–	–	–	–	–	74,733	–	74,733
Subordinated liabilities	–	–	–	–	–	17,258	–	17,258
Liabilities of continuing operations	2,254	76,721	9,425	–	–	530,535	–	618,935
Liabilities in the disposal group (note 12)	–	3,008	–	–	–	4,809	114,764	122,581
Total financial liabilities	2,254	79,729	9,425	–	–	535,344	114,764	741,516

48 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 2015[1]								
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	–	–	–	–	11,630	–	–	11,630
	–	–	–	–	496,113	–	–	496,113
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	496,113	78,922	–	778,138
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
Subordinated liabilities	–	–	–	–	–	28,190	–	28,190
Total financial liabilities	2,450	67,881	7,879	–	–	553,252	103,351	734,813

[1] See note 1.

48 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 2016							
Financial assets							
Cash and balances at central banks	–	–	–	–	–	44,595	44,595
Items in the course of collection from banks	–	–	–	–	–	512	512
Trading and other financial assets at fair value through profit or loss	–	46,787	1,522	–	–	–	48,309
Derivative financial instruments	1,072	35,642	–	–	–	–	36,714
Loans and receivables:							
Loans and advances to banks	–	–	–	–	4,379	–	4,379
Loans and advances to customers	–	–	–	–	161,161	–	161,161
Debt securities	–	–	–	–	2,818	–	2,818
Due from fellow Lloyds Banking Group undertakings	–	–	–	–	152,260	–	152,260
	–	–	–	–	320,618	–	320,618
Available-for-sale financial assets	–	–	–	55,122	–	–	55,122
Total financial assets	1,072	82,429	1,522	55,122	320,618	45,107	505,870
Financial liabilities							
Deposits from banks	–	–	–	–	–	9,450	9,450
Customer deposits	–	–	–	–	–	213,135	213,135
Due to fellow Lloyds Banking Group undertakings	–	–	–	–	–	86,803	86,803
Items in course of transmission to banks	–	–	–	–	–	292	292
Trading and other financial liabilities at fair value through profit or loss	–	46,353	9,423	–	–	–	55,776
Derivative financial instruments	2,760	35,831	–	–	–	–	38,591
Debt securities in issue	–	–	–	–	–	74,366	74,366
Subordinated liabilities	–	–	–	–	–	10,575	10,575
Total financial liabilities	2,760	82,184	9,423	–	–	394,621	488,988

48 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[1]							
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	–	–	–	–	132,784	–	132,784
	–	–	–	–	296,391	–	296,391
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	296,391	76,245	488,168
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
Subordinated liabilities	–	–	–	–	–	19,709	19,709
Total financial liabilities	2,533	76,961	7,878	–	–	388,452	475,824

[1] 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.

48 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.

48 Financial instruments (continued)

(3) Financial assets and liabilities carried at fair value
Critical accounting estimates and judgments
The valuation techniques for level 2 and, particularly, level 3 financial instruments involve management judgement and estimates the extent of which depends on the complexity of the instrument and the availability of market observable information. 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 this note on page 105. 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 below.

(A) Financial assets, excluding derivatives
Valuation hierarchy
At 31 December 2016, the Group's financial assets carried at fair value, excluding derivatives, totalled £107,722 million (31 December 2015: £174,181 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 96). 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 2016				
Trading and other financial assets at fair value through profit or loss				
Loans and advances to customers	–	31,050	–	31,050
Loans and advances to banks	–	2,606	–	2,606
Debt securities:				
Government securities	12,005	950	–	12,955
Bank and building society certificates of deposit	–	244	–	244
Asset-backed securities:				
Mortgage-backed securities	–	47		47
Other asset-backed securities	–	69		69
Corporate and other debt securities	112	1,764	1,745	3,621
	12,117	3,074	1,745	16,936
Equity shares	26	–	560	586
Treasury and other bills	20	–	–	20
Total trading and other financial assets at fair value through profit or loss	12,163	36,730	2,305	51,198
Available-for-sale financial assets				
Debt securities:				
Government securities	48,542	172	–	48,714
Bank and building society certificates of deposit	–	142	–	142
Asset-backed securities:				
Mortgage-backed securities	–	108	–	108
Other asset-backed securities	–	184	133	317
Corporate and other debt securities	107	5,923	–	6,030
	48,649	6,529	133	55,311
Equity shares	435	17	761	1,213
Total available-for-sale financial assets	49,084	6,546	894	56,524
Total financial assets carried at fair value, excluding derivatives	61,247	43,276	3,199	107,722

48 Financial instruments (continued)

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2016 – Disposal group				
Trading and other financial assets at fair value through profit or loss				
Debt securities:				
Government securities	**12,954**	**822**	**–**	**13,776**
Other public sector securities	**–**	**1,278**	**46**	**1,324**
Asset-backed securities:				
Mortgage-backed securities	**–**	**607**	**53**	**660**
Other asset-backed securities	**4**	**7,367**	**442**	**7,813**
Corporate and other debt securities	**–**	**18,529**	**8**	**18,537**
	12,958	**28,603**	**549**	**42,110**
Equity shares	**66,588**	**37**	**952**	**67,577**
Total financial assets carried at fair value, excluding derivatives	**79,546**	**28,640**	**1,501**	**109,687**

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
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

48 Financial instruments (continued)

Valuation hierarchy

The Bank	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
At 31 December 2016				
Trading and other financial assets at fair value through profit or loss				
Loans and advances to customers	–	31,993	–	31,993
Loans and advances to banks	–	2,606	–	2,606
Debt securities:				
Government securities	12,005	950	–	12,955
Asset-backed securities:				
Mortgage-backed securities	–	47	–	47
Other asset-backed securities	–	69	–	69
Corporate and other debt securities	113	448	78	639
	12,118	1,514	78	13,710
Equity shares	–	–	–	–
Total trading and other financial assets at fair value through profit or loss	12,118	36,113	78	48,309
Available-for-sale financial assets				
Debt securities:				
Government securities	48,406	170	–	48,576
Bank and building society certificates of deposit	–	142	–	142
Asset-backed securities:				
Mortgage-backed securities	–	71	–	71
Other asset-backed securities	–	127	–	127
Corporate and other debt securities	104	5,371	–	5,475
	48,510	5,881	–	54,391
Equity shares	434	6	291	731
Total available-for-sale financial assets	48,944	5,887	291	55,122
Total financial assets carried at fair value, excluding derivatives	61,062	42,000	369	103,431

48 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
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

48 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):

	2016			2015		
The Group	**Trading and other financial assets at fair value through profit or loss £m**	**Available-for-sale £m**	**Total financial assets, excluding derivatives £m**	Trading and other financial assets at fair value through profit or loss £m	Available-for-sale £m	Total financial assets, excluding derivatives £m
At 1 January	**5,116**	**684**	**5,800**	5,104	270	5,374
Exchange and other adjustments	**8**	**12**	**20**	–	–	–
Gains recognised in the income statement within other income	**437**	**–**	**437**	192	–	192
Gains (losses) recognised in other comprehensive income within the revaluation reserve in respect of available-for-sale financial assets	**–**	**312**	**312**	–	302	302
Purchases	**833**	**258**	**1,091**	965	68	1,033
Sales	**(2,597)**	**(527)**	**(3,124)**	(1,070)	(11)	(1,081)
Transfers into the level 3 portfolio	**186**	**155**	**341**	71	55	126
Transfers out of the level 3 portfolio	**(177)**	**–**	**(177)**	(146)	–	(146)
Transferred to disposal group (see note 12)	**(1,501)**	–	**(1,501)**	–	–	–
At 31 December	**2,305**	**894**	**3,199**	5,116	684	5,800
Gains recognised in the income statement, within other income, relating to the change in fair value of those assets held at 31 December	**642**[1]	**–**	**642**	34	–	34

[1] Includes £304 million relating to discontinued operations.

	2016			2015		
The Bank	**Trading and other financial assets at fair value through profit or loss £m**	**Available-for-sale £m**	**Total financial assets, excluding derivatives £m**	Trading and other financial assets at fair value through profit or loss £m	Available-for-sale £m	Total financial assets, excluding derivatives £m
At 1 January	**89**	**290**	**379**	101	–	101
Exchange and other adjustments	**–**	**8**	**8**	–	–	–
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	**–**	**281**	**281**	–	290	290
Purchases	**–**	**156**	**156**	7	–	7
Sales	**(10)**	**(485)**	**(495)**	(20)	–	(20)
Transfers into the level 3 portfolio	**–**	**41**	**41**	–	–	–
Transfers out of the level 3 portfolio	**–**	**–**	**–**	–	–	–
At 31 December	**78**	**291**	**369**	89	290	379
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.

48 Financial instruments (continued)

Equity investments

Unlisted equity and fund investments are valued using different techniques in accordance with the Group's valuation policy and International Private Equity and Venture Capital Guidelines.

Depending on the business sector and the circumstances of the investment, unlisted equity valuations are based on earnings multiples, net asset values or discounted cash flows.

– A number of earnings multiples are used in valuing the portfolio including price earnings, earnings before interest and tax and earnings before interest, tax, depreciation and amortisation. The particular multiple selected being appropriate for the type of business being valued and is derived by reference to the current market-based multiple. Consideration is given to the risk attributes, growth prospects and financial gearing of comparable businesses when selecting an appropriate multiple.
– Discounted cash flow valuations use estimated future cash flows, usually based on management forecasts, with the application of appropriate exit yields or terminal multiples and discounted using rates appropriate to the specific investment, business sector or recent economic rates of return. Recent transactions involving the sale of similar businesses may sometimes be used as a frame of reference in deriving an appropriate multiple.
– For fund investments the most recent capital account value calculated by the fund manager is used as the basis for the valuation and adjusted, if necessary, to align valuation techniques with the Group's valuation policy.

Unlisted equity investments and investments in property partnerships held in the life assurance funds are valued using third party valuations. Management take account of any pertinent information, such as recent transactions and information received on particular investments, to adjust the third party valuations where necessary.

(B) Financial liabilities, excluding derivatives

Valuation hierarchy

At 31 December 2016, the Group's financial liabilities carried at fair value, excluding derivatives, comprised its trading and other financial liabilities at fair value through profit or loss and totalled £54,504 million (31 December 2015: £51,863 million) (Financial guarantees are also recognised at fair value, on initial recognition, and are classified as level 3; but the balance is not material). The table below analyses these financial liabilities by balance sheet classification and valuation methodology (level 1, 2 or 3, as described on page 96). 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 2016				
Trading and other financial liabilities at fair value through profit or loss				
Liabilities held at fair value through profit or loss	**–**	**9,423**	**2**	**9,425**
Trading liabilities:				
Liabilities in respect of securities sold under repurchase agreements	**–**	**42,067**	**–**	**42,067**
Other deposits	**–**	**530**	**–**	**530**
Short positions in securities	**2,417**	**65**	**–**	**2,482**
	2,417	**42,662**	**–**	**45,079**
Total financial liabilities carried at fair value, excluding derivatives	**2,417**	**52,085**	**2**	**54,504**

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
Other deposits	–	1,113	–	1,113
Short positions in securities	4,153	287	–	4,440
	4,153	39,831	–	43,984
Total financial liabilities carried at fair value, excluding derivatives	4,153	47,709	1	51,863

48 Financial instruments (continued)

The Bank	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2016				
Trading and other financial liabilities at fair value through profit or loss	–	9,423	–	9,423
Liabilities held at fair value through profit or loss				
Trading liabilities:				
Liabilities in respect of securities sold under repurchase agreements	–	43,011	–	43,011
Other deposits	–	860	–	860
Short positions in securities	2,417	65	–	2,482
	2,417	43,936	–	46,353
Total financial liabilities carried at fair value, excluding derivatives	2,417	53,359	–	55,776

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
Other deposits	–	1,655	–	1,655
Short positions in securities	4,153	287	–	4,440
	4,153	44,301	–	48,454
Total financial liabilities carried at fair value, excluding derivatives	4,153	52,179	–	56,332

The table below analyses movements in level 3 financial liabilities excluding derivatives. There were no transfers into or out of Level 3 during 2015 or 2016.

The Group	2016 £m	2015 £m
At 1 January	1	5
Losses recognised in the income statement within other income	1	–
Redemptions	–	(4)
At 31 December	2	1
Losses recognised in the income statement, within other income, relating to the change in fair value of those liabilities held at 31 December	1	–

48 Financial instruments (continued)

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 2016, the own credit adjustment arising from the fair valuation of £9,423 million (2015: £7,878 million) of the Group's debt securities in issue designated at fair value through profit or loss resulted in a loss of £28 million (2015: gain of £114 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 2016, such assets totalled £33,859 million for the Group and £36,714 million for the Bank (31 December 2015: £28,922 million for the Group and £30,992 million for the Bank) and liabilities totalled £33,896 million for the Group and £38,591 million for the Bank (31 December 2015: £26,347 million for the Group and £31,040 million for the Bank). The table below analyses these derivative balances by valuation methodology (level 1, 2 or 3, as described on page 96). The fair value measurement approach is recurring in nature. There were no significant transfers between level 1 and level 2 during the year.

	2016				2015			
The Group	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Derivative assets	**2**	**32,458**	**1,399**	**33,859**	43	27,955	924	28,922
Derivative liabilities	**(3)**	**(32,933)**	**(960)**	**(33,896)**	(41)	(25,583)	(723)	(26,347)

	2016			
Disposal group	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Derivative assets	**267**	**3,533**	**–**	**3,800**
Derivative liabilities	**(355)**	**(2,653)**	**–**	**(3,008)**

	2016				2015			
The Bank	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Derivative assets	**2**	**35,895**	**817**	**36,714**	–	30,413	579	30,992
Derivative liabilities	**3**	**37,684**	**904**	**38,591**	–	(30,355)	(685)	(31,040)

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.

48 Financial instruments (continued)

The table below analyses movements in level 3 derivative assets and liabilities carried at fair value.

	2016		2015	
The Group	**Derivative assets £m**	**Derivative liabilities £m**	Derivative assets £m	Derivative liabilities £m
At 1 January	**924**	**(723)**	2,126	(1,456)
Exchange and other adjustments	**74**	**(53)**	(25)	18
Gains (losses) recognised in the income statement within other income	**289**	**(299)**	13	(36)
Purchases (additions)	**24**	**(13)**	72	(74)
(Sales) redemptions	**(91)**	**128**	(125)	120
Transfers into the level 3 portfolio	**216**	**–**	126	(114)
Transfers out of the level 3 portfolio	**(37)**	**–**	(1,263)	819
At 31 December	**1,399**	**(960)**	924	(723)
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	**284**	**(262)**	6	(12)

	2016		2015	
The Bank	**Derivative assets £m**	**Derivative liabilities £m**	Derivative assets £m	Derivative liabilities £m
At 1 January	**579**	**(685)**	1,604	(1,356)
Exchange and other adjustments	**25**	**(51)**	(6)	18
(Losses) gains recognised in the income statement within other income	**146**	**(283)**	(11)	(30)
Purchases (additions)	**24**	**(13)**	72	(74)
(Sales) redemptions	**(91)**	**128**	(74)	92
Transfers into the level 3 portfolio	**172**	**–**	126	(114)
Transfers out of the level 3 portfolio	**(38)**	**–**	(1,132)	779
At 31 December	**817**	**(904)**	579	(685)
(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	**141**	**(246)**	(2)	(11)

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 2016.

	2016 £m	2015 £m
At 1 January	**598**	608
Income statement charge (credit)	**163**	(38)
Transfers	**(17)**	28
At 31 December	**744**	598

Represented by:

	2016 £m	2015 £m
Credit Valuation Adjustment	**685**	511
Debit Valuation Adjustment	**(123)**	(78)
Funding Valuation Adjustment	**182**	165
	744	598

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.

48 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 £64 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 £1 million of the overall CVA balance at 31 December 2016).

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 £152 million to £275 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 £221 million fall in the overall valuation adjustment to £341 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 £32 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 2016, the Group's derivative trading business held mid to bid-offer valuation adjustments of £96 million (2015: £76 million).

48 Financial instruments (continued)

(D) Sensitivity of level 3 valuations

			At 31 December 2016			At 31 December 2015		
				Effect of reasonably possible alternative assumptions[2]			Effect of reasonably possible alternative assumptions	
	Valuation basis/technique	Significant unobservable inputs[1]	Carrying value £m	Favourable changes £m	Unfavourable changes £m	Carrying value £m	Favourable changes £m	Unfavourable changes £m
Trading and other financial assets at fair value through profit or loss:								
Debt securities	Discounted cash flows	Credit spreads (bps) (1 bps/2 bps)	**29**	**5**	**(5)**	92	7	(7)
Asset-backed securities	Lead manager or broker quote	n/a	**59**	**–**	**–**	62	–	–
Equity and venture capital investments	Market approach	Earnings multiple (0.9/10.0)	**2,163**	**63**	**(68)**	2,279	72	(72)
	Underlying asset/ net asset value (incl. property prices)[3]	n/a	**54**	**2**	**(3)**	145	8	(14)
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)
			2,305			5,116		
Available-for-sale financial assets								
Asset-backed securities	Lead manager or broker quote/consensus pricing	n/a	**133**	**–**	**–**	55	–	–
Equity and venture capital investments	Underlying asset/ net asset value (incl. property prices)[3]	n/a	**761**	**48**	**(53)**	339	25	(27)
Other	Various	n/a	**–**	**–**	**–**	290	–	–
			894			684		
Derivative financial assets								
Interest rate derivatives	Option pricing model	Interest rate volatility (0%/115%)	**1,399**	**(3)**	**(19)**	924	20	(19)
			1,399			924		
Level 3 financial assets carried at fair value			**4,598**			6,724		
Trading and other financial liabilities at fair value through profit or loss			**2**	**–**	**–**	1		
Derivative financial liabilities								
Interest rate derivatives	Option pricing model	Interest rate volatility (0%/115%)	**960**	**–**	**–**	723	–	–
			960			723		
Level 3 financial liabilities carried at fair value			**962**			724		

[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.

48 Financial instruments (continued)

			At 31 December 2016		
				Effect of reasonably possible alternative assumptions[2]	
Disposal group	**Valuation basis/technique**	**Significant unobservable inputs[1]**	**Carrying value £m**	**Favourable changes £m**	**Unfavourable changes £m**
Trading and other financial assets at fair value through profit or loss:					
Unlisted equities and debt securities, property partnerships in the life funds	Underlying asset/ net asset value (incl. property prices)[1]	n/a	**1,501**	**–**	**(32)**
Level 3 financial assets carried at fair value			**1,501**		

[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.

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 swaptions in the Group's derivative portfolios which 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 nil per cent to 115 per cent (2015: 1 per cent and 63 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.

48 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 96). 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 2016					
Loans and advances to customers	**451,282**	**451,117**	**–**	**–**	**451,117**
Loans and advances to banks	**5,583**	**5,553**	**–**	**–**	**5,553**
Debt securities	**3,397**	**3,303**	**–**	**3,288**	**15**
Due from fellow Lloyds Banking Group undertakings	**5,624**	**5,624**	**–**	**–**	**5,624**
Reverse repos included in above amounts:				**–**	
Loans and advances to customers	**8,304**	**8,304**	**–**		**8,304**
Loans and advances to banks	**437**	**437**	**–**	**–**	**437**
At 31 December 2015[1]				–	
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	11,630	11,630	–	–	11,630
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

[1] See note 1.

			Valuation hierarchy		
Disposal group	**Carrying value £m**	**Fair value £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**
At 31 December 2016					
Loans and advances to banks	**21,319**	**21,259**	**–**	**–**	**21,259**
Due from fellow Lloyds Banking Group undertakings	**2,015**	**2,015**	**–**	**–**	**2,015**
Reverse repos included in above amounts:					
Loans and advances to banks	**465**	**465**	**–**	**–**	**465**

48 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 2016					
Loans and advances to customers	**161,161**	**159,572**	**–**	**–**	**159,572**
Loans and advances to banks	**4,379**	**4,358**	**–**	**–**	**4,358**
Debt securities	**2,818**	**2,818**	**–**	**2,818**	**–**
Due from fellow Lloyds Banking Group undertakings	**152,260**	**152,260**	**–**	**–**	**152,260**
Reverse repos included in above amounts:					
Loans and advances to customers	**8,304**	**8,304**	**–**	**–**	**8,304**
Loans and advances to banks	**437**	**437**	**–**	**–**	**437**
At 31 December 2015[1]					
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	132,784	132,784	–	–	132,784
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	–	–	–	–	–

[1] See note 1.

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.

48 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 96).

The Group	Carrying value £m	Fair value £m	Valuation hierarchy Level 1 £m	Level 2 £m	Level 3 £m
At 31 December 2016					
Deposits from banks	**15,690**	**15,679**	**–**	**15,679**	**–**
Customer deposits	**415,460**	**416,490**	**–**	**408,571**	**7,919**
Due to fellow Lloyds Banking Group undertakings	**5,444**	**5,444**	**–**	**5,444**	**–**
Debt securities in issue	**74,733**	**77,198**	**–**	**76,982**	**216**
Subordinated liabilities	**17,258**	**19,280**	**–**	**19,280**	**–**
Repos included in above amounts:					
Deposits from banks	**7,279**	**7,279**	**–**	**7,279**	**–**
Customer deposits	**2,462**	**2,462**	**–**	**2,462**	**–**
At 31 December 2015[1]					
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	28,190	30,581	–	30,581	–
Repos included in above amounts:					
Deposits from banks	7,061	7,061	–	7,061	–
Customer deposits	–	–	–	–	–

[1] See note 1.

Disposal group	Carrying value £m	Fair value £m	Valuation hierarchy Level 1 £m	Level 2 £m	Level 3 £m
At 31 December 2016					
Deposits from banks	**695**	**716**	**–**	**716**	**–**
Due to fellow Lloyds Banking Group undertakings	**2,386**	**2,386**	**–**	**2,386**	**–**
Debt securities in issue	**1,746**	**1,746**	**–**	**1,746**	**–**
Subordinated liabilities	**2,368**	**2,368**	**–**	**2,368**	**–**
Repos included in above amounts:					
Deposits from banks	**–**	**–**	**–**	**–**	**–**

48 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 2016					
Deposits from banks	**9,450**	**9,437**	**–**	**9,437**	**–**
Customer deposits	**213,135**	**213,455**	**–**	**213,455**	**–**
Due to fellow Lloyds Banking Group undertakings	**86,803**	**86,803**	**–**	**86,803**	**–**
Debt securities in issue	**74,366**	**77,767**	**–**	**77,767**	**–**
Subordinated liabilities	**10,575**	**11,971**	**–**	**11,971**	**–**
Repos included in above amounts:					
Deposits from banks	**2,758**	**2,758**	**–**	**2,758**	**–**
Customer deposits	**2,462**	**2,462**	**–**	**2,462**	**–**
At 31 December 2015[1]					
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	19,709	21,103	–	21,103	–
Repos included in above amounts:					
Deposits from banks	7,044	7,044	–	7,044	–
Customer deposits	–	–	–	–	–

[1] See note 1.

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.

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) Reclassifications of financial assets

In 2015 the Group had 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, and reflecting the Group's positive intent and ability to hold them until maturity in the economic environment at the time, the Group concluded that certain of these securities would be able to be held until they reached maturity and consequently, on 1 May 2015, government securities with a fair value of £19,938 million were reclassified from available-for-sale financial assets to held-to-maturity investments. During 2016, the Group has reassessed this holding of government securities classified as held-to-maturity in light of the current low interest rate environment and they have been reclassified as available-for-sale; this resulted in a credit of £1,544 million to the available-for-sale revaluation reserve (£1,127 million after tax) for both the Group and the Bank.

49 Transfers of financial assets

There were no significant transferred financial assets which were derecognised in their entirety, but with ongoing exposure. Details of transferred financial assets that continue to be recognised in full are as follows.

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 17, 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 30). 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 2016				
Repurchase and securities lending transactions				
Trading and other financial assets at fair value through profit or loss	**4,806**	**3,380**	**5,165**	**3,763**
Available-for-sale financial assets	**24,681**	**21,809**	**24,659**	**21,809**
Loans and receivables:				
Loans and advances to customers	**583**	**–**	**583**	**–**
Securitisation programmes				
Loans and receivables:				
Loans and advances to customers[1]	**52,184**	**7,937**	**6,984**	**7,768**

	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	9,004	8,379

[1] The carrying value of associated liabilities for the Group excludes securitisation notes held by the Group of £25,751 million (31 December 2015: £29,303 million).

50 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 or collateral arrangements in place with counterparties.

At 31 December 2016	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	Related amounts where set off in the balance sheet not permitted[3]: 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	18,119	–	18,119	–	(3,265)	14,854
Reverse repos	35,298	(2,219)	33,079	–	(33,079)	–
	53,417	(2,219)	51,198	–	(36,344)	14,854
Derivative financial instruments	90,111	(56,252)	33,859	(6,055)	(17,905)	9,899
Loans and advances to banks:						
Excluding reverse repos	5,146	–	5,146	(2,826)	–	2,320
Reverse repos	437	–	437	–	(437)	–
	5,583	–	5,583	(2,826)	(437)	2,320
Loans and advances to customers:						
Excluding reverse repos	444,614	(1,636)	442,978	(1,793)	(6,300)	434,885
Reverse repos	8,304	–	8,304	–	(8,304)	–
	452,918	(1,636)	451,282	(1,793)	(14,604)	434,885
Debt securities	3,397	–	3,397	–	–	3,397
Available-for-sale financial assets	56,524	–	56,524	–	(21,475)	35,049
Financial liabilities						
Deposits from banks:						
Excluding repos	8,411	–	8,411	(4,663)	–	3,748
Repos	7,279	–	7,279	–	(7,279)	–
	15,690	–	15,690	(4,663)	(7,279)	3,748
Customer deposits:						
Excluding repos	415,153	(2,155)	412,998	(1,391)	(6,300)	405,307
Repos	2,462	–	2,462	–	(2,462)	–
	417,615	(2,155)	415,460	(1,391)	(8,762)	405,307
Trading and other financial liabilities at fair value through profit or loss:						
Excluding repos	12,437	–	12,437	–	–	12,437
Repos	44,286	(2,219)	42,067	–	(42,067)	–
	56,723	(2,219)	54,504	–	(42,067)	12,437
Derivative financial instruments	89,629	(55,733)	33,896	(4,620)	(22,819)	6,457

50 Offsetting of financial assets and liabilities (continued)

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	Related amounts where set off in the balance sheet not permitted[3]: Cash collateral received/ pledged £m	Related amounts where set off in the balance sheet not permitted[3]: 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	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

[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.

51 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.

Disclosures in this note as at 31 December 2016 exclude the Group's discontinued operations.

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 2016			At 31 December 2015		
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]	**5,583**	**–**	**5,583**	25,117	–	25,117
Loans and advances to customers, net[1]	**451,282**	**(6,300)**	**444,982**	455,175	(7,250)	447,925
Debt securities, net[1]	**3,397**	**–**	**3,397**	4,191	–	4,191
	460,262	**(6,300)**	**453,962**	484,483	(7,250)	477,233
Available-for-sale financial assets[2]	**55,311**	**–**	**55,311**	31,839	–	31,839
Held-to-maturity investments	–	–	–	19,808	–	19,808
Trading and other financial assets at fair value through profit or loss[3]:						
Loans and advances	**33,656**	**–**	**33,656**	33,174	–	33,174
Debt securities, treasury and other bills	**16,956**	**–**	**16,956**	46,895	–	46,895
	50,612	**–**	**50,612**	80,069	–	80,069
Derivative assets	**33,859**	**(16,538)**	**17,321**	28,922	(19,466)	9,456
Assets arising from reinsurance contracts held	**–**	**–**	**–**	675	–	675
Financial guarantees	**6,883**	**–**	**6,883**	7,165	–	7,165
Off-balance sheet items:						
Acceptances and endorsements	**21**	**–**	**21**	52	–	52
Other items serving as direct credit substitutes	**779**	**–**	**779**	458	–	458
Performance bonds and other transaction-related contingencies	**2,237**	**–**	**2,237**	2,123	–	2,123
Irrevocable commitments	**63,203**	**–**	**63,203**	63,086	–	63,086
	66,240	**–**	**66,240**	65,719	–	65,719
	673,167	**(22,838)**	**650,329**	718,680	(26,716)	691,964

51 Financial risk management (continued)

	At 31 December 2016			At 31 December 2015		
	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]	**4,379**	**–**	**4,379**	2,625	–	2,625
Loans and advances to customers, net[1]	**161,161**	**(2,262)**	**158,899**	158,117	(2,736)	155,381
Debt securities, net[1]	**2,818**	**–**	**2,818**	2,865	–	2,865
	168,358	**(2,262)**	**166,096**	163,607	(2,736)	160,871
Available-for-sale financial assets[3]	**54,391**	**–**	**54,391**	31,663	–	31,663
Held-to-maturity investments	–	–	–	19,808	–	19,808
Trading and other financial assets at fair value through profit or loss[3]						
Loans and advances	**34,599**	**–**	**34,599**	37,895	–	37,895
Debt securities, treasury and other bills	**13,710**	**–**	**13,710**	14,169	–	14,169
	48,309	**–**	**48,309**	52,064	–	52,064
Derivative assets	**36,714**	**(14,700)**	**22,014**	30,992	(16,480)	14,512
Financial guarantees	**6,586**	**–**	**6,586**	6,795	–	6,795
Off-balance sheet items:						
Acceptances and endorsements	**20**	**–**	**20**	52	–	52
Other items serving as direct credit substitutes	**760**	**–**	**760**	443	–	443
Performance bonds and other transaction-related contingencies	**2,091**	**–**	**2,091**	1,979	–	1,979
Irrevocable commitments	**45,976**	**–**	**45,976**	46,908	–	46,908
	48,847	**–**	**48,847**	49,382	–	49,382
	363,205	**(16,962)**	**346,243**	354,311	(19,216)	335,095

[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.

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 2016 the most significant concentrations of exposure were in mortgages (comprising 67 per cent of total loans and advances to customers) and to financial, business and other services (comprising 11 per cent of the total). For further information on concentrations of the Group's loans, refer to note 16.

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

51 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				Loans and advances designated at fair value through profit or loss £m
		Retail – mortgages £m	Retail – other £m	Commercial £m	Total £m	
31 December 2016						
Neither past due nor impaired	**5,577**	**296,105**	**39,478**	**102,886**	**438,469**	**33,656**
Past due but not impaired	**6**	**7,340**	**386**	**305**	**8,031**	**–**
Impaired – no provision required	**–**	**784**	**392**	**689**	**1,865**	**–**
– provision held	**–**	**3,536**	**1,038**	**2,056**	**6,630**	**–**
Gross	**5,583**	**307,765**	**41,294**	**105,936**	**454,995**	**33,656**
Allowance for impairment losses	**–**	**(1,696)**	**(458)**	**(1,378)**	**(3,532)**	**–**
Fair value adjustments	**–**				**(181)**	**–**
Net balance sheet carrying value	**5,583**				**451,282**	**33,656**

	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						
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

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 £2,870 million (2015: £4,406 million).

51 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: Retail – mortgages £m	Retail – other £m	Commercial £m	Total £m	Loans and advances designated at fair value through profit or loss £m
31 December 2016						
Good quality	**5,434**	**295,088**	**34,195**	**65,605**		**33,626**
Satisfactory quality	**87**	**814**	**4,479**	**30,433**		**30**
Lower quality	**3**	**39**	**387**	**6,433**		**–**
Below standard, but not impaired	**53**	**164**	**417**	**415**		**–**
Total loans and advances which are neither past due nor impaired	**5,577**	**296,105**	**39,478**	**102,886**	**438,469**	**33,656**
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

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: Retail – mortgages £m	Retail – other £m	Commercial £m	Total £m	Loans and advances designated at fair value through profit or loss £m
31 December 2016						
0-30 days	**6**	**3,547**	**285**	**157**	**3,989**	**–**
30-60 days	**–**	**1,573**	**75**	**37**	**1,685**	**–**
60-90 days	**–**	**985**	**2**	**74**	**1,061**	**–**
90-180 days	**–**	**1,235**	**6**	**14**	**1,255**	**–**
Over 180 days	**–**	**–**	**18**	**23**	**41**	**–**
Total loans and advances which are past due but not impaired	**6**	**7,340**	**386**	**305**	**8,031**	**–**
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	–

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

51 Financial risk management (continued)

Loans and advances – 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[1] £m
31 December 2016						
Neither past due nor impaired	**4,378**	**53,950**	**26,841**	**77,503**	**158,294**	**34,599**
Past due but not impaired	**1**	**953**	**227**	**168**	**1,348**	**–**
Impaired – no provision required	**–**	**385**	**209**	**576**	**1,170**	**–**
– provision held	**–**	**201**	**714**	**470**	**1,385**	**–**
Gross	**4,379**	**55,489**	**27,991**	**78,717**	**162,197**	**34,599**
Allowance for impairment losses (note 19)	**–**	**(112)**	**(258)**	**(666)**	**(1,036)**	**–**
Net balance sheet carrying value	**4,379**	**55,377**	**27,733**	**78,051**	**161,161**	**34,599**

	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[1] £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 19)	–	(127)	(221)	(875)	(1,223)	–
Net balance sheet carrying value	2,625	61,509	27,831	68,777	158,117	33,173

[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 £1,134 million (2015: £2,032 million).

51 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 2016						
Good quality	**4,307**	**53,934**	**23,444**	**49,503**		**34,569**
Satisfactory quality	**29**	**16**	**2,851**	**23,739**		**30**
Lower quality	**–**	**–**	**227**	**4,012**		**–**
Below standard, but not impaired	**42**	**–**	**319**	**249**		**–**
Total loans and advances which are neither past due nor impaired	**4,378**	**53,950**	**26,841**	**77,503**	**158,294**	**34,599**
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

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 2016						
0-30 days	**1**	**461**	**181**	**98**	**740**	**–**
30-60 days	**–**	**201**	**37**	**19**	**257**	**–**
60-90 days	**–**	**124**	**–**	**43**	**167**	**–**
90-180 days	**–**	**167**	**2**	**4**	**173**	**–**
Over 180 days	**–**	**–**	**7**	**4**	**11**	**–**
Total loans and advances which are past due but not impaired	**1**	**953**	**227**	**168**	**1,348**	**–**
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	–

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

51 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:

	2016			2015		
	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	2,089	–	2,089	2,528	–	2,528
Other asset-backed securities	1,192	98	1,290	1,140	94	1,234
	3,281	98	3,379	3,668	94	3,762
Corporate and other debt securities	29	65	94	417	109	526
Gross exposure	3,310	163	3,473	4,085	203	4,288
Allowance for impairment losses			(76)			(97)
Total debt securities classified as loans and receivables			3,397			4,191
The Bank						
Asset-backed securities:						
Mortgage-backed securities	1,914	–	1,914	2,353	–	2,353
Other asset-backed securities	904	–	904	125	–	125
	2,818	–	2,818	2,478	–	2,478
Corporate and other debt securities	–	–	–	387	–	387
Gross exposure	2,818	–	2,818	2,865	–	2,865
Allowance for impairment losses			–	–	–	–
Total debt securities classified as loans and receivables			2,818	2,865	–	2,865

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

[2] Other comprises sub-investment grade (2016: £91 million for the Group and £nil for the Bank; 2015 £87 million for the Group and £nil for the Bank) and not rated (2016: £72 million for the Group and £nil for the Bank; 2015 £116 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 20. The credit quality of available-for-sale financial assets (excluding equity shares) is set out below:

	2016			2015		
	Investment grade[1] £m	Other[2] £m	Total £m	Investment grade[1] £m	Other[2] £m	Total £m
The Group						
Debt securities						
Government securities	48,714	–	48,714	25,329	–	25,329
Bank and building society certificates of deposit	142	–	142	186	–	186
Asset-backed securities:						
Mortgage-backed securities	108	–	108	197	–	197
Other asset-backed securities	312	5	317	315	4	319
	420	5	425	512	4	516
Corporate and other debt securities	6,030	–	6,030	5,808	–	5,808
Total held as available-for-sale financial assets	55,306	5	55,311	31,835	4	31,839

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

[2] Other comprises sub-investment grade (2016: £5 million; 2015 £4 million) and not rated (2016: £nil; 2015 £nil.)

51 Financial risk management (continued)

	2016			2015		
	Investment grade[1] £m	**Other[2] £m**	**Total £m**	Investment grade[1] £m	Other[2] £m	Total £m
The Bank						
Debt securities						
Government securities	**48,576**	**–**	**48,576**	25,213	–	25,213
Bank and building society certificates of deposit	**142**	**–**	**142**	169	–	169
Asset-backed securities:						
Mortgage-backed securities	**71**	**–**	**71**	88	–	88
Other asset-backed securities	**123**	**4**	**127**	106	4	110
	194	**4**	**198**	194	4	198
Corporate and other debt securities	**3,603**	**–**	**3,603**	1,822	–	1,822
	52,515	**4**	**52,519**	27,398	4	27,402
Due from fellow Group undertakings:						
Corporate and other debt securities			**1,872**			4,261
Total held as available-for-sale financial assets			**54,391**			31,663

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

[2] Other comprises sub-investment grade (2016: £4 million; 2015 £4 million) and not rated (2016: £nil; 2015 £nil.)

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

	2016			2015		
The Group	**Investment grade[1] £m**	**Other[2] £m**	**Total £m**	Investment grade[1] £m	Other[2] £m	Total £m
Trading assets						
Government securities	**11,828**	**–**	**11,828**	8,269	–	8,269
Asset-backed securities:						
Mortgage-backed securities	**47**	**–**	**47**	516	–	516
Other asset-backed securities	**69**	**–**	**69**	85	–	85
	116	**–**	**116**	601	–	601
Corporate and other debt securities	**221**	**3**	**224**	582	30	612
Total held as trading assets	**12,165**	**3**	**12,168**	9,452	30	9,482
Other assets held at fair value through profit or loss						
Government securities	**1,127**	**–**	**1,127**	13,848	–	13,848
Other public sector securities	**–**	**–**	**–**	2,023	16	2,039
Bank and building society certificates of deposit	**244**	**–**	**244**	135	–	135
Asset-backed securities:						
Mortgage-backed securities	**–**	**–**	**–**	801	41	842
Other asset-backed securities	**–**	**–**	**–**	762	–	762
	–	**–**	**–**	1,563	41	1,604
Corporate and other debt securities	**1,730**	**1,667**	**3,397**	17,371	2,333	19,704
Total debt securities held at fair value through profit or loss	**3,101**	**1,667**	**4,768**	34,940	2,390	37,330
Treasury bills and other bills	**20**	**–**	**20**	74	–	74
Total other assets held at fair value through profit or loss	**3,121**	**1,667**	**4,788**	35,014	2,390	37,404
	15,286	**1,670**	**16,956**	44,466	2,420	46,886
Due from fellow Group undertakings:						
Corporate and other debt securities			**–**			9
Total held at fair value through profit or loss			**16,956**			46,895

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

[2] Other comprises sub-investment grade (2016: £3 million; 2015 £544 million) and not rated (2016: £1,667 million; 2015 £1,876 million.)

51 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.

	2016			2015		
	Investment grade[1] £m	**Other[2] £m**	**Total £m**	Investment grade[1] £m	Other[2] £m	Total £m
The Bank						
Trading assets						
Government securities	**11,828**	**–**	**11,828**	8,269	–	8,269
Asset-backed securities:						
Mortgage-backed securities	**47**	**–**	**47**	516	–	516
Other asset-backed securities	**69**	**–**	**69**	85	–	85
	116	**–**	**116**	601	–	601
Corporate and other debt securities	**221**	**3**	**224**	582	30	612
Total debt securities	**12,165**	**3**	**12,168**	9,452	30	9,482
Treasury bills and other bills	**–**		**–**	–	–	–
Total held as trading assets	**12,165**	**3**	**12,168**	9,452	30	9,482
Other assets held at fair value through profit or loss						
Government securities	**1,127**	**–**	**1,127**	4,664	–	4,664
Corporate and other debt securities	**395**	**–**	**395**	–	–	–
Total other assets held at fair value through profit or loss	**1,522**	**–**	**1,522**	4,664	–	4,664
	13,687	**3**	**13,690**	14,116	30	14,146
Due from fellow Group undertakings:						
Corporate and other debt securities			**20**			23
Total held at fair value through profit or loss			**13,710**			14,169

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

[2] Other comprises sub-investment grade (2016: £3 million; 2015 £30 million) and not rated (2016: £nil; 2015 £nil.)

51 Financial risk management (continued)

Derivative assets

An analysis of derivative assets is given in note 14. 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 net credit risk relating to derivative assets of £17,321 million for the Group and £22,014 million for the Bank (2015: £9,456 million for the Group and £14,512 million for the Bank), cash collateral of £6,055 million for the Group and £4,841 million for the Bank (2015: £3,228 million for the Group and £1,528 million for the Bank) was held and a further £613 million for the Group and £451 million for the Bank (2015: £94 million for the Group and £10 million for the Bank) was due from OECD banks.

	2016			2015		
	Investment grade[1] £m	Other[2] £m	Total £m	Investment grade[1] £m	Other[2] £m	Total £m
The Group						
Trading and other	**29,361**	**1,786**	**31,147**	24,764	1,472	26,236
Hedging	**2,664**	**48**	**2,712**	2,653	33	2,686
Total derivative financial instruments	**32,025**	**1,834**	**33,859**	27,417	1,505	28,922
The Bank						
Trading and other	**24,626**	**955**	**25,581**	19,774	849	20,623
Hedging	**1,413**	**13**	**1,426**	663	5	668
	26,039	**968**	**27,007**	20,437	854	21,291
Due from fellow Group undertakings			**9,707**			9,701
Total derivative financial instruments			**36,714**			30,992

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

[2] Other comprises sub-investment grade (2016: £1,830 million for the Group and £968 million for the Bank; 2015 £1,418 million for the Group and £853 million for the Bank) and not rated (2016: £4 million for the Group and £nil for the Bank; 2015 £87 million for the Group and £1 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.

51 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 £437 million for the Group and Bank (2015: £963 million for the Group and £nil for the Bank), against which the Group and Bank held collateral with a fair value of £371 million (2015: £1,009 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.

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

	2016				2015			
	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	**220,299**	**5,288**	**2,334**	**227,921**	211,631	4,907	1,965	218,503
70 per cent to 80 per cent	**39,789**	**1,004**	**648**	**41,441**	45,764	1,350	671	47,785
80 per cent to 90 per cent	**23,589**	**621**	**495**	**24,705**	27,529	935	528	28,992
90 per cent to 100 per cent	**7,983**	**223**	**355**	**8,561**	10,908	610	247	11,765
Greater than 100 per cent	**4,445**	**204**	**488**	**5,137**	6,231	431	590	7,252
Total	**296,105**	**7,340**	**4,320**	**307,765**	302,063	8,233	4,001	314,297

The Bank

	2016				2015			
	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	**44,677**	**793**	**344**	**45,814**	46,749	756	279	47,784
70 per cent to 80 per cent	**5,210**	**90**	**88**	**5,388**	7,045	182	94	7,321
80 per cent to 90 per cent	**2,866**	**50**	**63**	**2,979**	3,955	127	64	4,146
90 per cent to 100 per cent	**925**	**16**	**51**	**992**	1,677	82	66	1,825
Greater than 100 per cent	**272**	**4**	**40**	**316**	472	35	53	560
Total	**53,950**	**953**	**586**	**55,489**	59,898	1,182	556	61,636

Other

The majority of non-mortgage retail lending is unsecured. At 31 December 2016, impaired non-mortgage lending amounted to £972 million, net of an impairment allowance of £458 million (2015: £1,153 million, net of an impairment allowance of £448 million). The fair value of the collateral held in respect of this lending was £139 million (2015: £107 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 £39,864 million (2015: £39,279 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.

51 Financial risk management (continued)

Commercial lending

Reverse repurchase transactions

At 31 December 2016 there were reverse repurchase agreements which were accounted for as collateralised loans with a carrying value of £8,304 million for the Group and the Bank against which the Group and the Bank held collateral with a fair value of £7,490 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 £8 million for the Group and 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 2016, impaired secured commercial lending amounted to £204 million, net of an impairment allowance of £401 million (2015: £1,245 million, net of an impairment allowance of £577 million). The fair value of the collateral held in respect of impaired secured commercial lending was £1,160 million (2015: £1,367 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 £36,275 million (2015: £51,298 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 £33,079 million for the Group and the Bank (2015: £33,174 million for the Group and £37,285 million for the Bank). Collateral is held with a fair value of £30,850 million for the Group and the Bank (2015: £36,493 million for the Group and £37,006 million for the Bank), all of which the Group is able to repledge. At 31 December 2016, £27,303 million for the Group and the Bank had been repledged (2015: £15,438 million for the Group and £17,876 million for the Bank).

In addition, securities held as collateral in the form of stock borrowed amounted to £47,816 million for the Group and £25,565 million for the Bank (2015: £58,621 million for the Group and £46,042 million for the Bank). Of this amount, £16,204 million for the Group and £18,025 million for the Bank (2015: £29,859 million for the Group and £29,360 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 £17,321 million for the Group and £22,014 million for the Bank (2015: £9,456 million for the Group and £14,512 million for the Bank), cash collateral of £6,055 million for the Group and £4,841 million for the Bank (2015: £3,228 million for the Group and £1,528 million for the Bank) was held.

Irrevocable loan commitments and other credit-related contingencies

At 31 December 2016, there were irrevocable loan commitments and other credit-related contingencies of £66,240 million for the Group and £48,847 million for the Bank (2015: £65,719 million for the Group and £49,382 million for the Bank). Collateral is held as security, in the event that lending is drawn down, on £10,053 million for the Group and £9 million for the Bank (2015: £9,551 million for the Group and £nil for the Bank) of these balances.

Collateral repossessed

During the year, £241 million of collateral was repossessed (2015: £203 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.

51 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 £7,279 million for the Group and £2,758 million for the Bank (2015: £7,061 million for the Group and £7,044 million for the Bank) and a fair value of £8,395 million for the Group and £2,692 million for the Bank (2015: £6,707 million for the Group and £6,707 million for the Bank).

Customer deposits
Customer deposits included £2,462 million for the Group and the Bank held as collateral for facilities granted (2015: £nil). No collateral balances in the form of cash were provided in respect of repurchase agreements (2015: £5 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 £45,702 million for the Group and £46,698 million for the Bank (2015: £44,655 million for the Group and £48,172 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	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Trading and other financial assets at fair value through profit or loss	**1,541**	6,478	**1,523**	1,807
Loans and advances to customers	**583**	1,491	**583**	–
Debt securities classified as loans and receivables	**–**	–	**–**	69
Available-for-sale financial assets	**3,206**	4,247	**3,184**	4,464
	5,330	12,216	**5,290**	6,340

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 17 and 18.

(2) Market risk
Interest rate risk
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. The rates on the remaining deposits are 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.

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 2016 the aggregate notional principal of interest rate swaps designated as fair value hedges was £195,889 million (2015: £121,331 million) for the Group and £204,068 million (2015: £129,062 million) for the Bank with a net fair value asset of £435 million (2015: asset of £835 million) for the Group and a net fair value liability of £1,757 million (2015: liability of £1,707 million) for the Bank (note 14). The losses recognised on the hedging instruments were £1,946 million (2015: £695 million) for the Group and £1,768 million (2015: losses of £31 million) for the Bank. The gains on the hedged items attributable to the hedged risk were £2,017 million (2015: £516 million) for the Group and £1,702 million (2015: £59 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 14 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 2016 was £384,182 million (2015: £460,829 million) for the Group and £381,662 million (2015: £164,826 million) for the Bank with a net fair value liability of £352 million (2015: liability of £718 million) for the Group and a net fair value asset of £75 million (2015: asset of £39 million) for the Bank (note 14). In 2016, ineffectiveness recognised in the income statement that arises from cash flow hedges was gains of £24 million (2015: gains of £3 million) for the Group and £28 million (2015: gains of £30 million) for the Bank.

51 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 2016 the aggregate principal of the Group's currency borrowings was £695 million (2015: £670 million). In 2016, an ineffectiveness loss of £2 million before and £1 million after tax (2015: ineffectiveness gain of £5 million before and £4 million 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 2016			
Gross exposure	**247**	**479**	**36**
Net investment hedges	**(216)**	**(479)**	**–**
Total structural foreign currency exposures, after net investment hedges	**31**	**–**	**36**
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

The Bank	Euro £m	US Dollar £m	Other non-sterling £m
31 December 2016			
Gross exposure	**6**	**72**	**45**
Net investment hedges	**–**	**–**	**–**
Total structural foreign currency exposures, after net investment hedges	**6**	**72**	**45**
31 December 2015			
Gross exposure	(2)	91	28
Net investment hedges	–	–	–
Total structural foreign currency exposures, after net investment hedges	(2)	91	28

(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.

51 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 2016						
Deposits from banks	**3,232**	**4,154**	**1,541**	**5,883**	**942**	**15,752**
Customer deposits	**347,537**	**19,147**	**28,248**	**20,789**	**1,283**	**417,004**
Trading and other financial liabilities at fair value through profit or loss	**14,390**	**19,718**	**11,845**	**1,938**	**13,513**	**61,404**
Debt securities in issue	**7,661**	**8,808**	**12,628**	**34,928**	**16,987**	**81,012**
Liabilities arising from non-participating investment contracts	–	–	–	–	–	–
Subordinated liabilities	**48**	**755**	**1,201**	**9,678**	**10,944**	**22,626**
Total non-derivative financial liabilities	**372,868**	**52,582**	**55,463**	**73,216**	**43,669**	**597,798**
Derivative financial liabilities:						
Gross settled derivatives – outflows	**33,126**	**24,044**	**25,336**	**52,769**	**35,214**	**170,489**
Gross settled derivatives – inflows	**(31,358)**	**(22,395)**	**(23,485)**	**(49,111)**	**(31,149)**	**(157,498)**
Gross settled derivatives – net flows	**1,768**	**1,649**	**1,851**	**3,658**	**4,065**	**12,991**
Net settled derivative liabilities	**21,615**	**44**	**170**	**536**	**1,127**	**23,492**
Total derivative financial liabilities	**23,383**	**1,693**	**2,021**	**4,194**	**5,192**	**36,483**
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

The Group's financial guarantee contracts are accounted for as financial instruments and measured at fair value, upon initial recognition, 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 £6,883 million at 31 December 2016 (2015: £7,165 million) with £3,815 million expiring within one year; £667 million between one and three years; £1,334 million between three and five years; and £1,067 million over five years (2015: £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).

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 2016	**1,283**	**1,836**	**6,266**	**23,425**	**61,599**	**94,409**
At 31 December 2015	1,477	1,081	4,745	10,444	62,570	80,317

51 Financial risk management (continued)

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.

The principal amount for undated subordinated liabilities with no redemption option is included within the over 5 years column; interest of approximately £22 million (2015: £38 million) per annum for the Group and £15 million (2015: £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 2016						
Deposits from banks	**3,159**	**4,118**	**1,532**	**84**	**617**	**9,510**
Customer deposits	**187,112**	**13,960**	**8,355**	**3,551**	**429**	**213,407**
Trading and other financial liabilities at fair value through profit or loss	**14,688**	**20,127**	**12,091**	**1,979**	**13,791**	**62,676**
Debt securities in issue	**6,730**	**7,510**	**12,551**	**32,047**	**21,450**	**80,288**
Subordinated liabilities	**58**	**304**	**554**	**5,989**	**6,588**	**13,493**
Total non-derivative financial liabilities	**211,747**	**46,019**	**35,083**	**43,650**	**42,875**	**379,374**
Derivative financial liabilities:						
Gross settled derivatives – outflows	**32,460**	**23,495**	**24,793**	**47,970**	**30,802**	**159,520**
Gross settled derivatives – inflows	**(30,886)**	**(21,902)**	**(22,965)**	**(44,512)**	**(27,067)**	**(147,332)**
Gross settled derivatives – net flows	**1,574**	**1,593**	**1,828**	**3,458**	**3,735**	**12,188**
Net settled derivative liabilities	**19,104**	**28**	**84**	**325**	**883**	**20,424**
Total derivative financial liabilities	**20,678**	**1,621**	**1,912**	**3,783**	**4,618**	**32,612**

	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 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

The Bank's financial guarantee contracts are accounted for as financial instruments and measured at fair value, upon initial recognition, on the balance sheet. The majority of the Bank'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 £6,586 million at 31 December 2016 (2015: £6,795 million) with £3,690 million expiring within one year; £627 million between one and three years; £1,322 million between three and five years; and £947 million over five years (2015: £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).

51 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 2016					
Acceptances and endorsements	**20**	**1**	**–**	**–**	**21**
Other contingent liabilities	**1,647**	**466**	**280**	**623**	**3,016**
Total contingent liabilities	**1,667**	**467**	**280**	**623**	**3,037**
Lending commitments	**73,443**	**17,212**	**18,775**	**4,090**	**113,520**
Other commitments	**45**	**79**	**122**	**402**	**648**
Total commitments	**73,488**	**17,291**	**18,897**	**4,492**	**114,168**
Total contingents and commitments	**75,155**	**17,758**	**19,177**	**5,115**	**117,205**
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

	Within 1 year £m	1-3 years £m	3-5 years £m	Over 5 years £m	Total £m
The Bank					
31 December 2016					
Acceptances and endorsements	**19**	**1**	**–**	**–**	**20**
Other contingent liabilities	**1,587**	**449**	**217**	**598**	**2,851**
Total contingent liabilities	**1,606**	**450**	**217**	**598**	**2,871**
Lending commitments	**38,668**	**15,768**	**18,076**	**2,534**	**75,046**
Other commitments	**45**	**73**	**112**	**390**	**620**
Total commitments	**38,713**	**15,841**	**18,188**	**2,924**	**75,666**
Total contingents and commitments	**40,319**	**16,291**	**18,405**	**3,522**	**78,537**
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

(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.

52 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 capital conservation buffer of 0.625 per cent of risk-weighted assets (increasing to 2.5 per cent by 2019) and 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 not applicable 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 European Commission (EC) and the issuance of CRD IV technical standards and guidelines by the European Banking Authority (EBA) 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:

	2016 **£m**	2015 £m
Common equity tier 1 capital	**32,544**	34,041
Additional tier 1 capital	**5,732**	3,584
Tier 2 capital	**7,535**	12,027
Total capital	**45,811**	49,652

53 Cash flow statements

a Change in operating assets

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Change in loans and receivables	**1,230**	6,081	**(2,917)**	5,486
Changes in amounts due from fellow Lloyds Banking Group undertakings	**8,412**	437	**(16,089)**	(2,766)
Change in derivative financial instruments, trading and other financial assets at fair value through profit or loss	**(13,954)**	20,557	**(2,014)**	23,492
Change in other operating assets	**1,012**	7,886	**69**	1,724
Change in operating assets	**(3,300)**	34,961	**(20,951)**	27,936

b Change in operating liabilities

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Change in deposits from banks	**(654)**	6,107	**(4,261)**	5,482
Change in customer deposits	**(3,690)**	(4,252)	**6,602**	10,893
Changes in amounts due to fellow Lloyds Banking Group undertakings	**2,303**	636	**16,029**	(21,228)
Change in debt securities in issue	**(8,950)**	6,218	**(4,868)**	12,188
Change in derivative financial instruments, trading and other financial liabilities at fair value through profit or loss	**11,680**	(16,984)	**6,995**	(27,175)
Change in investment contract liabilities	**(2,665)**	(3,922)	**–**	–
Change in other operating liabilities	**(549)**	1,207	**260**	(1,606)
Change in operating liabilities	**(2,525)**	(10,990)	**20,757**	(21,446)

53 Cash flow statements (continued)

c Non-cash and other items

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Depreciation and amortisation	**2,380**	2,112	**821**	707
Permanent diminution in value of investment in subsidiaries	**–**	–	**562**	531
Dividends received from subsidiary undertakings	**–**	–	**(3,984)**	(12,820)
Revaluation of investment properties	**83**	(416)	**–**	–
Allowance for loan losses	**592**	441	**450**	293
Write-off of allowance for loan losses, net of recoveries	**(1,272)**	(3,467)	**(608)**	(609)
Impairment of available-for-sale financial assets	**173**	4	**172**	1
Change in insurance contract liabilities	**14,081**	(2,856)	**–**	–
Payment protection insurance provision	**1,350**	4,000	**952**	2,550
Other regulatory provisions	**1,085**	837	**527**	383
Other provision movements	**(40)**	337	**54**	(57)
Net charge (credit) in respect of defined benefit schemes	**287**	315	**142**	164
Impact of consolidation and deconsolidation of OEICs[1]	**(3,157)**	(5,978)	**–**	–
Unwind of discount on impairment allowances	**(32)**	(56)	**(44)**	(76)
Foreign exchange element on balance sheet[2]	**(648)**	(186)	**272**	(902)
Interest expense on subordinated liabilities	**1,812**	2,452	**1,175**	1,751
Loss (profit) on disposal of businesses	**–**	46	**–**	(139)
Other non-cash items	**766**	(456)	**159**	38
Total non-cash items	**17,460**	(2,871)	**650**	(8,185)
Contributions to defined benefit schemes	**(630)**	(433)	**(425)**	(237)
Payments in respect of payment protection insurance provision	**(2,200)**	(3,091)	**(1,577)**	(1,895)
Payments in respect of other regulatory provisions	**(761)**	(661)	**(561)**	(370)
Other	**2**	7	**–**	–
Total other items	**(3,589)**	(4,178)	**(2,563)**	(2,502)
Non-cash and other items	**13,871**	(7,049)	**(1,913)**	(10,687)

[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	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Cash and balances with central banks	**47,452**	58,417	**44,595**	55,919
Less: mandatory reserve deposits[1]	**(914)**	(941)	**(455)**	(485)
	46,538	57,476	**44,140**	55,434
Loans and advances to banks	**5,583**	25,117	**4,379**	2,625
Loans and advances to banks within disposal group (see note 12)	**21,319**	–	**–**	–
Less: amounts with a maturity of three months or more	**(10,532)**	(10,640)	**(3,253)**	(2,207)
	16,370	14,477	**1,126**	418
Total cash and cash equivalents	**62,908**	71,953	**45,266**	55,852
Cash and cash equivalents of continuing operations	**48,420**	71,953	**45,266**	55,852
Cash and cash equivalents in disposal group (note 12)	**14,488**	–	**–**	–
Total cash and cash equivalents	**62,908**	71,953	**45,266**	55,852

[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 2016 is £14,477 million (2015: £13,545 million) held within the Group's long-term insurance and investments business, within the disposal group (note 12), which is not immediately available for use in the business.

53 Cash flow statements (continued)

e Acquisition of group undertakings and businesses

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Additional capital injections to subsidiaries	**–**	–	**(81)**	(64)
Acquisition of and additional investment in associates and joint ventures	**(20)**	(5)	**–**	–
Net cash outflow	**(20)**	(5)	**(81)**	(64)

f Disposal of group undertakings and businesses

	The Group		The Bank	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Trading and other financial assets at fair value through profit or loss	**–**	3,420	**–**	–
Loans and advances to banks	**–**	5,539	**–**	–
Loans and advances to customers	**–**	21,333	**–**	–
Available-for-sale financial assets	**–**	654	**–**	–
Value of in-force business	**–**	60	**–**	–
Property, plant and equipment	**–**	150	**–**	–
	–	31,156	**–**	–
Customer deposits	**–**	(24,613)	**–**	–
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)	**5**	(314)	**–**	–
	5	(30,138)	**–**	–
Net assets (liabilities) disposed of	**5**	1,018	**–**	–
Investment in subsidiary disposed of	**–**	–	**3**	711
Non-cash consideration received	**–**	–	**–**	–
(Loss) profit on sale of businesses	**–**	(46)	**–**	139
Cash consideration received on losing control of group undertakings and businesses	**5**	972	**3**	850
Cash and cash equivalents disposed	**–**	(5,043)	**–**	–
Net cash inflow (outflow)	**5**	(4,071)	**3**	850

54 Acquisition of MBNA Limited

On 20 December 2016, the Group signed an agreement with Bank of America Merrill Lynch (BAML) to purchase 100 per cent of the share capital of MBNA Limited, a UK consumer credit card business, for a cash consideration of £1.9 billion. The Group is expected to acquire control of MBNA Limited during 2017, subject to the receipt of competition and regulatory approval.

55 Events since the balance sheet date

On 2 March 2017 the FCA confirmed that the deadline by which consumers will need to make their PPI complaints will be 29 August 2019 and that the final rules and guidance that should apply when firms handle PPI complaints in light of Plevin will come into force in August 2017. The Group has reassessed its provisioning in light of this guidance, leading to an additional charge of £350 million, bringing the total charge for the year ended 31 December 2016 to £1,350 million.

56 Future accounting developments

The following pronouncements are not applicable for the year ending 31 December 2016 and have not been applied in preparing these financial statements. Save as disclosed below, the impact of these accounting changes is still being assessed by the Group and reliable estimates cannot be made at this stage.

With the exception of IFRS 9, which was endorsed in November 2016, as at 21 February 2017 these pronouncements are awaiting EU endorsement.

IFRS 9 Financial Instruments
IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and is effective for annual periods beginning on or after 1 January 2018.

Classification 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 or amortised cost. Financial assets will be measured at amortised cost if they are held within a business model the objective of which is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest. Financial assets will be measured at fair value through other comprehensive income if they are held within a business model the objective of which is achieved by both collecting contractual cash flows and selling financial assets and their contractual cash flows represent solely payments of principal and interest. Financial assets not meeting either of these two business models; and all equity instruments (unless designated at inception to fair value through other comprehensive income); and all derivatives are measured at fair value through profit or loss. An entity may, at initial recognition, designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

The Group has undertaken an assessment to determine the potential impact of changes in classification and measurement of financial assets. The adoption of IFRS 9 is unlikely to result in significant changes to existing asset measurement bases, however, the final impact will be dependent on the facts and circumstances that exist on 1 January 2018.

IFRS 9 retains most of the existing requirements for financial liabilities. However, for financial liabilities designated at fair value through profit or loss, gains or losses attributable to changes in own credit risk may be presented in other comprehensive income. It is expected that the Group will elect to early adopt this presentation of gains and losses on financial liabilities from 1 January 2017. These gains and losses are currently recognised in profit or loss and are disclosed in note 29 to the financial statements.

Impairment Overview
The IFRS 9 impairment model will be applicable to all financial assets at amortised cost, debt instruments measured at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantees not measured at fair value through profit or loss.

IFRS 9 replaces the existing ‘incurred loss’ impairment approach with an Expected Credit Loss (‘ECL’) model, resulting in earlier recognition of credit losses compared with IAS 39. Expected credit losses are the unbiased probability weighted average credit losses determined by evaluating a range of possible outcomes and future economic conditions.

The ECL 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 since initial recognition (stage 2). Stage 3 requires objective evidence that an asset is credit-impaired, which is similar to the guidance on incurred losses in IAS 39.

Under IAS 39, provisions are recognised for losses that have been incurred but may not have been separately identified. An assessment is made of the likelihood of assets being impaired at the balance sheet date and being identified subsequently; the length of time taken to identify that an impairment event has occurred is known as the loss emergence period. The Group has a range of emergence periods which are dependent upon the characteristics of the portfolios, but typically range between one month and twelve months based on historical experience. Unsecured portfolios tend to have shorter emergence periods than secured portfolios. Under IFRS 9, all loans in stage 1 will require a loss allowance measured at an amount equal to 12 months ECL and is therefore longer than current emergence periods for certain portfolios.

The requirement to recognise lifetime ECL for loans which have experienced a significant increase in credit risk since origination, but which are not credit impaired, does not exist under IAS 39. The assessment of whether an asset is in stage 1 or 2 considers the relative change in the probability of default occurring over the expected life of the instrument, not the change in the amount of expected credit losses. This will involve setting quantitative tests combined with supplementary indicators such as credit risk classification. Reasonable and supportable forward looking information will also be used in determining the stage allocation. In general, assets more than 30 days past due, but not credit impaired, will be classed as stage 2.

IFRS 9 requires the use of more forward looking information including reasonable and supportable forecasts of future economic conditions. The need to consider a range of economic scenarios and how they could impact the loss allowance is a subjective feature of the IFRS 9 ECL model. The Group is developing the capability to model a number of economic scenarios and capture the impact on credit losses to ensure the overall ECL represents a reasonable distribution of economic outcomes. Appropriate governance and oversight will be established around the process.

56 Future accounting developments (continued)

IFRS 9 Impairment Models
For all material portfolios, IFRS 9 ECL calculation will leverage the systems, data and methodology used to calculate regulatory 'expected losses'. The Group anticipates the definition of default for IFRS 9 purposes will be aligned to the Basel definition of default to ensure consistency across the Group. However, the IFRS 9 ECL models differ 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.

IFRS 9 models will use three key input parameters for the computation of expected loss, being probability of default ('PD'), loss given default ('LGD') and exposure at default ('EAD'). However, given the conservatism inherent in the regulatory expected losses calculation, some adjustments to these components must be made to ensure compliance with IFRS 9. Some of the key requirements are listed in the following table.

Component	Regulatory capital	IFRS 9
EAD	• Anticipates additional drawings made by customers who are yet to default • Downturn EAD, appropriate to a severe but plausible economic downturn	• Maximum exposure is the contractual amount except for certain revolving facilities (as defined by the standard) • Forward looking EAD
PD	• 12 month PD • Through-the-cycle using long run average economic and risk data to reduce sensitivity to changes in the economic cycle • Default defined as 90 days past due, except 180 days past due definition for certain mortgage portfolios secured by UK residential real estate, plus unlikeliness to pay factors	• Forward-looking 12 month PD or lifetime PD, considering a range of possible outcomes • Point-in-time, sensitive to changes in the economic cycle • No explicit definition of default • Rebuttable presumption that default does not occur later than when a financial asset is 90 days past due
LGD	• Downturn LGD, appropriate to a severe by plausible economic downturn • Subject to floors, to mitigate the risk of underestimating credit losses due to a lack of historical data • Discount cash flows to take account of the uncertainties associated with the receipt of recoveries with respect to a defaulted exposure	• Forward looking LGD • No floors prescribed • Discount rate is effective interest rate as defined by IFRS 9

Impact of IFRS 9 on the Group
The adoption of IFRS 9 may result in an increase in the Group's balance sheet provisions for credit losses and may therefore negatively impact the Group's regulatory capital position. The extent of any increase in provisions will depend upon on a number factors including the composition of the Group's lending portfolios and forecast economic conditions at the date of implementation. Whilst the Group is still refining its methodology and completing the development of the models required to calculate the provision, it is not possible to provide a reliable estimate of the impact of adopting IFRS 9. It is also too early to estimate the ongoing impact of the IFRS 9 impairment model on the financial results although the requirement to transfer assets between stages and to incorporate forward looking data into the expected credit loss calculation, including multiple economic scenarios, could result in impairment charges being more volatile when compared to the current IAS 39 impairment model.

The regulatory capital impact of IFRS 9 could be affected by changes to the regulatory rules. The Basel Committee on Banking Supervision has issued two papers on the impacts of IFRS 9 on regulatory capital, a consultation paper on the 'Regulatory treatment of accounting provisions – interim approach and transitional arrangements'; and one discussing longer-term changes. It is not clear whether any transitional capital arrangements will be in place for 1 January 2018.

Hedge Accounting
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 standard does not address macro hedge accounting, which is being considered in a separate IASB project. There is an option to maintain the existing IAS 39 hedge accounting rules until the IASB completes its project on macro hedging. The Group currently expects to continue applying IAS 39 hedge accounting in accordance with this accounting policy choice.

IFRS 9 Implementation Programme
The Group has an established IFRS 9 programme to ensure a high quality implementation in compliance with the standard and additional regulatory guidance that has been issued. 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, development of ECL models, identifying data and system requirements, and establishing an appropriate operating model and governance framework. The programme is progressing in line with current delivery plans.

Credit risk methodologies have been defined and model build and approval is underway for core portfolios. The Retail secured model has been approved by the Model Governance Committee. Models and credit risk processes will be tested during the parallel run period to embed the changes and help improve the understanding of the new impairment models.

Finance systems and reporting requirements are being developed and tested. Existing controls and governance structures have been reviewed and changes identified as a result of IFRS 9. The governance framework includes the review, challenge and sign-off of forward looking information for a range of economic scenarios. Communication and training plans are in place and the impact on resources within Finance and Risk functions is being assessed to ensure the business is ready to implement the new standard.

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 however, fee recognition associated with credit cards and packaged products, for example, will need to be reviewed. The standard is not currently expected to have a significant impact on the Group's profitability. Limited, or no systems or process impacts are expected as a result of adopting IFRS 15. IFRS 15 is effective for annual periods beginning on or after 1 January 2018.

56 Future accounting developments (continued)

IFRS 16 Leases
IFRS 16 replaces IAS 17 Leases and requires lessees to recognise a right of use asset and a liability for future payments arising from a lease contract. Lessees will recognise a finance charge on the liability and a depreciation charge on the asset which could affect the timing of the recognition of expenses on leased assets. This change will mainly impact the properties that the Group currently accounts for as operating leases. Finance systems will need to be changed to reflect the new accounting rules and disclosures. 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.

Minor amendments to other accounting standards
During 2016, the IASB has 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) together with a number of other minor amendments to IFRSs, which will be effective for annual periods beginning on or after either 1 January 2017 or 1 January 2018. These revised requirements 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.

Subsidiaries and related undertakings

In compliance with Section 409 of the Companies Act 2006, the following comprises a list of all related undertakings of the Bank, as at 31 December 2016. The list includes each undertaking's registered office and the percentage of the class(es) of shares held by the immediate parent company. Where different, the ultimate percentage of the class of shares held by the Group is given in brackets. All shares held are ordinary shares unless indicated otherwise.

Subsidiary undertakings

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

Name of undertaking	% of share class held by immediate parent company (or by the Group where this varies)		Notes	
A G Finance Ltd	100%		7	ii #
A.C.L. Ltd	100%		1	
ACL Autolease Holdings Ltd	100%		1	
ADF No.1 Pty Ltd	100%		8	
Alex Lawrie Factors Ltd	100%		9	
Alex Lawrie Receivables Financing Ltd	100%		9	
Amberdate Ltd	100%		1	^
	100%			iv
AN Vehicle Finance Ltd	100%		1	
Anglo Scottish Utilities Partnership 1	n/a		+	*
Aquilus Ltd	100%		1	
Automobile Association Personal Finance Ltd	100%		4	
Bank of Scotland (B.G.S) London Nominees Ltd	n/a		5	*
Bank of Scotland (Stanlife) London Nominees Ltd	n/a		5	*
Bank of Scotland Branch Nominees Ltd	100%		5	
Bank of Scotland Capital Funding (Jersey) Ltd	100%		10	
Bank of Scotland Capital Funding L.P.	100%		10	
Bank of Scotland Central Nominees Ltd	n/a		5	*
Bank of Scotland Edinburgh Nominees Ltd	n/a		5	*
Bank of Scotland Equipment Finance Ltd	100%		2	
Bank of Scotland Hong Kong Nominees Ltd	n/a		11	*
Bank of Scotland Insurance Services Ltd	99.99%	(100%)	5	
Bank of Scotland Leasing Ltd	100%		2	
Bank of Scotland LNG Leasing (No 1) Ltd	100%		1	
Bank of Scotland London Nominees Ltd	n/a		5	*
Bank of Scotland Nominees (Unit Trusts) Ltd	n/a		5	*
Bank of Scotland P.E.P. Nominees Ltd	n/a		5	*
Bank of Scotland plc	99.99%	(100%)	5	
	0%	(100%)		iv
Bank of Scotland Structured Asset Finance Ltd	100%		1	
Bank of Scotland Transport Finance 1 Ltd	100%		2	
Bank of Wales Ltd	100%		2	
Barbirolli Square Limited Partnership	n/a		3	*
Barents Leasing Ltd	100%		1	
Barnwood Mortgages Ltd	100%		12	
Bavarian Mortgages No. 5 Ltd (in liquidation)	99.998%	(100%)	13	
Birchcrown Finance Ltd	100%		1	iv
	100%			vi
Birmingham Midshires Asset Management Ltd	100%		4	
Birmingham Midshires Financial Services Ltd	100%		4	
Birmingham Midshires Land Development Ltd	100%		4	
Birmingham Midshires Mortgage Services Ltd	100%		4	
Birmingham Midshires Mortgage Services No.1 Ltd (in strike off)	100%		4	
Black Horse (TRF) Ltd	100%		1	
Black Horse Executive Mortgages Ltd	100%		1	
Black Horse Finance Holdings Ltd	100%		1	i
	100%		ii	
Black Horse Finance Management Ltd	100%		1	
Black Horse Group Ltd	100%		1	
	0%	(100%)	iv	
Black Horse Ltd	100%		1	
Black Horse Offshore Ltd	100%		6	
Black Horse Property Services Ltd	100%		1	^
Boltro Nominees Ltd	100%		1	^
BOS (Ireland) Nominees Ltd (in liquidation)	100%		32	
BOS (Ireland) Property Services 2 Ltd	100%		16	
BOS (Ireland) Property Services Ltd	100%		16	
BOS (PB) LLC	100%		14	
BOS (Shared Appreciation Mortgages (Scotland) No. 2) Ltd	100%		4	
BOS (Shared Appreciation Mortgages (Scotland) No. 3) Ltd	100%		4	
BOS (Shared Appreciation Mortgages (Scotland)) Ltd	100%		4	
BOS (Shared Appreciation Mortgages) No. 1 plc	99.99%	(100%)	4	#
BOS (Shared Appreciation Mortgages) No. 2 plc	99.99%	(100%)	4	#
BOS (Shared Appreciation Mortgages) No. 3 plc	99.99%	(100%)	4	#
BOS (Shared Appreciation Mortgages) No. 4 plc	99.99%	(100%)	4	#
BOS (Shared Appreciation Mortgages) No. 5 plc	99.99%	(100%)	4	#
BOS (Shared Appreciation Mortgages) No. 6 plc	99.99%	(100%)	4	#
BOS (Southport) Holding LLC	100%		14	
BOS (USA) Fund Investments Inc.	100%		14	xiii
BOS (USA) Inc.	100%		14	
BOS Edinburgh No 1 Ltd	100%		17	
BOS Mistral Ltd	100%		2	
BOSIC Inc.	100%		18	
BOSSAF Rail Ltd	100%		1	
Britannia Personal Lending Ltd	100%		4	i #
British Linen Leasing (London) Ltd	100%		5	
British Linen Leasing Ltd	100%		5	
British Linen Shipping Ltd	100%		5	
Brooklyn Properties Ltd (in liquidation)	100%		32	i #
	100%			ii
C&G Financial Services Ltd (in strike off)	100%		12	
C&G Homes Ltd	100%		12	
C&G Estate Agents Ltd	100%		12	
C.T.S.B. Leasing Ltd	100%		1	
Capital 1945 Ltd	100%		2	
Capital Bank Insurance Services Ltd	100%		4	
Capital Bank Leasing 1 Ltd	100%		2	
Capital Bank Leasing 2 Ltd	100%		2	
Capital Bank Leasing 3 Ltd	100%		2	
Capital Bank Leasing 4 Ltd	100%		2	
Capital Bank Leasing 5 Ltd	100%		2	
Capital Bank Leasing 6 Ltd	100%		2	
Capital Bank Leasing 7 Ltd	100%		2	
Capital Bank Leasing 8 Ltd	100%		17	
Capital Bank Leasing 9 Ltd	100%		2	
Capital Bank Leasing 10 Ltd	100%		2	
Capital Bank Leasing 11 Ltd	100%		2	
Capital Bank Leasing 12 Ltd	100%		5	
Capital Bank Property Investments (3) Ltd	100%		2	
Capital Bank Property Investments (6) Ltd (in liquidation)	100%		13	
Capital Bank Vehicle Management Ltd	100%		2	
Capital Leasing (Edinburgh) Ltd	100%		17	
Capital Leasing Ltd	100%		17	
Capital Personal Finance Ltd	100%		4	
Car Ownership Finance Ltd	100%		1	
Cardnet Merchant Services Ltd	97.85%	(100%)	1	ii, # ^
	0%	(100%)		iii ^
Carlease Ltd	100%		1	
Cartwright Finance Ltd	100%		2	viii
	0.08%			vii #
Cashfriday Ltd	100%		9	
Cashpoint Ltd	100%		1	^
Castle Baynard Funding Ltd (in liquidation)	100%		13	
Caveminster Ltd	100%		1	
CBRail S.A.R.L.	100%		19	
Cedar Holdings Ltd	100%		1	
Central Mortgage Finance Ltd	100%		12	
CF Asset Finance Ltd	100%		2	
Chariot Finance Ltd	100%		1	
Chartered Trust (Nominees) Ltd	100%		1	
Charterhall (No. 1) Ltd (in liquidation)	100%		1	^
Charterhall (No. 2) Ltd	100%		1	^
Charterhall (No. 3) Ltd (in strike off)	100%		1	^
Cheltenham & Gloucester plc	99.99%	(100%)	12	^
Cheshire Holdings Europe Ltd	100%		6	
	100%			xii
Chiswell Stockbrokers Ltd	100%		1	^
Clerical Medical (Dartford Number 2) Ltd	100%		20	
Clerical Medical (Dartford Number 3) Ltd	100%		20	
Clerical Medical Finance plc	99.99%	(100%)	20	
Clerical Medical Financial Services Ltd	99.99%	(100%)	20	
Clerical Medical Forestry Ltd	99.99%	(100%)	20	
Clerical Medical International Holdings B.V.	100%		21	
Clerical Medical Investment Fund Managers Ltd	100%		4	
Clerical Medical Managed Funds Ltd	99.99%	(100%)	20	
Clerical Medical Non Sterling Property Company SARL	100%		22	
Clerical Medical Properties Ltd	99.99%	(100%)	20	
Cloak Lane Funding Ltd	100%		6	
	100%			iv
Cloak Lane Investments Ltd	100%		6	
CM Venture Investments Ltd	100%		23	
	100%			iv
CMI Asset Management (Luxembourg) S.A (in liquidation)	99.99%		24	
CMI Insurance (Luxembourg) S.A. (in liquidation)	99.99%	(100%)	24	
Conquest Securities Ltd	100%		1	iv
	100%			vi
Corbiere Asset Investments Ltd	100%		1	i
	0%	(100%)		ii
County Wide Property Investments Ltd (in liquidation)	100%		13	
Create Services Ltd	100%		1	^

Subsidiaries and related undertakings

Dalkeith Corporation	100%		25	
Delancey Rolls UK Ltd	100%		26	i #
Denham Funding Ltd (in liquidation)	100%		13	
Deva Lease 2 Ltd (in liquidation)	100%		13	
Deva Lease 3 Ltd (in liquidation)	100%		13	
Direct LB Ltd	100%		1	^
Dunstan Investments (UK) Ltd	100%		1	
Enterprise Car Finance Ltd	100%		7	ii #
Equipment Leasing (No. 3) Ltd (in liquidation)	100%		13	
Equipment Leasing (No. 6) Ltd (in liquidation)	100%		13	
Eurolead Services Holdings Ltd	100%		9	
Exclusive Finance No. 1 Ltd	100%		1	^
	100%			i
Financial Consultants LB Ltd	100%		1	^
First Retail Finance (Chester) Ltd	100%		4	
Flexifly Ltd	100%		17	
Fontview Ltd	100%		20	
Forthright Finance Ltd	100%		2	
France Industrial Premises Holding Company	100%		28	
Freeway Ltd	100%		2	
General Leasing (No. 2) Ltd (in liquidation)	100%		13	
General Leasing (No. 4) Ltd	100%		1	
General Leasing (No. 12) Ltd	100%		1	
General Leasing (No. 14) Ltd (in liquidation)	100%		13	^
General Leasing (No. 15) Ltd (in liquidation)	100%		13	
General Reversionary and Investment Company	80%	(100%)	20	
GFP Holdings LLC	100%		14	
Glosstrips Ltd	100%		17	
Godfrey Davis (Contract Hire) Ltd	100%		2	
Gresham Nominee 1 Ltd	100%		1	
Gresham Nominee 2 Ltd	100%		1	
Halifax Credit Card Ltd	100%		4	i
	100%			ii
	100%			vii
Halifax Equitable Ltd	100%		4	
Halifax Financial Brokers Ltd	100%		4	
Halifax Financial Services (Holdings) Ltd	100%		4	
Halifax Financial Services Ltd	100%		4	
Halifax General Insurance Services Ltd	100%		4	
Halifax Group Ltd	100%		4	
Halifax Investment Services Ltd	100%		4	
Halifax Leasing (June) Ltd	100%		1	
Halifax Leasing (March No.2) Ltd	100%		1	
Halifax Leasing (September) Ltd	100%		1	
Halifax Life Ltd	100%		4	
Halifax Ltd	99.99%	(100%)	4	
Halifax Loans Ltd	100%		4	
Halifax Mortgage Services (Holdings) Ltd	100%		4	
Halifax Mortgage Services Ltd	100%		4	
Halifax Nominees Ltd	100%		4	
Halifax Pension Nominees Ltd	100%		29	
Halifax Premises Ltd	100%		1	
Halifax Share Dealing Ltd	100%		4	
Halifax Vehicle Leasing (1998) Ltd	100%		4	
HBOS Canada Inc.	100%		18	
HBOS Capital Funding (Jersey) Ltd	100%		10	
HBOS Covered Bonds LLP	n/a		4	*
HBOS Directors Ltd	100%		1	
HBOS Final Salary Trust Ltd	100%		5	
HBOS Financial Services Ltd	100%		20	
HBOS Insurance & Investment Group Ltd	100%		20	^
HBOS International Financial Services Holdings Ltd	99.99%	(100%)	20	
HBOS Investment Fund Managers Ltd	100%		4	
HBOS Management (Jersey) Ltd	100%		10	
HBOS plc	99.99%	(100%)	5	^
	100%			iv
	100%			vi
HBOS Social Housing Covered Bonds LLP	n/a		2	*
HBOS Treasury Services Ltd	100%		20	
HBOS UK Ltd	99.99%	(100%)	5	
Heidi Finance Holdings (UK) Ltd	100%		1	
High Street Marketing Services S.A. (in liquidation)	100%		30	^
Highway Vehicle Management Ltd (in liquidation)	100%		13	^
Hill Samuel (USA), Inc.	100%		14	
Hill Samuel Bank Ltd	100%		1	^
Hill Samuel Finance Ltd	100%		1	xi
	100%		1	iv
Hill Samuel Leasing (No 2) Ltd (in liquidation)	100%		1	
Hill Samuel Leasing Co. Ltd	100%		1	^
Hill Samuel Nominees Asia Private Ltd	100%		31	
HL Group (Holdings) Ltd (in liquidation)	100%		4	
Home Shopping Personal Finance Ltd	100%		4	
Horizon Capital 2000 Ltd	100%		17	
Horizon Capital Ltd	100%		17	
Horizon Hotel Investments Ltd (in liquidation)	100%		78	
Horizon Property Investments Ltd (in liquidation)	100%		78	
Horizon Resources Ltd	100%		17	
Horsham Investments Ltd	100%		6	
Housing Growth Partnership GP LLP	n/a		1	* ^

Housing Growth Partnership LP	n/a		1	* # ^
Housing Growth Partnership Ltd	100%		1	i
	100%			ii
Housing Growth Partnership Manager Ltd	100%		1	^
HSDL Nominees Ltd	100%		4	
HVF Ltd	100%		2	
Hyundai Car Finance Ltd	100%		7	i
	100%			ii
IAI International Ltd	100%		1	^
IBOS Finance Ltd	100%		2	
IBOS Securities	n/a		+	*
ICC Enterprise Partners Ltd (in liquidation)	100%		32	
ICC Equity Partners Ltd (in liquidation)	100%		32	
ICC ESOP Trustee Ltd	100%		33	
ICC Holdings Unlimited Company	99.09%	(100%)	16	
ICC Software Partners Ltd (in liquidation)	100%		33	
IF Covered Bonds Limited Liability Partnership	n/a		4	*
Inchcape Financial Services Ltd	100%		2	i #
Industrial Real Estate (General Partner) Ltd	100%		34	
Industrial Real Estate (Nominee) Ltd	100%		34	
Intelligent Finance Financial Services Ltd	100%		4	
Intelligent Finance Software Ltd	100%		4	
International Motors Finance Ltd	100%		2	i #
IWEB (UK) Ltd (in liquidation)	100%		13	
Kanaalstraat Funding C.V.	n/a		35	*
Kanto Leasing Ltd	100%		1	
Katrine Leasing Ltd	100%		36	
Langbourn Holdings Ltd	99.99%	(100%)	37	
LB Comhold Ltd	100%		1	^
LB Healthcare Trustee Ltd	100%		1	^
LB Leasing L.P	n/a		38	*
LB Mortgages Ltd	100%		1	
LB Motorent Ltd	100%		1	
LB Quest Ltd	100%		1	^
LB Share Schemes Trustees Ltd	100%		1	^
LBCF Ltd	100%		9	
LBI Leasing Ltd	100%		1	
LDC (Asia) Ltd (in liquidation)	100%		39	
LDC (General Partner) Ltd	100%		40	
LDC (Managers) Ltd	100%		40	
LDC (Nominees) Ltd	100%		40	
LDC Carry VI LP	n/a		41	*
LDC Equity VI LP	n/a		41	*
LDC GP LLP	n/a		41	*
LDC I LP	n/a		41	*
LDC II LP	n/a		41	*
LDC III LP	n/a		41	*
LDC IV LP	n/a		41	*
LDC Parallel (Nominees) Ltd	100%		40	
LDC Parallel VI LP	n/a		41	*
LDC Ventures Carry Ltd	100%		40	
LDC Ventures Trustees Ltd	100%		40	
LDC V LP	n/a		41	*
LDC VI LP	n/a		41	*
Leasing (No. 2) Ltd	100%		1	
Legacy Renewal Company Ltd	99.99%	(100%)	5	
Lex Autolease (CH) Ltd	100%		1	
Lex Autolease (FMS) Ltd (in liquidation)	100%		1	
Lex Autolease (Shrewsbury) Ltd (in liquidation)	100%		13	
	100%			iv
	100%			v
Lex Autolease (VC) Ltd	100%		1	
Lex Autolease (VL) Ltd (in liquidation)	100%		13	
Lex Autolease Carselect Ltd	100%		1	
Lex Autolease Ltd	100%		1	
Lex Vehicle Finance 2 Ltd	100%		2	
Lex Vehicle Finance 3 Ltd	100%		2	
Lex Vehicle Finance Ltd	100%		2	
Lex Vehicle Leasing (Holdings) Ltd	100%		2	i
	100%			ii
	100%			x
Lex Vehicle Leasing Ltd	100%		2	
Lex Vehicle Partners (1) Ltd	100%		2	
Lex Vehicle Partners (2) Ltd	100%		2	
Lex Vehicle Partners (3) Ltd	100%		2	
Lex Vehicle Partners (4) Ltd	100%		2	
Lex Vehicle Partners Ltd	100%		2	
Lime Street (Funding) Ltd	100%		1	
Lloyds (FDC) Company	99%	(100%)	1	
Lloyds (General Partner) Ltd	100%		6	
Lloyds (Gresham) Ltd	100%		1	^
	100%			x
Lloyds (Gresham) No. 1 Ltd	100%		1	^
Lloyds (Nimrod) Leasing Industries Ltd (in liquidation)	100%		1	
Lloyds (Nimrod) Specialist Finance Ltd	100%		1	
Lloyds America Securities Corporation	100%		14	^
Lloyds Asset Leasing Ltd	100%		1	
Lloyds Bank (BLSA)	50%	(100%)	1	^

Subsidiaries and related undertakings

Lloyds Bank (Branches) Nominees Ltd	100%		1	^
Lloyds Bank (Colonial & Foreign) Nominees Ltd	100%		1	^
Lloyds Bank (Fountainbridge 1) Ltd	100%		5	
Lloyds Bank (Fountainbridge 2) Ltd	100%		5	
Lloyds Bank (Gibraltar) Ltd	100%		42	
Lloyds Bank (I.D.) Nominees Ltd	100%		1	^
Lloyds Bank (PEP Nominees) Ltd	100%		1	^
Lloyds Bank (Stock Exchange Branch) Nominees Ltd	100%		1	^
Lloyds Bank Asset Finance Ltd	100%		1	^
Lloyds Bank Commercial Finance Ltd	100%		9	^
Lloyds Bank Commercial Finance Scotland Ltd	100%		43	
Lloyds Bank Corporate Asset Finance (HP) Ltd	100%		1	
Lloyds Bank Corporate Asset Finance (No.1) Ltd	100%		1	
Lloyds Bank Corporate Asset Finance (No. 2) Ltd	100%		1	
Lloyds Bank Corporate Asset Finance (No.3) Ltd	100%		1	
Lloyds Bank Corporate Asset Finance (No.4) Ltd	100%		1	
Lloyds Bank Covered Bonds LLP	n/a		44	* ^
Lloyds Bank Equipment Leasing (No. 1) Ltd	100%		1	
Lloyds Bank Equipment Leasing (No. 2) Ltd (in liquidation)	100%		13	
Lloyds Bank Equipment Leasing (No. 5) Ltd	100%		1	
Lloyds Bank Equipment Leasing (No. 7) Ltd	100%		1	
Lloyds Bank Equipment Leasing (No. 9) Ltd	100%		1	
Lloyds Bank Equipment Leasing (No. 10) Ltd	100%		1	
Lloyds Bank Equipment Leasing (No. 11) Ltd	100%		1	
Lloyds Bank Financial Advisers Ltd	100%		1	i
	100%			ii
Lloyds Bank Financial Services (Holdings) Ltd	99.99%	(100%)	1	^
	0%	(100%)		iv
Lloyds Bank General Insurance Holdings Ltd	100%		45	
Lloyds Bank General Insurance Ltd	100%		1	
Lloyds Bank General Leasing (No. 1) Ltd (in liquidation)	100%		1	
Lloyds Bank General Leasing (No. 3) Ltd	100%		1	
Lloyds Bank General Leasing (No. 5) Ltd	100%		1	
Lloyds Bank General Leasing (No. 9) Ltd (in liquidation)	100%		13	^
Lloyds Bank General Leasing (No. 11) Ltd	100%		1	
Lloyds Bank General Leasing (No. 17) Ltd	100%		1	
Lloyds Bank General Leasing (No. 18) Ltd	100%		1	
Lloyds Bank General Leasing (No. 20) Ltd	100%		1	
Lloyds Bank GF (Holdings) Ltd (in liquidation)	100%		13	^
Lloyds Bank Hill Samuel Holding Company Ltd	100%		1	^
Lloyds Bank Insurance Services (Direct) Ltd	100%		1	
Lloyds Bank Insurance Services Ltd	100%		1	
Lloyds Bank International Ltd	100%		6	
Lloyds Bank Leasing (No. 3) Ltd	100%		1	
Lloyds Bank Leasing (No. 4) Ltd	100%		1	
Lloyds Bank Leasing (No. 6) Ltd	100%		1	
Lloyds Bank Leasing (No. 7) Ltd (in liquidation)	100%		1	
Lloyds Bank Leasing (No. 8) Ltd	100%		1	
Lloyds Bank Leasing Ltd	100%		1	^
Lloyds Bank Maritime Leasing (No. 2) Ltd (in liquidation)	100%		1	
Lloyds Bank Maritime Leasing (No. 3) Ltd (in liquidation)	100%		13	
Lloyds Bank Maritime Leasing (No. 8) Ltd	100%		1	
Lloyds Bank Maritime Leasing (No. 10)Ltd	100%		1	
Lloyds Bank Maritime Leasing (No. 12)Ltd	100%		1	
Lloyds Bank Maritime Leasing (No. 13)Ltd	100%		1	
Lloyds Bank Maritime Leasing (No. 15)Ltd	100%		1	
Lloyds Bank Maritime Leasing (No.16) Ltd	100%		1	
Lloyds Bank Maritime Leasing (No. 17)Ltd	100%		1	
Lloyds Bank Maritime Leasing (No. 18)Ltd	100%		1	
Lloyds Bank Maritime Leasing Ltd	100%		1	
Lloyds Bank Mtch Ltd	100%		1	^
Lloyds Bank Nominees Ltd	100%		1	
Lloyds Bank Offshore Pension Trust Ltd	91%	(100%)	6	^
Lloyds Bank Pension ABCS (No. 1) LLP	n/a		1	* ^
Lloyds Bank Pension ABCS (No. 2) LLP	n/a		1	* ^
Lloyds Bank Pension Trust (No. 1) Ltd	100%		1	^
Lloyds Bank Pension Trust (No. 2) Ltd	100%		1	^
Lloyds Bank Pensions Property (Guernsey) Ltd	100%		37	i
	100%			ii
Lloyds Bank Private Banking Ltd	100%		1	^
Lloyds Bank Properties Ltd	100%		1	^
Lloyds Bank Property Company Ltd	100%		1	
Lloyds Bank S.F. Nominees Ltd	100%		1	
Lloyds Bank Subsidiaries Ltd	100%		1	^
	100%			iv
Lloyds Bank Trust Company (International) Ltd	100%		1	^
Lloyds Bank Trustee Services Ltd	100%		1	^
Lloyds Banking Group Pensions Trustees Ltd	100%		1	
Lloyds Capital 2 L.P	n/a		6	*
Lloyds Commercial Leasing Ltd	100%		1	
Lloyds Commercial Properties Ltd	100%		1	^
Lloyds Commercial Property Investments Ltd	100%		1	
Lloyds Corporate Services (Jersey) Ltd	100%		6	
Lloyds Development Capital (Holdings) Ltd	100%		40	^
Lloyds Engine Capital (No.1) U.S LLC	100%		14	^
Lloyds Far East Ltd	100%		46	
Lloyds Financial Leasing Ltd (in liquidation)	100%		1	
Lloyds General Leasing Ltd	100%		1	
Lloyds Group Holdings (Jersey) Ltd	99.4%	(100%)	47	i#^
	100%			ii
	100%			vii
Lloyds Holdings (Jersey) Ltd	100%		6	
Lloyds Industrial Leasing Ltd	100%		1	
Lloyds International Pty Ltd	100%		8	
Lloyds Investment Bonds Ltd	100%		1	
Lloyds Investment Fund Managers Ltd	100%		6	
Lloyds Investment Securities No.5 Ltd	100%		1	
Lloyds Leasing (North Sea Transport) Ltd	100%		1	
Lloyds Leasing Developments Ltd	100%		1	
Lloyds Merchant Bank Asia Ltd	100%		31	
	100%			iv
Lloyds Nominees (Guernsey) Ltd	98%	(100%)	37	
Lloyds Offshore Global Services Private Ltd	99.99%	(100%)	48	
Lloyds Participacoes Ltda	99.99%	(100%)	49	
Lloyds Plant Leasing Ltd	100%		1	
Lloyds Portfolio Leasing Ltd	100%		1	
Lloyds Premises Investments Ltd	100%		1	^
Lloyds Project Leasing Ltd	100%		1	
Lloyds Property Investment Company Ltd (in liquidation)	100%		13	
Lloyds Property Investment Company No. 3 Ltd	100%		1	
Lloyds Property Investment Company No. 4 Ltd	100%		1	^
Lloyds Property Investment Company No.5 Ltd	100%		1	
Lloyds Secretaries Ltd	100%		1	
Lloyds Securities Inc.	100%		50	
Lloyds Trade & Project Finance Ltd (in strike off)	100%		1	^
Lloyds Trust Company (Gibraltar) Ltd	100%		42	^
Lloyds TSB Fomento Comercial Ltda	100%		49	
Lloyds TSB Pacific Ltd	99.99%	(100%)	51	
Lloyds TSB Rail Capital Inc.	100%		14	
Lloyds UDT Asset Leasing Ltd	100%		1	
Lloyds UDT Asset Rentals Ltd	100%		1	
Lloyds UDT Business Development Ltd	100%		1	
Lloyds UDT Business Equipment Ltd	100%		1	
Lloyds UDT Hiring Ltd	100%		1	
Lloyds UDT Leasing Ltd	100%		1	
Lloyds UDT Ltd	100%		1	
Lloyds UDT Rentals Ltd (in liquidation)	100%		52	
Lloyds Your Tomorrow Trustee Ltd	100%		1	^
London Taxi Finance Ltd	100%		1	i
	100%			ii
London Uberior (L.A.S. Group) Nominees Ltd	n/a		5	*
Lothian Road LLC	100%		25	
Lotus Finance Ltd	100%		81	i #
LTGP Limited Partnership Incorporated	n/a		37	*
Lovat Funding Holdings Ltd (in liquidation)	100%		13	
Maritime Leasing (No.7) Ltd (in liquidation)	100%		13	
Maritime Leasing (No.11) Ltd (in liquidation)	100%		13	
Maritime Leasing (No. 19) Ltd	100%		1	
Meadowfield Investments Ltd	100%		5	
Membership Services Finance Ltd	100%		4	
Mitre Street Funding Ltd	100%		6	^
Moor Lane Holdings Ltd	100%		6	
Moray Investments Ltd	100%		20	
Morrison Street LLC	100%		25	
Murrayfield LLC	100%		25	
Nevis Leasing Ltd	74%		36	#
Newfont Ltd	100%		20	
NFU Mutual Finance Ltd	100%		2	i #
	100%			vii
Nominees (Jersey) Ltd	100%		6	
Nordic Leasing Ltd	100%		1	
NWS 2	n/a		+	*
NWS Trust Ltd	100%		5	
Ocean Leasing (July) Ltd	100%		1	
Ocean Leasing (No 1) Ltd	100%		1	
Ocean Leasing (No 2) Ltd	100%		1	
Omnistone Ltd (in liquidation)	100%		32	i
	100%			ii
	98%	(100%)		vii
Oystercatcher LP	n/a		20*	
Oystercatcher Nominees Ltd	100%		20	
Oystercatcher Residential Ltd	100%		20	
Pacific Leasing Ltd	100%		1	
Pensions Management (S.W.F.) Ltd	100%		54	
Peony Eastern Leasing Ltd	100%		1	
Peony Leasing Ltd	100%		1	
Peony Western Leasing Ltd	100%		1	
Perry Nominees Ltd	100%		1	^
PIPS Asset Investments Ltd	100%		1	i
	0%	(100%)		ii
Portland Funding Ltd	100%		1	^

Prestonfield Investments Ltd	100%		5	
Prestonfield P1 Ltd	100%		5	
Prestonfield P2 Ltd	100%		5	
Prestonfield P3 Ltd	100%		5	
Proton Finance Ltd	99.99%	(100%)	7	ii #
Quion 6 BV	100%		55	
R.F. Spencer And Company Ltd	100%		2	^
Ranelagh Nominees Ltd	100%		1	^
Retail Revival (Burgess Hill) Investments Ltd	100%		1	
Saint Michel Holding Company No1	100%		28	
Saint Michel Investment Property	99%	(100%)	28	
Saint Witz 2 Holding Company No1	100%		28	
Saint Witz 2 Investment Property	99%	(100%)	28	
Saleslease Purchase Ltd	100%		17	
Savban Leasing Ltd	100%		1	
Scotland International Finance B.V.	100%		21	
Scotland International Finance No. 2 B.V. (in liquidation)	100%		21	
Scotmar Commercial Equipment Finance Ltd	100%		2	i #
Scottish Widows (Port Hamilton) Ltd	100%		54	
Scottish Widows Active Management Fund	n/a		3	*
Scottish Widows Administration Services Ltd	100%		1	
Scottish Widows Annuities Ltd	100%		3	
Scottish Widows Bank plc	100%		3	
Scottish Widows Financial Services Holdings	100%		54	
Scottish Widows Fund and Life Assurance Society	n/a		54	*
Scottish Widows Fund Management Ltd	100%		54	
Scottish Widows Group Ltd	100%		3	i ^
	0%	(100%)		ii
	100%			iv
	0%	(100%)		x
Scottish Widows Industrial Properties Europe B.V.	100%		56	
Scottish Widows Ltd	100%		1	
Scottish Widows Pension Trustees Ltd	100%		3	
Scottish Widows Property Management Ltd	100%		54	
Scottish Widows Services Ltd	100%		3	
Scottish Widows Trustees Ltd	100%		54	
Scottish Widows Unit Funds Ltd	100%		3	
Scottish Widows Unit Trust Managers Ltd	100%		45	
Seabreeze Leasing Ltd	100%		1	
Seadance Leasing Ltd (in liquidation)	100%		13	
Seaforth Maritime (Highlander) Ltd	100%		17	
Seaforth Maritime (Jarl) Ltd	100%		17	
Seaspirit Leasing Ltd	100%		1	
Seaspray Leasing Ltd	100%		1	
Services LB (No. 2) Ltd (in liquidation)	100%		1	^
	100%			iv
Services LB (No. 3) Ltd (in strike off)	100%		1	^
Services LB (No. 4) Ltd (in strike off)	100%		1	^
	100%			iv
Share Dealing Nominees Ltd	100%		4	
Shibden Dale Ltd (in liquidation)	100%		13	
Shogun Finance Ltd	100%		7	ii #
Silentdale Ltd	100%		1	iv
	100%			vi
	100%			vi
St Andrew's Group Ltd	99.99%	(100%)	20	
St Andrew's Insurance plc	99.99%	(100%)	20	
St Andrew's Life Assurance plc	99.99%	(100%)	20	
St. Mary's Court Investments	100%		1	
Standard Property Investment (1987) Ltd	100%		17	i
	100%			ii
Standard Property Investment Ltd	60.34%		57	#
Starfort Ltd	100%		20	
Sussex County Homes Ltd	100%		4	
Suzuki Financial Services Ltd	100%		81	i #
SW No.1 Ltd	100%		3	
SWAMF (GP) Ltd	100%		20	
SWAMF Nominee (1) Ltd	100%		20	
SWAMF Nominee (2) Ltd	100%		20	
SW Funding plc	99.99%	(100%)	3	#
SWUF Nominee 1 Ltd	100%		47	
SWUF Nominee 2 Ltd	100%		47	
SWUF Nominee 3 Ltd	100%		47	
SWUF Nominee 4 Ltd	100%		47	
Tantallon Investments, Inc.	100%		50	
Target Corporate Services Ltd	100%		1	
The Agricultural Mortgage Corporation plc	99.99%	(100%)	45	^
The British Linen Company Ltd	99.98%	(100%)	5	
The Mortgage Business plc	99.99%	(100%)	4	
Thistle Leasing	n/a		+	*
Three Copthall Avenue Ltd	99%	(100%)	1	^
Tower Hill Property Investments (7) Ltd	90%		2	#
Tower Hill Property Investments (10) Ltd	90%		2	#
Tranquility Leasing Ltd	100%		1	
Uberior (Moorfield) Limited	100%		17	
Uberior Canada LP Ltd	100%		60	
Uberior Co-Investments Ltd	100%		17	
Uberior ENA Ltd	100%		17	
Uberior Equity Ltd	100%		17	
Uberior Europe Ltd	100%		5	
Uberior Fund Investments Ltd	100%		17	
Uberior Infrastructure Investments Ltd	100%		17	
Uberior Infrastructure Investments (No.2) Ltd	100%		1	
Uberior Investments Ltd	99%	(100%)	17	
Uberior ISAF CIP 2007 L.P	n/a		61	*
Uberior Nominees Ltd	n/a		5	*
Uberior Trading Ltd	99%	(100%)	17	
Uberior Trustees Ltd	n/a		5	*
Uberior Ventures Australia Pty Ltd	100%		8	
Uberior Ventures Ltd	100%		5	
UDT Autolease Ltd	100%		1	
UDT Budget Leasing Ltd	100%		1	
UDT Ltd	100%		1	
UDT Sales Finance Ltd	100%		1	
United Dominions Leasing Ltd	100%		1	
United Dominions Trust Ltd	100%		1	
Upsaala Ltd	100%		16	^
Vehicle Leasing (1) Ltd	100%		2	
Vehicle Leasing (2) Ltd	100%		2	
Vehicle Leasing (3) Ltd	100%		2	
Vehicle Leasing (4) Ltd	100%		2	
Ward Nominees (Abingdon) Ltd	100%		1	^
Ward Nominees (Birmingham) Ltd	100%		1	^
Ward Nominees (Bristol) Ltd	100%		1	^
Ward Nominees Ltd	100%		1	^
Warwick Leasing Ltd	100%		2	
Waverley – BOCA LLC	100%		25	
Waverley – Fund II Investor LLC	100%		25	
Waverley – Fund III Investor LLC	100%		25	
Waverley – Wilshire Rodeo LLC	100%		25	
Waymark Asset Investments Ltd	100%		1	i
	0%	(100%)		ii
WCS Ltd	100%		62	
West Craigs Ltd	100%		17	
Western Trust & Savings Holdings Ltd	100%		4	
Western Trust Holdings Ltd	100%		4	
Whitestar Securities Ltd (in liquidation)	100%		1	ii
	100%			xi
Wood Street Leasing Ltd	100%		1	

Subsidiary undertakings (continued)

The Group has determined that it has the power to exercise control over the following entities without having the majority of the voting rights of the undertakings. Unless otherwise stated, the undertakings do not have share capital or the Group does not hold any shares.

Name of undertaking	Notes
Addison Social Housing Holdings Ltd	63
ARKLE Finance Trustee Ltd	10
ARKLE Funding (No. 1) Ltd	64
ARKLE Holdings Ltd	64
ARKLE Master Issuer plc	64
ARKLE PECOH Holdings Ltd	64
ARKLE PECOH Ltd	64
Cancara Asset Securitisation Ltd	65
Candide Financing 2006 BV	66
Candide Financing 2007 NHG BV	66
Candide Financing 2008-1 BV	66
Candide Financing 2008-2 BV	66
Candide Financing 2011-1 BV	66
Candide Financing 2012-1 BV	66
Celsius European Lux 2 SARL	24
Chepstow Blue Holdings Ltd	44
Chepstow Blue plc	44
Clerical Medical Non Sterling Arts FSA	67
Clerical Medical Non Sterling Arts LSA	67
Clerical Medical Non Sterling Guadalix Hold Co BV	68
Clerical Medical Non Sterling Guadalix Spanish Prop Co SL	69
Clerical Medical Non Sterling Megapark Hold Co BV	68
Clerical Medical Non Sterling Megapark Prop Co SA	69
Computershare Trustees (Jersey) Ltd	47
Coral Palm Ltd	83
Craig Financing Holdings Ltd	44
Deva Financing Holdings Ltd	44
Deva Financing plc	44
Dewcrown Ltd	83
Edgbaston RMBS 2010-1 plc	44
Edgbaston RMBS Holdings Ltd	44
Farnham Funding Ltd	82
Fontwell Securities 2016 Ltd	63
Gresham Receivables (No. 1) Ltd	65
Gresham Receivables (No. 3) Ltd	65
Gresham Receivables (No. 10) Ltd	65
Gresham Receivables (No.11) UK Ltd	71
Gresham Receivables (No. 12) Ltd	65

Gresham Receivables (No. 13) UK Ltd	71
Gresham Receivables (No. 14) UK Ltd	71
Gresham Receivables (No. 15) UK Ltd	71
Gresham Receivables (No. 16) UK Ltd	71
Gresham Receivables (No. 19) UK Ltd	71
Gresham Receivables (No. 20) Ltd	65
Gresham Receivables (No. 21) Ltd	65
Gresham Receivables (No. 22) Ltd	65
Gresham Receivables (No. 23) Ltd	65
Gresham Receivables (No. 24) Ltd	65
Gresham Receivables (No. 25) UK Ltd	71
Gresham Receivables (No. 26) UK Ltd	71
Gresham Receivables (No.27) UK Ltd	71
Gresham Receivables (No. 28) Ltd	65
Gresham Receivables (No. 29) Ltd	65
Gresham Receivables (No. 30) UK Ltd	71
Gresham Receivables (No. 31) UK Ltd	71
Gresham Receivables (No. 32) UK Ltd	71
Gresham Receivables (No. 33) UK Ltd	71
Gresham Receivables (No. 34) UK Ltd	71
Gresham Receivables (No. 35) Ltd	65
Gresham Receivables (No.36) UK Ltd	71
Gresham Receivables (No.37) UK Ltd	71
Gresham Receivables (No.38) UK Ltd	71
Gresham Receivables (No.39) UK Ltd	71
Gresham Receivables (No.40) UK Ltd	71
Gresham Receivables (No.41) UK Ltd	71
Gresham Receivables (No.42) Ltd	65
Gresham Receivables (No.44) UK Ltd	71
Gresham Receivables (No.45) UK Ltd	71
Gresham Receivables (No.46) UK Ltd	71
Guildhall Asset Purchasing Company (No 3) Ltd	65
Guildhall Asset Purchasing Company (No.11) UK Ltd	71
Hart 2014-1 Ltd	63
Headingley RMBS 2011-1 Holdings Ltd	44
Leicester Securities 2014 Ltd	73
Lingfield 2014 I Holdings Ltd	44
Lingfield 2014 I plc	44
Lloyds Bank Covered Bonds (Holdings) Ltd	44
Lloyds Bank Covered Bonds (LM) Ltd	44
Molineux RMBS 2016-1 plc	44
Molineux RMBS Holdings Ltd	44
Penarth Asset Securitisation Holdings Ltd	44
Penarth Funding 1 Ltd	63
Penarth Funding 2 Ltd	63
Penarth Master Issuer plc	44
Penarth Receivables Trustee Ltd	63
Permanent Funding (No. 1) Ltd	44
Permanent Funding (No. 2) Ltd	44
Permanent Holdings Ltd	44
Permanent Master Issuer plc	44
Permanent Mortgages Trustee Ltd	44
Permanent PECOH Holdings Ltd	44
Permanent PECOH Ltd	44
Salisbury Securities 2015 Ltd	63
Salisbury II Securities 2016 Ltd	63
Sandown 2012-2 Holdings Ltd	44
Sandown 2012-2 plc	44
Sandown Gold 2011-1 Holdings Ltd	44
Sandown Gold 2011-1 plc	44
Sandown Gold 2012-1 Holdings Ltd	44
Sandown Gold 2012-1 plc	44
Sandown Gold plc	72
SARL Coliseum	77
SARL Fonciere De Rives	77
SARL Hiram	77
SAS Compagnie Fonciere De France,	77
SCI Astoria Invest	77
SCI De L'Horloge	77
SCI Equinoxe	77
SCI Mercury Invest	77
SCI Millenium AP1	77
SCI Norli	77
SCI Rambuteau CFF	77
Stichting Candide Financing Holdings	66
Swan Funding 2 Ltd	63
The Hual Carolita Limited Partnership	74
The SAFA 0494 Limited Partnership (to be placed into liquidation)	75
Thistle Investments (AMC) Ltd	44
Thistle Investments (ERM) Ltd	44
Trinity Financing Holdings Ltd	44
Trinity Financing plc	44

Associated undertakings

The Group has a participating interest in the following undertakings.

Name of undertaking	% of share class held by immediate parent company (or by the Group where this varies)	Registered office address (UK unless stated otherwise)	Notes
Aceso Healthcare Group Holdings Ltd	27.5%	Sherwood House, Cartwright Way, Forest Business Park, Brandon Hill, Coalville, LE67 1UB	
Addison Social Housing Holdings Ltd	20%	35 Great St Helen's, London, EC3A 6AP	
Adler & Allan Group Ltd	43.6%	80 Station Parade, Harrogate, HG1 1HQ	
A-Gas (Orb) Ltd	55.2%	Baynard Road, Portbury, Bristol, BS20 7XH	&
Agora Shopping Centres Ltd (in receivership)	50%	Hill House, 1 Little New Street, London, EC4A 3TR	ii
Airline Services And Components Group Ltd	46.2%	Canberra House, Robeson Way, Sharston Green Business Park, Manchester, M22 4SX	
Angus International Safety Group Ltd	48.1%	Station Road, High Bentham, Near Lancaster, LA2 7NA	
Antler Ltd	49.1%	Northdown House, 11-21 Northdown Street, London, N1 9BN	
Applied Composites Group Ltd	49.5%	Victoria Works, Thrumpton Lane, Retford, DN22 6HH	
Aqualisa Holdings (International) Ltd	72.5%	Westerham Trade Centre, The Flyers Way, Westerham, TN16 1DE	&
Aspin Group Holdings Ltd	35.6%	Nexus House Boundary Way, Hemel Hempstead Industrial Estate, Hemel Hempstead, England, HP2 7SJ	
Aspire Oil Services Ltd	28.4%	Union Plaza, 6th Floor, 1 Union Wynd, Aberdeen, AB10 1DQ	
Atcore Technology Group Ltd	71.2%	353 Buckinghamshire Avenue, Slough, Berkshire, SL1 4PF	&
Australand Apartments No.6 Pty Ltd	50%	Level 3, 1 Chomebush Bay Drive, Rhodes, NSW 2138, Australia	
Australand Residential Investments Pty Ltd	50%	Level 3, 1 Chomebush Bay Drive, Rhodes, NSW 2138, Australia	
Australand Residential Trust	50%	Level 3, 1 Chomebush Bay Drive, Rhodes, NSW 2138, Australia	
AVJBOS Nominees Proprietary Ltd	50%	Ground Floor, 1 Lakeside Drive, Burwood East, VIC 3151, Australia	
Bacchus Newco Ltd	52.7%	The Grange, Harnett Drive, Wolverton Mill, Milton Keynes, Buckinghamshire, MK12 5NE	&
Bergamot Ventures Ltd	45%	6th Floor 25 Farringdon Street, London, EC4A 4AB	ii
Bluestone Consolidated Holdings Ltd	88.4%	Newnham Mill, Newnham Road, Cambridge, CB3 9EY	&
BoS Mezzanine Partners Fund LP	n/a	7 Melville Crescent, Edinburgh, EH3 7JA	*
Brington North Holdco Ltd	50%	25 Gresham Street, London, EC2V 7HN	&
Business Growth Fund plc	24.3%	13-15 York Buildings, London, England, WC2N 6JU	
Bybox Group Holdings Ltd	47.3%	1-2 Cherry Barn, High Street, Harwell, Oxford, OX11 0EY	
Capital Economics Research Ltd	31.2%	100 Victoria Street, London, England, SW1E 5JL	
Cary Towne Parke Holdings LLC	98%	Jeffrey Cohen, 1066 Woodward Avenue, Detroit, MI 48226, United States	
Cary Towne Parke LLC	100%	National Registered Agents Inc., 150 Fayetteville Street, Raleigh, NC 2782, United States	
Caspian Media Holdings	88.4%	Unit G4, Harbour Yard, Chelsea Harbour, London, SW10 0DX	&
CIPHR Group Ltd	40.2%	Abbey House, Chapel Street, Marlow, SL7 1DD	
City & General Securities Ltd	100%	10 Upper Berkeley Street, London, W1H 7PE	ii
Citysprint (UK) Holdings Ltd	30.8%	Ground Floor, Redcentral, 60 High Street, Redhill, RH1 1SH	
Clifford Thames (Topco) Ltd	50.3%	Springfield Lyons House, Chelmsford Business Park, Chelmsford, CM2 5TH	&
CMS Acquisitions Company Ltd	36.7%	Caisteal Road, Castlecary, Cumbernauld, Glasgow, G88 0FS	
Cobaco Holdings Ltd	50.3%	Cobaco House, North Florida Road, Haydock Industrial Estate, Merseyside, WA11 9TP	&
Connect Managed Holdings Ltd	58.8%	Abbey Place, 24-28 Easton Street., High Wycombe, HP11 1NT	&

Connery Ltd	20%	44 Esplanade St Helier Jersey JE4 9WG	
Continental Shelf 225 Ltd (in liquidation)	100%	4 Mount Ephraim Road, Tunbridge Wells, Kent, TN1 1EE	i
Continental Shelf 291 Ltd (in liquidation)	100%	4 Mount Ephraim Road, Tunbridge Wells, Kent, TN1 1EE	i
Craig Finance Ltd	20%	35 Great St. Helen's, London, EC3A 6AP	
CTI Holdings Ltd	53.6%	47 Esplanade St Helier Jersey JE1 0BD	&
Cuts Ice Holdings Ltd	32.1%	Level 1, Devonshire House, Mayfair Place, London, W1J 8AJ	
D.U.K.E Real Estate Ltd	100%	1st Floor, Exchange Place, 3 Semple Street, Edinburgh, EH3 8BL	i
Dale Erskine Power Solutions Ltd	74.3%	Eastfield Industrial Estate, Salter Road, Scarborough, North Yorkshire, YO11 3DU	&
Delancey Arnold UK Ltd (in liquidation)	50%	105 St Peters Street, St Albans, AL1 3EJ	
Devonshire Homes (Cullompton) Ltd	25%	Devonshire House, Lowman Green, Tiverton, Devon, EX16 4LA	i
Devonshire Homes (Landkey) Limited	25%	Devonshire House, Lowman Green, Tiverton, Devon, EX16 4LA	
Dino Newco Ltd	34.5%	Unit 2, Orchard Place, Nottingham Business Park, Nottingham, NG8 6PX	
Duchy Homes (Penistone) Ltd	21.5%	Middleton House, Westland Road, Leeds, West Yorkshire, LS11 5UH	
Duchy Homes (Scawthorpe) Ltd	21.5%	Middleton House, Westland Road, Leeds, West Yorkshire, LS11 5UH	
EDM Business Services Holdings Ltd	65.3%	Queens House, 8-9 Queen Street, London, EC4N 1SP	&
Eley Group Ltd	70.8%	Selco Way, Off First Avenue, Minworth Industrial Estate, Minworth, Sutton Coldfield, B76 1BA	&
Ellis Whittam (Holdings) Ltd	40.2%	Woodhouse, Aldford, Chester, CH3 6JD	
EPI-V Equity LP	n/a	1st Floor 67 Leigh Road, Eastleigh, SO50 9DF	*
EPI-V Equity Investments LP	n/a	1st Floor 67 Leigh Road, Eastleigh, SO50 9DF	*
Equiom Holdings Ltd	51.1%	Jubilee Buildings, Victoria Street, Douglas, Isle of Man, IM 1 2SH	&
Europa Property Company (Northern) Ltd	100%	Europa House, 20 Esplanade, Scarborough, North Yorkshire, YO11 2AQ	vii
European Property Fund (Holdings) Ltd SARL	24.9%	1 Allee Scheffer, Luxembourg, I-25250, Luxembourg	ii
Express Engineering (Group) Ltd	37.4%	Kingsway North, Team Valley Trading Estate, Gateshead, NE11 0EG	
FDL Salterns Ltd	25%	2 Poole Road, Bournemouth, BH2 5QY	
Fern Bay Seaside Village Ltd (in liquidation)	34.48%	Septimus Roe Square, Level 8, 256 Adelaide Terrace, Perth, WA 6000, Australia	
FHR European Ventures LLP	n/a	CMS Cameron Mckenna LLP, 78 Cannon Street, London, EC4N 6AF	*
Forest Holidays Group Ltd	59.3%	Bath Yard, Bath Lane, Moira, Swadlincote, Derbyshire, DE12 6BA	&
Giacom Holdings Ltd	40.6%	1 Priory Court, Saxon Way, Hessle, East Yorkshire, HU13 9PB	
Golfview Apartment Holdings LLC	43.758%	Jeffrey Cohen, 1066 Woodward Avenue, Detroit, MI 48226, United State	
Golfview Apartments LLC	88%	300 South Orange Avenue, Suite 100, Orlando, FL 32801, United States	
Great Wigmore Property Ltd	100%	33 Cavendish Square, London, W1G 0PW	&
HBOS Capital Funding LP,	n/a	Sanne Group, 13 Castle Street, St. Helier, Jersey, JE4 5UT	*
HBOS Capital Funding No. 1 LP	n/a	Sanne Group, 13 Castle Street, St. Helier, Jersey, JE4 5UT	*
HBOS Capital Funding No. 3 LP	n/a	Sanne Group, 13 Castle Street, St. Helier, Jersey, JE4 5UT	*
HBOS Capital Funding No. 4 LP	n/a	Sanne Group, 13 Castle Street, St. Helier, Jersey, JE4 5UT	*
HBOS Euro Finance (Jersey) LP	n/a	Sanne Group, 13 Castle Street, St. Helier, Jersey, JE4 5UT	*
HBOS Sterling Finance (Jersey) LP	n/a	Sanne Group, 13 Castle Street, St. Helier, Jersey, JE4 5UT	*
Hedge End Place (Durkan) LLP	n/a	4 Elstree Gate, Elstree Way, Borehamwood, Hertfordshire, WD6 1JD	*
Hedge End Place Hold Co Ltd	50%	25 Gresham Street, London, EC2V 7HN	&
Helsinki Topco Ltd	16.1%	Granville House, Gatton Park Business Centre, Redhill, Surrey, RH1 3AS	&
ICB Brands Holdings Ltd	58.5%	4 Sceptre House, Hornbeam Square, Hornbeam Business Park, Harrogate, North Yorkshire, HG2 2PB	&
Iglufastnet Ltd	41.9%	2nd Floor, 165 The Broadway, Wimbledon, London, SW19 1NE	
Ingleby (1884) Ltd	76%	Fontana House, Works Road, Letchworth Garden City, SG6 1LD	&
Ingleby (2016) Ltd	41.5%	Unit 22, Lodge Way, Lodge Farm Industrial Estate, Northampton, NN5 7US	
Inprova Group Ltd	21.1%	Unit 2, Olympic Park, Woolston Grange Avenue, Warrington, Cheshire, WA2 0YL	
Kee Safety Group Ltd	20.9%	Unit A2, Cradley Business Park, Overend Road, Cradley Heath, West Midlands, B64 7DW	
Kenmore Capital 2 Ltd (in liquidation)	100%	Grant Thornton UK LLP, 95 Bothwell Street, Glasgow, G2 7JZ	ii
Kenmore Capital 3 Ltd (in receivership)	100%	Grant Thornton UK LLP, 95 Bothwell Street, Glasgow, G2 7JZ	ii
Kenmore Capital Ltd (in liquidation)	100%	Grant Thornton UK LLP, 95 Bothwell Street, Glasgow, G2 7JZ	ii
Keoghs Topco Ltd	22.3%	2 The Parklands, Bolton, Lancashire, BL6 4SE	
Kimberly Holdings Ltd	59.1%	13 Hornbeam Square South, Harrogate, North Yorkshire, HG2 8NB	&
LCP Baby Investors LP (in process of disposal)	n/a	International Corporation Services Ltd, Harbour Place, 2nd Floor, 103 South Church Street, George Town, Grand Cayman, KY1106, Cayman Islands	*
Lesprit Ltd	71%	Apollo House 6 Bramley Road, Mount Farm, Milton Keynes, England, MK1 1PT	&
Lighthouse Healthcare Group Ltd	71.96%	2nd Floor Bezant House, Bradgate Park View, Chellaston, Derbyshire, DE73 5UH	v
	59.71%		i
	77.07%		ii
London Topco Ltd	48.7%	Gloucester Road, Cheltenham, Gloucester, GL51 8NR	
Lothian Fifty (150) Ltd (in liquidation)	100%	55 Baker Street, London, W1U 7EU	i
Magicard Holdings Ltd	69.3%	Waverley House, Hampshire Road, Granby Industrial Estate, Weymouth, DT4 9XD	&
Marvel Newco Ltd	44.1%	Paston House, Princess Street, Norwich, Norfolk, NR3 1AZ	
Mini-Cam Enterprise Ltd	38.3%	Unit 4, Yew Tree Way, Golborne, Warrington, WA3 3FN	
Mitrefinch Holdings Ltd	51.9%	Mitrefinch House, Green Lane Trading Estate, Clifton, York, North Yorkshire, YO30 5YY	&
Morston Assets Ltd (in administration)	20%	KPMG LLP, Arlington Business Park, Theale, Reading, Berkshire, RG7 4SD	
Motability Operations Group plc	20% (40%)	City Gate House, 22 Southwark Bridge Road, London, SE1 9HB	
	20% (40%)		iv
Nevada Topco Ltd	73.2%	National Exhibition Centre, Birmingham, B40 1NT	&
Nexinto Ltd	65.3%	55 Baker Street, London, W1U 7EU	&
Northern Edge Ltd	39.4%	The Beacon, 176 St. Vincent Street, Glasgow, G2 5SG	ii
Omnium Leasing Company	39%	N/A	+
Onapp (Topco) II Ltd	70.1%	The Old Truman Brewery, 91 Brick Lane, London, EC20 2AX	&
Onapp (Topco) Ltd	56.3%	The Old Truman Brewery, 91 Brick Lane, London, EC20 2AX	&
Osprey Aviation Services (UK) Ltd	65.5%	Blackwood House, Union Grove Lane, Aberdeen, AB10 6XU	&
Pacific Shelf 1809 Ltd	66.9%	Seabrook House, Duncombe Street, Bradford, West Yorkshire, BD8 9AJ	&
Panther Partners Ltd	61.4%	16 Kirby Street, London, EC1N 8TS	&
Paw Topco Ltd	46.9%	Birkbecks, Water Street, Skipton, North Yorkshire, BD23 1PB	
PEI Group Topco Ltd	34.9%	140 London Wall, London, EC2Y 5DN	
Personal Touch Holdings Ltd	18.9%	3 Trinity Park, Solihull, West Midlands, B37 7ES	&
Pertemps Network Group Ltd	27.2%	Meriden Hall, Main Road, Meriden, Coventry	
PIHL Equity Administration Ltd	100%	Cavendish House, 18 Cavendish Square, London, W1G 0PJ	ii
PIMCO (Holdings) Ltd	61.9%	Dearing House, 1 Young Street, Sheffield, S1 4UP	&
Power Topco Ltd	54.9%	Roundhouse Road, Faverdale Industrial Estate, Darlington, County Durham DL3 0UR	&
Prestbury 1 Limited Partnership	n/a	Cavendish House, 18 Cavendish Square, London, W1G 0PJ	*
Prestbury Hotel Holdings Ltd (in liquidation)	100%	15 Canada Square, London, E14 5GL	vii
Prestbury Wentworth Holdings Ltd (in liquidation)	100%	KPMG LLP Arlington Business Park, Theale, Reading, RG7 4SD	vii
Prism Medical Healthcare Ltd	65.1%	Unit 4, Jubilee Business Park, Jubilee Way, Grange Moor, West Yorkshire, WF4 4TD	&
Quantel Holdings Ltd	83.1%	Turnpike Road, Newbury, Berkshire, RG14 2NX	&
Ramco Acquisition Ltd	60%	Blackwood House, Union Grove Lane, Aberdeen, AB10 6XU	&

Subsidiaries and related undertakings

Rectory (Aston Clinton) Ltd	23.5%	Rectory House, Thame Road, Haddenham, Aylesbury, Buckinghamshire, HP17 8DA	
Rolls Development UK Ltd (in liquidation)	50%	105 St Peters Street, St Albans, AL1 3EJ	ii
Sapphire Retail Fund Ltd (in liquidation)	50%	Grant Thornton UK LLP, 30 Finsbury Square, London, EC2P 2YU	ii
SHOO 788AA Ltd	73.2%	21-22 Balena Close, Poole, Dorset, BH17 7DX	&
Southport Green Acquisition LLC	50%	1095 Avenue of the Americas, New York, NY 10036, United States	
Specialist People Services Group Ltd	51.6%	7 Bradford Business Park, Kingsgate, Bradford, BD1 4SJ	&
SSP Topco Ltd	54.2%	2nd Floor, G Mill, Dean Clough, Halifax, HX3 5AX	&
Stewart Milne (Glasgow) Ltd	100%	Level 1, Citymark, 150 Fountainbridge, Edinburgh, EH3 9PE	i
Stewart Milne (West) Ltd	100%	Level 1, Citymark, 150 Fountainbridge, Edinburgh, EH3 9PE	i
Stratus (Holdings) Ltd	66.6%	Old Truman Brewery, 91 Brick Lane, London , EC20 2AX	&
Stroma Group Ltd	36.4%	Unit 4, Pioneer Way, Castleford, West Yorkshire, WF10 5QU	
Tantallon Acquisition LLC	100%	Corporation Trust Centre, 1209 Orange Street, Wilmington, DE 19801, United States	
Tantallon Austin Hotel LLC	100%	National Registered Agents Inc., 160 Greentree Drive, Suite 101, Dover, DE19904, United States	
Tantallon Austin LLC	100%	National Registered Agents Inc., 160 Greentree Drive, Suite 101, Dover, DE19904, United States	
Tantallon LLC	50%	Corporation Trust Centre, 1209 Orange Street, Wilmington, DE 19801, United States	
Team 17 Holdings Ltd	29%	Castleview House, Calder Island Way, Wakefield, West Yorkshire, WF2 7AW	
Test Equipment Asset Management Ltd	64%	Unit 1 Waverley Industrial Estate, Hailsham Drive, Harrow, Middlesex, HA1 4TR	&
The Exceed Partnership LP	n/a	Cavendish House, 39-41 Waterloo Street, Birmingham, B2 5PP	*
The Great Wigmore Partnership (G.P.) Ltd	50%	33 Cavendish Square, London, W1G 0PW	
The Great Wigmore Partnership	n/a	33 Cavendish Square, London, W1G 0PW	*
The Moment Content Group Ltd	60.3%	3 Bush Park, Estover, Plymouth, PL6 7RG	&
The Pallet Network Group Limited	35.7%	Prologis Park, Midpoint Way, Minworth, Sutton Coldfield, West Midlands, B76 9EH	
The Scottish Agricultural Securities Corporation plc (in liquidation)	33.33%	Titanium, 1 Kings Inch Place, Renfrew, PA4 8WF	
The Training Grp Holdings Ltd	40.9%	2nd Floor, Waterloo House, Fleets Corner, Waterloo Road, Poole, Dorset, BH17 0HL	
Thistlerow Ltd	25%	Radleigh House 1 Golf Road, Clarkston, Glasgow, G76 7HU	
Thread Real Estate Cary Towne Park LLC	50%	Corporation Trust Centre, 1209 Orange Street, Wilmington, DE 19801, United States	
Thread Real Estate Golfview LLC	50%	Corporation Trust Centre, 1209 Orange Street, Wilmington, DE 19801, United States	
Travellers Cheque Associates Ltd	36%	Belgrave House, 76 Buckingham Palace Road, London, SW1W 9AX	^
Tropical Marine Centre (2012) Ltd	35%	Tropical Marine Centre, Solesbridge Lane, Chorleywood, Herts, WD3 5SX	
United House Group Holdings Ltd	41.5%	26 Kings Hill Avenue, Kings Hill, West Malling, Kent, ME19 4AE	
United Living Group Ltd	70%	Media House, Azalea Drive, Swanley, Kent, BR8 8HU	&
Valad Canadian Partners LP	n/a	44 Chipman Hill, Suite 100, St. John, NB E2L 2A9, Canada	*
Vocalink Holdings Ltd	14.29% (25.11%)	1 Angel Lane, London, EC4R 3AB	^
Vulcan Topco Ltd	55.2%	2 Mountview Court, 310 Friern Barnet Lane, Wheststone, London, N20 0YZ	&
Whitefleet Ltd (in liquidation)	100%	1 More London Place, London, SE1 2AF	i &
Willoughby (873) Ltd	47.4%	Parklands Industrial Estate, Forest Road, Denmead, PO7 6TJ	
Willoughby (880) Ltd	64.3%	IMEX, 575-599 Maxted Road, Hemel Hempstead Industrial Estate, Hemel Hempstead, Herts, HP2 7DX	&
WRG Worldwide Ltd	48.3%	36 Great Titchfield Street, London, W1W 8BQ	
York & Becket Nominees Ltd (in liquidation)	50%	25-28 Bedford Row, London, WC1R 4HE	ii
York & Becket Nominees No.3 Ltd (in liquidation)	50%	25-28 Bedford Row, London, WC1R 4HE	ii
York & Becket Nominees No.4 Ltd (in liquidation)	50%	25-28 Bedford Row, London, WC1R 4HE	ii
Zog Brownfield Ventures Ltd (in administration)	50%	1 More London Place, London, SE1 2AF	

Collective investment vehicles

The following comprises a list of the Group's collective investment vehicles.

Name of undertaking	% of fund held by immediate parent (or by the Group where this varies)	Notes
ABERDEEN INVESTMENT ICVC		8
Aberdeen European Property Share Fund	53.21%	
Aberdeen World Government Bond Fund	85.86%	
Aberdeen Sterling Bond Fund	70.16%	
ABERDEEN INVESTMENTS ICVC II		8
Aberdeen Global Emerging Markets Quantitative Equity Fund	73.47%	
ABERDEEN LIQUIDITY FUND (LUX)		7
Sterling Fund	50.93%	
Euro Fund	32.85%	
Ultra Short Duration Sterling Fund	61.62%	
ABERDEEN PRIVATE EQUITY FUND OF FUNDS (2007) PLC	96.80%	3
ABERDEEN PROPERTY ICVC		8
Aberdeen UK Property Fund	31.39%	
ACS POOLED PROPERTY		2
Scottish Widows Pooled Property ACS Fund	99.88% (100%)	
Scottish Widows Pooled Property ACS Fund2	99.80% (100%)	
BLACKROCK BALANCED GROWTH PORTFOLIO FUND	33.74%	9
BLACKROCK UK SMALLER COMPANIES FUND	22.72%	9
BNY MELLON INVESTMENT FUNDS I		10
Newton Managed Income Fund	31.53%	
BNY MELLON INVESTMENT FUNDS		10
Boston Company US Opportunities Fund	20.06%	
Newton Oriental Fund	42.29%	
BNY MELLON INVESTMENTs FUNDS ICVC		10
Insight Global Multi-Strategy Fund	44.12%	
Insight Global Absolute Return Fund	79.08%	
Newton Multi-Asset Growth Fund (formerly Newton Managed Fund)	29.86%	
Newton UK Opportunities Fund	38.66%	
Newton UK Equity Fund (formerly Newton Income Fund)	22.58%	
DEVONSHIRE ASSETS MANAGED FUNDS PLC		20
Devonshire Conservative Real Return Fund	41.37%	
HBOS ACTIVELY MANAGED PORTFOLIO FUNDS ICVC		1
Diversified Return Fund	94.86%	
Absolute Return Fund	94.08%	
Dynamic Return Fund	96.94%	
HBOS INTERNATIONAL INVESTMENT FUNDS ICVC		1
North American Fund	96.86%	
Far Eastern Fund	82.43%	
European Fund	94.39%	
International Growth Fund	54.44%	
Japanese Fund	96.61%	
HBOS SPECIALISED INVESTMENT FUNDS ICVC		1
Cautious Managed Fund	53.45%	
Ethical Fund	83.78%	
Fund of Investment Trusts	41.28%	
Smaller Companies Fund	66.75%	
Special Situations Fund	52.55%	
HBOS UK INVESTMENT FUNDS ICVC		1
UK Equity Income Fund	63.13%	
UK Growth Fund	63.04%	
UK FTSE All-Share Index Tracking Fund	59.39%	
HBOS PROPERTY INVESTMENT FUNDS ICVC		1
UK Property Fund	40.23%	
HLE ACTIVE MANAGED PORTFOLIO KONSERVATIV	31.06%	18
HLE ACTIVE MANAGED PORTFOLIO DYNAMISCH	51.95%	18
HLE ACTIVE MANAGED PORTFOLIO AUSGEWOGEN	56.45%	18
INSIGHT INVESTMENT FUND OF FUNDS II ICVC		11
Absolute Insight Fund	48.14%	
INVESCO PERPETUAL FAR EASTERN INVESTMENT SERIES		12
Invesco Perpetual Asian Equity Income Fund	25.95%	
JP MORGAN FUND II ICVC		13
JP Morgan Balanced Managed Fund	68.99%	
LDI SOLUTIONS PLUS PLC		19
IIFIG Government Liquidity Fund	29.19%	
MULTI MANAGER ICVC		2
Multi Manager UK Equity Growth Fund	70.69%	
Multi Manager UK Equity Income Fund	24.87%	
Multi Manager UK Equity Focus Fund	23.47%	
Multi Manager Global Real Estate Fund	21.32%	
NORDEA 1		14
Nordea 1 SICAV-GBP Diversified Return Return Fund	45.68%	
RUSSELL INVESTMENT COMPANY PLC		15
Russell Euro Fixed Income Fund	25.73%	

Russell Sterling Bond Fund	27.52%	
Russell U.S. Bond Fund	53.59%	
SCHRODER GILT AND FINXED INTEREST FUND	24.15%	16
SCOTTISH WIDOWS INCOME AND GROWTH FUNDS ICVC		2
UK Index Linked Gilt Fund	100%	
Corporate Bond PPF Fund	100%	
SW Corporate Bond Tracker	100%	
Scottish Widows GTAA 1	82.92%	
Corporate Bond 1 Fund	100%	
Balanced Growth Fund	27.47%	
Adventurous Growth Fund	71.25%	
SCOTTISH WIDOWS INVESTMENT SOLUTIONS FUNDS ICVC		2
Balanced Solution	48.46%	
Cautious Solution	40.82%	
Discovery Solution	48.05%	
Strategic Solution	56.95%	
Dynamic Solution	58.83%	
Defensive Solution	73.86%	
Adventurous Solution	77.50%	
European (ex UK) Equity Fund	95.90%	
Asia Pacific (ex Japan) Equity Fund	98.32%	
Japan Equities Fund	94.44%	
US Equities Fund	99.69%	
Fundamental Index UK Equity Fund	85.40%	
Fundamental Index Global Equity Fund	96.35%	
Fundamental Index Emerging Markets Equity Fund	95.52%	
Fundamental Low Volatility Index Global Equity	100.00%	
Fundamental Low Volatility Index Emerging Markets Equity	95.57%	
Fundamental Low Volatility Index UK Equity	91.08%	
SCOTTISH WIDOWS MANAGED INVESTMENT FUNDS ICVC		2
International Equity Tracker Fund	98.50%	
Balanced Portfolio Fund	82.10%	
Progressive Portfolio Fund	73.17%	
Cautious Portfolio Fund	60.14%	
Cash Fund	98.68%	
Opportunities Portfolio Fund	92.61%	
SCOTTISH WIDOWS OVERSEAS GROWTH INVESTMENT FUNDS ICVC		2
Global Growth Fund	52.39%	
European Growth Fund	89.24%	
American Growth Fund	88.68%	
Pacific Growth Fund	36.36%	
Japan Growth Fund	98.58%	
SCOTTISH WIDOWS TRACKER AND SPECIALIST INVESTMENT FUNDS ICVC		2
UK All Share Tracker Fund	91.56%	
International Bond Fund	65.88%	
UK Smaller Companies Fund	28.20%	
UK Tracker Fund	47.43%	
UK Fixed Interest Tracker Fund	97.98%	
Emerging Markets Fund	90.34%	
UK Index-Linked Tracker Fund	90.22%	
Overseas Fixed Interest Tracker Fund	98.99%	
SCOTTISH WIDOWS UK AND INCOME INVESTMENT FUNDS ICVC		2
UK Corporate Bond Fund	53.65%	
UK Growth Fund	63.32%	
Gilt Fund	96.72%	
High Income Bond Fund	25.32%	
Safety Plus ® Fund	72.01%	
Strategic Income Fund	61.80%	
Environmental Investor Fund	68.92%	
Ethical Fund	71.41%	
SSGA ASIA PACIFIC TRACKER FUND	84.66%	4
SSGA EUROPE (EX UK)	96.00%	4
SSGA UK EQUITY TRACKER FUND	91.64%	4
SSGA NORTH AMERICAN EQUITY FUND	100%	4
SWIP EUROPEAN BALANED PROPERTY FUND	83.988%	5
UNIVERSE, THE CMI GLOBAL NETWORK		6
CMIG GA 70 Flexible	100%	
CMIG GA 80 Flexible	100%	
CMIG GA 90 Flexible	100%	
European Enhanced Equity	100%	
CMIG Access 80%	100%	
Continental Euro Equity	97.54%	
UK Equity	73.27%	
US Enhanced Equity	86.78%	
Japan Enhanced Equity	96.76%	
Pacific Enhanced Basin	78.73%	
Euro Bond	66.52%	
US Bond	93.81%	
US Currency Reserve	78.99%	
Euro Currency Reserve	98.57%	
CMIG Focus Euro Bond	99.97%	
INVESTMENT PORTFOLIO ICVC		2
IPS Growth	20.42%	
THE TM LEVITAS FUNDS		21
TM Levitas A Fund	42.39%	
TM Levitas B Fund	32.86%	
UBS INVESTMENT FUNDS ICVC		17
UBS Global Optimal Fund	27.40%	
UBS UK Opportunities Fund	49.87%	

Principal place of business for collective investment vehicles
(1) Trinity Road, Halifax West Yorkshire, HX1 2RG
(2) 15 Dalkeith Road Edinburgh EH16 5WL
(3) 39/40 Upper Mount Street, Dublin, Ireland
(4) 20 Churchill Place, Canary Wharf, London E14 5HJ
(5) 80 route d'Esch, L-1470 Luxembourg
(6) Lemanik Asset Management S.A 106 route d'Arlon, L-8210 Mamer Luxembourg
(7) 35a avenue John F. Kennedy, L-1855, Luxembourg
(8) ABERDEEN ASSET MANAGERS LTD, 1 BREAD STREET, BOW BELLS HOUSE, LONDON EC4M 9HH
(9) BlackRock Fund Managers Limited, 12 Throgmorton Avenue, London EC2N 2DL
(10) BNY MELLON INVESTMENT FUNDS, BNY MELLON CENTRE, 160 QUEEN VICTORIA STREET, LONDON EC4V 4LA
(11) INSIGHT INVESTMENT MGMT GLOBAL, 160 QUEEN VICTORIA STREET, LONDON EC4V 4LA
(12) Perpetual Park, Perpetual Park Drive, Henley-on-Thames, Oxfordshire, RG9 1HH
(13) JP Morgan Funds Limited, 3 Lochside View, Edinburgh Park, Edinburgh, EH12 9DH
(14) Nordea Investment Funds S.A., 562 rue de Neudorf, L-2220 Luxembourg
(15) 78 SIR JOHN ROGERSON'S QUAY, DUBLIN 2, IRELAND
(16) SCHRODER UNIT TRUSTS LIMITED, 31 GRESHAM STREET, LONDON, EC2V 7QA
(17) UBS INVESTMENT FUNDS ICVC, 21 LOMBARD STREET, LONDON, EC3V 9AH
(18) Oppenheim Asset Management Services S.à r.l. , 2, Boulevard Konrad Adenauer, L-1115 Luxemburg
(19) LDI Solutions Plus plc, 2nd Floor, Beaux Lane House, Mercer Street Lower, Dublin 2, Ireland
(20) GEORGE'S COURT, 54 -62 TOWNSEND STREET, DUBLIN 2, IRELAND
(21) Thesis Unit Trust Management Limited, Exchange Building, St. John's Street, Chichester, West Sussex PO19 1UP

* The undertaking does not have share capital
+ The undertaking does not have a registered office
# In relation to Subsidiary Undertakings, an undertaking external to the Bank holds shares
^ Shares held directly by Lloyds Bank
& The Bank holds voting rights of between 20% and 49.9%

(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
(xiii) Common stock

Subsidiaries and related undertakings

Registered office addresses

(1) 25 Gresham Street, London, EC2V 7HN
(2) Charterhall House, Charterhall Drive, Chester, CH88 3AN
(3) Port Hamilton, 69 Morrison Street, Edinburgh, EH3 8YF
(4) Trinity Road, Halifax, HX1 2RG
(5) The Mound, Edinburgh, EH1 1YZ
(6) 25 New Street, St. Helier, Jersey, JE4 8RG
(7) 116 Cockfosters Road, Barnet, Hertfordshire, EN4 0DY
(8) Minter Ellison, Governor Macquire Tower, Level 40, 1 Farrer Place, Sydney, NSW 2000, Australia
(9) 1 Brookhill Way, Banbury, Oxon, OX16 3EL
(10) Sanne Group, 13 Castle Street, St. Helier, Jersey, JE4 5UT
(11) 26th Floor, Oxford House, Taikoo Place, Quarry Bay, Hong Kong
(12) Barnett Way, Gloucester, GL4 3RL
(13) 1 More London Place, London, SE1 2AF
(14) 1095 Avenue of the America's, 34th Floor, New York, NY 10036, United States
(15) 2nd Floor, 14 Cromac Place, Gasworks, Belfast, BT7 2JB
(16) Rineanna House, Shannon Free Zone, Co. Clare, Ireland
(17) Level 1, Citymark, 150 Fountainbridge, Edinburgh, EH3 9PE
(18) Cox and Palmer, Suite 400, 371 Queen Street, Phoenix Square, Fredericton, NB E3B 4Y9, Canada
(19) 4 Rue Alphonse Weicker, L-2721, Luxembourg
(20) 33 Old Broad Street, London, EC2N 1HZ
(21) Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands
(22) Citco REIF Services, 20 Rue de Poste, L-2346, Luxembourg
(23) RL360 House, Cooil Road, Douglas, Isle of Man, IM2 2SP
(24) Centre Orchimont, 36 Rangwee, L-2412, Luxembourg
(25) Corporation Service Company, Suite 400, 2711 Centre Road, Wilmington, DE 19805, United States
(26) 105 St Peters Street, St. Albans, AL1 3EJ
(27) 1 Allee Scheffer, Luxembourg, L-2520, Luxembourg
(28) SAB Formalities, 23 Rue de Roule, Paris, 75001, France
(29) Rockspring, 166 Sloane Street, London, SW1X 9QF
(30) Tronador 4890, 9th Floor, Buenos Aires, 1430, Argentina
(31) 138 Market Street, #27-01/02, Capita Green, 048946, Singapore
(32) McStay Luby, Dargan House, 21-23 Fenian Street, Dublin 2, Ireland
(33) 124-127 St. Stephen's Green, Dublin 2, Ireland
(34) 21 St. Thomas Street, Bristol, BS1 6JS
(35) De Entrée 254, 1101 EE, Amsterdam, Netherlands
(36) 47 Esplanade, St. Helier, Jersey, JE1 0BD
(37) Sarnia House, Le Truchot, St. Peter Port, Guernsey, GY1 4EF
(38) 1 Rodney Square, 10th Floor, Tenth and King Street, Wilmington, DE 19801, United States
(39) Bank of China, Tower 1, Garden Road Central, Hong Kong
(40) 1 Vine Street, London, W1J 0AH
(41) 39 Queens Road, Aberdeen, AB15 4ZN
(42) Royal Ocean Plaza, Ocean Village, GX11 1AA, Gibraltar
(43) 110 St. Vincent Street, Glasgow, G2 4QR
(44) 35 Great St. Helen's, London, EC3A 6AP
(45) Charlton Place, Charlton Road, Andover, SP10 1RE
(46) 22 Grenville Street, St. Helier ,Jersey, JE4 8PX
(47) Queensway House, Hilgrove Street, St. Helier, Jersey, JE4 1ES
(48) Unit 2, Level 2, Bagmane Tridib B-Wing, Bagmane Technology Park, Bangalore, 560093, India
(49) Av. Jurubatuba 73, 8th Floor, Sao Paulo, Brazil
(50) Corporation Trust Centre, 1209 Orange Street, Wilmington, DE 19801, United States
(51) 18th Floor, United Centre, 95 Queensway, Hong Kong
(52) Finance House, Orchard Brae, Edinburgh
(53) 55 Baker Street, London, W1U 7EU
(54) 15 Dalkeith Road, Edinburgh, EH16 5BU
(55) Lichtenauerlann 170, 3062ME, Rotterdam, Netherlands
(56) Weena 340, 3012 NJ, Rotterdam, Netherlands
(57) Caledonian Exchange, 19A Canning Street, Edinburgh, EH3 8HE
(60) 44 Chipman Hill, Suite 100, St. John, NB E2L 2A9, Canada
(61) 155 Bishopsgate, London, EC2M 3YB
(62) 12 Peveril Buildings, Peveril Square, Douglas, Isle of Man, IM99 1JJ
(63) 44 Esplanade, St. Helier, Jersey, JE4 9WG
(64) Asticus Building 2nd Floor, 21 Palmer Street, London, SW1H 0AD
(65) 26 New Street St Helier Jersey JE2 3RA
(66) Fred. Roeskestraat 123, 1076 EE, Amsterdam, Netherlands
(67) Avenue Louise 331-333, 1050 Brussels, Belgium
(68) Naritaweg 165, 1043 BW, Amsterdam, Netherlands
(69) Calle Pinar 7, 50Izquierda, 28006, Madrid, Spain
(70) 2nd Floor Beaux Lane House, Mercer Street Lower, Dublin 2, Ireland
(71) Wilmington Trust Sp Services (London) Limited, Third Floor, 1 King's Arms Yard, London, EC2R 7AF
(72) 40a Station Road, Upminster, Essex, RM14 2TR
(73) 1st Floor, 1-2 Victoria Buildings, Haddington Road, Dublin 4, Ireland
(74) Black Horse House, Bentalls, Basildon, Essex, SS14 3BY
(75) Maples and Calder, P.O. Box 309, Ugland House, South Church Street, George Town, Grand Cayman, KY1-1104, Cayman Islands
(76) 106 Goring Road, Goring By Sea, Worthing, West Sussex, BN12 4AA
(77) 8 Avenue Hoche, 75008, Paris, France
(78) 10 George Street, Edinburgh, EH2 2DZ
(79) Pentagon House, 52-54 Southwark Street, London, SE1 1UN
(80) Riverside House, 502 Gorgie Road, Edinburgh, EH11 3AF
(81) St William House, Tresillian Terrace, Cardiff, CF10 5BH
(82) Walker House, Mary Street, PO Box 908GT, South Church Street, George Town, Grand Cayman, Cayman Islands
(83) Tower House, Charterhall Drive, Chester, CH88 3AN

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