Lloyds Bank plc

Report and Accounts
2014

Member of Lloyds Banking Group

Contents

Strategic Report

Principal activities

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

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

Business review

During the year ended 31 December 2014, the Group recorded a profit before tax of £2,289 million compared with a profit before tax in 2013 of £894 million The result in 2014 included provisions in respect of redress to customers relating to past sales of Payment Protection Insurance and other issues of £3,125 million compared to a charge of £3,455 million in the year ended 31 December 2013, and 2014 also includes a past service pension credit of £822 million, compared to a charge of £104 million in 2013 Excluding these items from both years, profit before tax was £139 million, or 3 per cent, higher at £4,592 million in the year ended 31 December 2014 compared to £4,453 million in the previous year

Total income decreased by £8,055 million, or 21 per cent, to £30,162 million in 2014 compared with £38,217 million in 2013, comprising an £11,279 million decrease in other income partly offset by an increase of £3,224 million in net interest income

Net interest income was £10,214 million in 2014, an increase of £3,224 million, or 46 per cent compared to £6,990 million in 2013 There was a positive impact of £2,489 million in 2014 from a decrease in the amounts payable to unit holders in those Open-Ended Investment Companies (OEICs) included in the consolidated results of the Group After adjusting for this, net interest income was £735 million, or 7 per cent, higher at £10,816 million in 2014 compared to £10,081 million in 2013 reflecting the continued improvement in margins and loan growth in targeted customer segments, partly offset by the effect of disposals and the reduced portfolio of assets which are outside of the Group's risk appetite Net interest margin benefited from improved deposit pricing and lower funding costs, partly offset by continued pressure on asset prices

Other income was £11,279 million, or 36 per cent, lower at £19,948 million in 2014 compared to £31,227 million in 2013 Fee and commission income was £453 million, or 11 per cent, lower at £3,666 million compared to £4,119 million in 2013 Fee and commission expense increased by £19 million, or 1 per cent, to £1,402 million compared with £1,383 million in 2013 The decrease in net fee and commission income largely reflects the impact of business disposals Net trading income decreased by £7,531 million, or 44 per cent, to £9,508 million in 2014 compared to £17,039 million in 2013, this decrease reflected a reduction of £7,384 million in gains on policyholder investments held within the insurance business as a result of movements in financial markets, offset by a similar decrease in the related claims expense Insurance premium income was £1,072 million, or 13 per cent, lower at £7,125 million in 2014 compared with £8,197 million in 2013, there was a decrease of £945 million in life insurance premiums offset by a £127 million decrease in general insurance premiums Other operating income was £2,204 million lower at £1,051 million in 2014 compared to £3,255 million in 2013 Other operating income includes gains and losses on disposal of available-for-sale financial assets which were £498 million, or 79 per cent, lower at £131 million in 2014 compared to £629 million in 2013 following the completion of the repositioning of the Group's government bond portfolio in early 2013 Excluding gains and losses on sale of available-for-sale financial assets, other operating income was £1,706 million lower at £920 million in 2014 compared to £2,626 million in 2013, this income in 2013 included the gains of £540 million from the sales of shares in St James's Place and £538 million following the sale of the Group's portfolio of US Residential Mortgage-Backed Securities

Insurance claims expense was £6,014 million, or 31 per cent, lower at £13,493 million in 2014 compared to £19,507 million in 2013 The insurance claims expense in respect of life and pensions business was £5,988 million, or 31 per cent, lower at £13,163 million in 2014 compared to £19,151 million in 2013, this decrease in claims was matched by a similar decline in net trading income, reflecting the relative performance of policyholder investments Insurance claims in respect of general insurance business were £26 million, or 7 per cent, lower at £330 million in 2014 compared to £356 million in 2013

Operating expenses decreased by £1,447 million, or 10 per cent to £13,628 million in 2014 compared with £15,075 million in 2013, the main reasons for the decrease being the £330 million reduction in charges for regulatory provisions from £3,455 million in 2013 to £3,125 million in 2014 and, a net past service pension credit of £822 million compared to a charge of £104 million in 2013 Excluding these items from both years, operating expenses were £191 million, or 2 per cent, lower at £11,325 million in 2014 compared to £11,516 million in 2013 On this basis staff costs were £170 million, or 3 per cent, lower at £5,567 million in 2014 compared with £5,737 million in 2013, annual pay rises being more than offset by the impact of headcount reductions resulting from business disposals and the Group's rationalisation programmes Premises and equipment costs were £79 million, or 8 per cent, lower at £891 million in 2014 compared with £970 million in 2013 Other expenses excluding the charges in respect of payment protection insurance and other regulatory provisions of £3,125 million from 2014 and £3,455 million from 2013 were £63 million, or 2 per cent, higher at £2,932 million in 2014 compared with £2,869 million in 2013 Depreciation and amortisation costs were £5 million lower at £1,935 million in 2014 compared to £1,940 million in 2013

Impairment losses decreased by £1,989 million, or 73 per cent, to £752 million in 2014 compared with £2,741 million in 2013 Impairment losses in respect of loans and advances to customers were £1,990 million, or 73 per cent, lower at £735 million in 2014 compared with £2,725 million in 2013 The overall performance of the portfolio reflects a significant reduction in lending which is outside of the Group's risk appetite and improvements in all divisions The improvements reflect lower levels of new impairment as a result of effective risk management, improving economic conditions and the continued low interest rate environment The net charge has also benefited from significant provision releases but at lower levels than seen in 2013 The impairment charge in respect of debt securities classified as loans and receivables was a charge of £2 million in 2014 compared to a charge of £1 million in 2013 and the impairment charge in respect of available-for-sale financial assets was £10 million lower at £5 million in 2014 compared to £15 million in 2013

In 2014, the Group recorded a tax charge of £422 million compared to a tax charge of £1,260 million in 2013 The tax charge in 2014 was £70 million lower than the charge that would arise at the standard UK corporation tax rate of 21 5 per cent, principally as a result of tax exempt gains on sales of businesses and a lower deferred tax liability in respect of the value of in-force assets for the life business partially offset by the effect of non-deductible expenses The tax charge of £1,260 million in 2013 arose on a profit before tax of £894 million, this tax charge reflected a £602 million charge arising from the reduction in the corporation tax rate, a £348 million write-off of deferred tax assets following the sale of the Group's Australian operations and a £251 million policyholder tax charge

On the balance sheet, total assets were £9,094 million, or 1 per cent, higher at £866,448 million at 31 December 2014 compared to £857,354 million at 31 December 2013 Loans and advances to customers were £10,248 million, or 2 per cent, lower at £482,704 million at 31 December 2014 compared to £492,952 million at 31 December 2013 as the impact of focussed ground in mortgages, unsecured personal lending and the small to medium-sized businesses sector has been more than offset by the continuing reduction in the portfolio of assets which are outside of the Group's credit risk appetite, including the disposal of tranches of lending in Ireland Available-for-sale financial assets were £12,517 million, or 28 per cent, higher at £56,493 million at 31 December 2014 compared to £43,976 million at 31 December 2013 as the Group continues to build up its holding of high quality government and other securities for liquidity purposes Deposits by banks were £3,095 million, or 22 per cent, lower at £10,887 million at 31 December 2014 compared to £13,982 million at 31 December 2013 and debt securities in issue were £10,894 million, or 13 per cent, lower at £75,672 million at 31 December 2014 compared to £86,566 million at 31 December 2013, however customer deposits was £7,600 million, or 2 per cent, higher at £447,067 million at 31 December 2014 compared to £439,467 million at 31 December 2013 following growth in relationship deposits Total equity was £5,904 million, or 13 per cent, higher at £49,990 million at 31 December 2014 compared to £44,086 million at 31 December 2013, this reflected retained profit and positive movements in cash flow hedging and available-for-sale reserves

The Group continued to strengthen its capital position, with a common equity tier 1 (CET1) ratio of 15 1 per cent, driven by a combination of retained profit, further dividends from the Insurance business, changes to and improved valuations of the Group's defined benefit pension arrangements, and a reduction in risk-weighted assets, partly offset by the dividend of £540 million recommended by the Board

Risk-weighted assets reduced in the year, to £241,046 million, primarily due to asset reductions in the portfolio of assets which are outside of the Group's risk appetite, active portfolio management in Commercial Banking and improvements in economic conditions

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

Capital position at 31 December 2014

The Group's capital position applying CRD IV transitional rules as at 31 December 2014 is set out in the following section

Table 1 1 Capital resources (audited)

Capital resources	2014 £m	2013[1] £m
Common equity/core tier 1		
Shareholders' equity	48,777	43,739
Adjustment to retained earnings for foreseeable dividends	(540)	–
Deconsolidation of Insurance entities	(824)	–
Regulatory filters		
Adjustment for own credit	158	185
Cash flow hedging reserve	(1,357)	827
Other adjustments	364	1,757
	46,578	46,508
Less deductions from common equity/core tier 1		
Goodwill and other intangible assets	(1,875)	(3,815)
Excess of expected losses over impairment provisions and value adjustments	(565)	(373)
Removal of defined benefit pension surplus	(909)	(78)
Securitisation deductions	(211)	(71)
Significant investments	(2,021)	–
Deferred tax assets	(4,533)	–
Common equity/core tier 1 capital	36,464	42,171
Additional tier 1		
Additional tier 1 instruments	5,442	6,467
Less deductions from tier 1		
Significant investments	(859)	(3 859)
Total tier 1 capital	41,047	44,779
Tier 2		
Tier 2 instruments	16,156	20,965
Unrealised gains on available-for-sale equity investments	–	135
Eligible provisions	333	359
Less deductions from tier 2		
Excess of expected losses over impairment provisions and value adjustments	–	(373)
Securitisation deductions	–	(71)
Significant investments	(1,288)	(3,859)
Total tier 2 capital	15,201	17,156
Supervisory deductions		
Connected lending of a capital nature	–	(3,275)
Total supervisory deductions	–	(3,275)
Total capital resources	56,248	58,660

Table 1 2 Risk-Weighted Assets and Capital Ratios (unaudited)

	2014 £m	2013[1] £m
Risk-weighted assets	241,046	263,850
Common equity/core tier 1 capital ratio	15 1%	16 0%
Tier 1 capital ratio	17 0%	17 0%
Total capital ratio	23 3%	22 2%

[1]Calculated in line with the rules prevailing at 31 December 2013 and not restated for the implementation of CRD IV on 1 January 2014

As at 31 December 2014, the Group's common equity tier 1 capital ratio had reduced to 15 1 per cent from a core tier 1 capital ratio of 16 0 per cent at 31 December 2013, reflecting the impact of the application of transitional CRD IV rules from 1 January 2014 The tier 1 capital ratio remained at 17 0 per cent and the total capital ratio increased to 23 3 per cent compared with 22 2 per cent at 31 December 2013 Risk-weighted assets reduced by £22 9 billion to £241 0 billion at 31 December 2014 compared with £263 9 billion at 31 December 2013, reflecting asset reductions in the run-off portfolio, active portfolio management and improvements in economic conditions

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

Credit risk
Principal risks
Any adverse changes in the economic and market environment we operate in, or the credit quality and/or behaviour of our borrowers and counterparties would reduce the value of our assets and potentially increase our write-downs and allowances for impairment losses, adversely impacting profitability

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

Conduct risk
Principal risks
We face significant potential conduct risk, including selling products to customers which do not meet their needs, failing to deal with customers' complaints effectively, not meeting customers expectations, and exhibiting behaviours which do not meet market or regulatory standards

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

Market risk
Principal risks
Key market risks include interest rate risk across the Banking and Insurance businesses However, our most significant market risk is from the Defined Benefit Pension Schemes where asset and liability movements impact on our capital position

Mitigating actions
- A structural hedge programme has been implemented to manage liability margins and margin compression
- Lloyds Banking Group Board approved pensions risk appetite covering interest rate, credit spreads and equity risks Credit assets are being purchased and equity holdings have reduced in the pension schemes
- Stress and scenario testing of risk exposures

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

Mitigating actions
- Continually review IT system architecture to ensure that our systems are resilient, and the confidentiality, integrity and availability of our critical systems and information assets are protected against cyber attacks
- Continue to implement the actions from the 2013 independent Lloyds Banking Group IT Resilience Review to enhance the resilience of systems supporting the processes most critical to our customers

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

Mitigating actions
- Hold a large pool of unencumbered primary liquid assets and maintain a further large pool of secondary assets that can be used to access Central Bank liquidity facilities
- Daily monitoring against a number of market and Lloyds Banking Group specific early warning indicators and regular stress tests
- Contingency funding plan to identify emerging liquidity concerns earlier

Capital risk
Principal risks
Our future capital position is potentially at risk from a worsening macroeconomic environment This could lead to adverse financial performance which could deplete capital resources and/or increase capital requirements due to a deterioration in customers' creditworthiness

Mitigating actions
- Close monitoring of capital and leverage ratios to ensure we meet our current and future regulatory requirements
- Comprehensive stress testing analysis to evidence sufficient levels of capital adequacy under various adverse scenarios
- In addition to accumulating retained profits, we can raise additional capital in a variety of ways

Regulatory risk
Principal risks
We are subject to industry wide investigations and reviews into a perceived lack of competition in UK banking and financial services The outcomes of the UK General Election in May 2015 and the investigations by the CMA and FCA are presently unclear and their impact therefore remains uncertain Other initiatives under review include the ring-fencing proposals in the Banking Reform Act 2013,the new FCA Consumer Credit regime and CRD IV

Mitigating actions
- The Lloyds Banking Group Legal, Regulatory and Mandatory Change Committee ensures we develop plans for regulatory changes and tracks their progress
- Continued investment in our people, processes and IT systems is enabling us to meet our regulatory commitments
- Continued engagement with government and regulatory authorities on forthcoming regulatory changes and market investigations and reviews

People risk

Principal risks

Key people risks include the risk that we fail to lead responsibly in an increasingly competitive marketplace, particularly with the introduction of the Senior Managers' Regime and Certification Regime which will come into force in 2015 This may dissuade capable individuals from taking up senior positions within Lloyds Banking Group

Mitigating actions

- Work collaboratively with Regulators to implement the new Individual Accountability Regime in 2015, ensuring burden of proof and attestation requirements are effectively implemented
- Maintain competitive working practices to attract, retain and engage high quality people
- Create a work environment which listens and acts on colleague feedback

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 50 on page 107 Additional information can be found in the annual report of Lloyds Banking Group plc, the Bank's ultimate parent, which does not form part of this report

The 2014 Strategic Report has been approved by the Board of Directors

On behalf of the Board

Lord Blackwell
Lloyds Bank plc
11 March 2015

Directors' report

Results
The consolidated income statement on page 13 shows a statutory profit before tax for the year ended 31 December 2014 of £2,289 million

Dividends
The Directors recommend to shareholders a dividend for the year ended 31 December 2014 of £540 million (2013 nil) to be paid on 12 March 2015

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

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

Directors
The names of the current Directors are shown on page 9 Changes to the composition of the Board since 1 January 2014 up to the date of this report are shown in the table below

	Joined the Board	Retired from the Board
Dyfrig John	1 January 2014	
Sir Winfried Bischoff		3 April 2014
David Roberts		14 May 2014
Nick Prettejohn	23 June 2014	
Simon Henry	26 June 2014	
Alan Dickinson	8 September 2014	

Lord Blackwell, who has served on the Board since 1 June 2012, was appointed Chairman in place of Sir Winfried Bischoff on 3 April 2014

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 Directors 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 Directors appointed in 2014 Deeds for existing Directors are available for inspection at the Bank's registered office In addition Lloyds Banking Group had appropriate Directors and Officers Liability Insurance cover in place throughout 2014

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

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

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

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

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

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

Branches, future developments and financial risk management objectives and policies
Information regarding the existence of branches, future developments and financial risk management objectives and policies of the Group, in relation to the use of financial instruments, 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 notes 42 and 46 on pages 90 and 92 and is incorporated into this report by reference

The Bank did not repurchase any of its shares during the year (2013 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 powers of the Directors, including in relation to the issue or buy back of the Bank's shares, are set out in the Companies Act 2006 and the Bank's articles of association

Directors' report

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

To support this aim, Lloyds Banking Group belongs to a number of major UK employment equality campaign groups, including the Business Disability Forum, The Age and Employment Network, Stonewall and Race for Opportunity Involvement with these organisations enables the Group to identify and implement best practice for staff The Bank, as part of Lloyds Banking Group, has a range of programmes to support colleagues who become disabled or acquire a long-term health condition These include a workplace adjustment programme to provide physical equipment or changes to the way a job is done The Group also runs residential Personal and Career Development Programmes to help colleagues deal positively with the impact of a disability and the colleague disability network, Access, provides peer support In 2014 the Group launched a work experience programme with Remploy to support people with disabilities wanting to enter the workplace

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

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

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

Significant contracts
Details of related party transactions are set out in note 48 on pages 100 to 103

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

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

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

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

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

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

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

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

A resolution will be proposed at the 2015 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
11 March 2015

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

Carolyn Fairbairn

Anita Frew

Dyfrig John CBE

Simon Henry

Nick Luff

Nick Prettejohn

Anthony Watson CBE

Sara Weller

Forward looking statements

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

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LLOYDS BANK PLC

Report on the financial statements
Our opinion
In our opinion

- the financial statements, defined below, give a true and fair view of the state of the Group's and of the Bank's affairs as at 31 December 2014 and of the Group's profit and the Group's and the Bank's cash flows for the year then ended,
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union,
- the Bank financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation

What we have audited
The Group financial statements and Bank financial statements (the "financial statements"), which are prepared by Lloyds Bank plc, comprise

- the Balance sheets as at 31 December 2014,
- the Consolidated income statement and Statements of comprehensive income for the year then ended,
- the Cash flow statements for the year then ended,
- the Statements of changes in equity for the year then ended, and
- the notes to the accounts, which include a summary of significant accounting policies and other explanatory information

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

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

Opinions on other matters prescribed by the Companies Act 2006
In our opinion

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Other matters on which we are required to report by exception
Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion

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

We have no exceptions to report arising from this responsibility

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

Responsibilities for the financial statements and the audit
Our responsibilities and those of the directors
As explained more fully in the Statement of directors responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view

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

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

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

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

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

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

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

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

11 March 2015

(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 2014

	Note	2014 £ million	2013 £ million
Interest and similar income		19,411	21,367
Interest and similar expense		(9,197)	(14,377)
Net interest income	5	10,214	6,990
Fee and commission income		3,666	4,119
Fee and commission expense		(1,402)	(1,383)
Net fee and commission income	6	2,264	2,736
Net trading income	7	9,508	17,039
Insurance premium income	8	7,125	8,197
Other operating income	9	1,051	3,255
Other income		19,948	31,227
Total income		30,162	38,217
Insurance claims	10	(13,493)	(19,507)
Total income, net of insurance claims		16,669	18,710
Regulatory provisions		(3,125)	(3,455)
Other operating expenses		(10,503)	(11,620)
Total operating expenses	11	(13,628)	(15,075)
Trading surplus		3,041	3,635
Impairment	12	(752)	(2,741)
Profit before tax		2,289	894
Taxation	13	(422)	(1,260)
Profit (loss) for the year		1,867	(366)
Profit attributable to non-controlling interests		87	36
Profit (loss) attributable to equity shareholders		1,780	(402)
Profit (loss) for the year		1,867	(366)

The accompanying notes are an integral part of the financial statements

Lloyds Bank plc

Statements of comprehensive income

for the year ended 31 December 2014

The Group	2014 £ million	2013 £ million
Profit (loss) for the year	**1,867**	(366)
Other comprehensive income		
Items that will not subsequently be reclassified to profit or loss		
Post-retirement defined benefit scheme remeasurements		
Remeasurements before taxation	**674**	(136)
Taxation	**(135)**	28
	539	(108)
Items that may subsequently be reclassified to profit or loss		
Movements in revaluation reserve in respect of available-for-sale financial assets		
Change in fair value	**676**	(680)
Income statement transfers in respect of disposals	**(131)**	(629)
Income statement transfers in respect of impairment	**2**	18
Taxation	**(10)**	277
	537	(1,014)
Movements in cash flow hedging reserve		
Effective portion of changes in fair value taken to other comprehensive income	**3,896**	(1,229)
Net income statement transfers	**(1,165)**	(566)
Taxation	**(547)**	378
	2,184	(1,417)
Currency translation differences, (tax nil)	**(2)**	(19)
Other comprehensive income for the year, net of tax	**3,258**	(2,558)
Total comprehensive income for the year	**5,125**	(2,924)
Total comprehensive income attributable to non-controlling interests	**87**	36
Total comprehensive income attributable to equity shareholders	**5,038**	(2,960)
Total comprehensive income for the year	**5,125**	(2,924)

The Bank	2014 £ million	2013 £ million
Profit for the year	**2,501**	2,772
Other comprehensive income		
Items that will not subsequently be reclassified to profit or loss		
Post-retirement defined benefit scheme remeasurements		
Remeasurements before taxation	**309**	400
Taxation	**(62)**	(80)
	247	320
Items that may subsequently be reclassified to profit or loss		
Movements in revaluation reserve in respect of available-for-sale financial assets		
Change in fair value	**364**	(889)
Income statement transfers in respect of disposals	**11**	(842)
Income statement transfers in respect of impairment	**1**	–
Taxation	**(14)**	366
	362	(1,365)
Movements in cash flow hedging reserve		
Effective portion of changes in fair value taken to other comprehensive income	**1,799**	21
Net income statement transfers	**(227)**	–
Taxation	**(315)**	(5)
	1,257	16
Currency translation differences (tax nil)	**3**	(26)
Other comprehensive income for the year, net of tax	**1,869**	(1,055)
Total comprehensive income for the year	**4,370**	1,717

The accompanying notes are an integral part of the financial statements

Lloyds Bank plc

Balance sheets

at 31 December 2014

	Note	The Group 2014 £ million	The Group 2013 £ million	The Bank 2014 £ million	The Bank 2013 £ million
Assets					
Cash and balances at central banks		**50,492**	49,915	**40,965**	42,283
Items in the course of collection from banks		**1,173**	1,007	**802**	663
Trading and other financial assets at fair value through profit or loss	14	**152,520**	143,207	**66,321**	40,167
Derivative financial instruments[1]	15	**35,483**	29,592	**40,150**	28,071
Loans and receivables					
Loans and advances to banks	16	**26,155**	25,365	**4,591**	3,095
Loans and advances to customers[1]	17	**482,704**	492,952	**165,967**	165,574
Debt securities		**1,213**	1,355	**-**	150
Due from fellow Lloyds Banking Group undertakings		**11,482**	15,453	**130,636**	262,977
		521,554	535,125	**301,194**	431,796
Available-for-sale financial assets	21	**56,493**	43,976	**51,412**	41,348
Investment properties	22	**4,492**	4,864	**-**	-
Goodwill	23	**2,016**	2,016	**-**	-
Value of in-force business	24	**4,864**	5,335	**-**	-
Other intangible assets	25	**2,070**	2,279	**647**	564
Tangible fixed assets	26	**8,052**	7,570	**3,089**	2,627
Current tax recoverable		**157**	169	**918**	1,646
Deferred tax assets	39	**4,190**	5,132	**3,596**	4,165
Investment in subsidiary undertakings	27	**-**	-	**38,818**	40,929
Retirement benefit assets	38	**1,147**	98	**351**	-
Other assets	28	**21,745**	27,069	**2,451**	1,857
Total assets		**866,448**	857,354	**550,714**	636,116

[1]See note 1

The accompanying notes are an integral part of the financial statements

Lloyds Bank plc

Balance sheets

at 31 December 2014

		The Group		The Bank	
Equity and liabilities	Note	**2014 £ million**	2013 £ million	**2014 £ million**	2013 £ million
Liabilities					
Deposits from banks	29	**10,887**	13,982	**8,206**	10,448
Customer deposits[1]	30	**447,067**	439,467	**194,699**	185,555
Due to fellow Lloyds Banking Group undertakings		**5,288**	8,797	**91,882**	244,025
Items in course of transmission to banks		**979**	774	**560**	432
Trading and other financial liabilities at fair value through profit or loss	31	**62,102**	43,625	**73,227**	43,106
Derivative financial instruments[1]	15	**33,293**	27,898	**41,320**	28,308
Notes in circulation		**1,129**	1,176	**–**	–
Debt securities in issue	32	**75,672**	86,566	**66,062**	53,195
Liabilities arising from insurance contracts and participating investment contracts	33	**86,941**	82,801	**–**	–
Liabilities arising from non-participating investment contracts	35	**27,248**	27,590	**–**	–
Unallocated surplus within insurance businesses	36	**320**	391	**–**	–
Other liabilities	37	**28,783**	40,969	**4,358**	4,340
Retirement benefit obligations	38	**453**	1,096	**190**	413
Current tax liabilities		**69**	111	**5**	5
Deferred tax liabilities	39	**54**	3	**–**	–
Other provisions	40	**4,200**	4,488	**2,795**	2,551
Subordinated liabilities	41	**31,973**	33,534	**21,590**	22,600
Total liabilities		**816,458**	813,268	**504,894**	594,978
Equity					
Share capital	42	**1,574**	1,574	**1,574**	1,574
Share premium account	43	**35,533**	35,533	**35,533**	35,533
Other reserves	44	**6,842**	4,123	**1,121**	(501)
Retained profits	45	**4,828**	2,509	**7,592**	4,532
Shareholders' equity		**48,777**	43,739	**45,820**	41,138
Non-controlling interests		**1,213**	347	**–**	–
Total equity		**49,990**	44,086	**45,820**	41,138
Total equity and liabilities		**866,448**	857,354	**550,714**	636,116

[1]See note 1

The accompanying notes are an integral part of the financial statements

The directors approved the financial statements on 11 March 2015

Lord Blackwell
Chairman

António Horta-Osório
Chief Executive

George Culmer
Chief Financial Officer

Statements of changes in equity

for the year ended 31 December 2014

The Group	Attributable to equity shareholders: Share capital and premium £ million	Other reserves £ million	Retained profits £ million	Total £ million	Non-controlling interests £ million	Total £ million
Balance at 1 January 2013	37,107	6,573	2,618	46,298	685	46,983
Comprehensive income						
(Loss) profit for the year	–	–	(402)	(402)	36	(366)
Other comprehensive income						
Post-retirement defined benefit scheme remeasurements, net of taxation	–	–	(108)	(108)	–	(108)
Movements in revaluation reserve in respect of available-for-sale financial assets, net of tax	–	(1,014)	–	(1,014)	–	(1,014)
Movements in cash flow hedging reserve, net of tax	–	(1,417)	–	(1,417)	–	(1,417)
Currency translation differences (tax nil)	–	(19)	–	(19)	–	(19)
Total other comprehensive income	–	(2,450)	(108)	(2,558)	–	(2,558)
Total comprehensive income	–	(2,450)	(510)	(2,960)	36	(2,924)
Transactions with owners						
Dividends	–	–	–	–	(25)	(25)
Capital contribution received	–	–	401	401	–	401
Change in non-controlling interests	–	–	–	–	(349)	(349)
Total transactions with owners	–	–	401	401	(374)	27
Balance at 31 December 2013	37,107	4,123	2,509	43,739	347	44,086
Comprehensive income						
Profit for the year	–	–	**1,780**	**1,780**	**87**	**1,867**
Other comprehensive income						
Post-retirement defined benefit scheme remeasurements, net of taxation	–	–	**539**	**539**	–	**539**
Movements in revaluation reserve in respect of available-for-sale financial assets, (tax nil)	–	**537**	–	**537**	–	**537**
Movements in cash flow hedging reserve, net of tax	–	**2,184**	–	**2,184**	–	**2,184**
Currency translation differences (tax nil)	–	**(2)**	–	**(2)**	–	**(2)**
Total other comprehensive income	–	**2,719**	539	**3,258**	–	**3,258**
Total comprehensive income	–	**2,719**	**2,319**	**5,038**	**87**	**5,125**
Transactions with owners						
Dividends	–	–	–	–	**(27)**	**(27)**
Value of employee services	–	–	**2**	**2**	–	**2**
Capital contribution received	–	–	**367**	**367**	–	**367**
Return of capital contributions	–	–	**(198)**	**(198)**	–	**(198)**
Adjustment on sale of non-controlling interest in TSB Banking Group plc (TSB) (note 56)	–	–	**(171)**	**(171)**	**805**	**634**
Other changes in non-controlling interests	–	–	–	–	**1**	**1**
Total transactions with owners	–	–	–	–	**779**	**779**
Balance at 31 December 2014	**37,107**	**6,842**	**4,828**	**48,777**	**1,213**	**49,990**

Further details of movements in the Group's share capital and reserves are provided in notes 42, 43, 44 and 45

The accompanying notes are an integral part of the financial statements

Lloyds Bank plc

Statements of changes in equity

for the year ended 31 December 2014

The Bank	Attributable to equity shareholders			
	Share capital and premium £ million	Other reserves £ million	Retained profits £ million	Total £ million
Balance at 1 January 2013	37,107	874	1,184	39,165
Comprehensive income				
Profit for the year	–	–	2,772	2,772
Other comprehensive income				
Post-retirement defined benefit scheme remeasurements, net of taxation	–	–	320	320
Movements in revaluation reserve in respect of available-for sale financial assets, net of tax	–	(1,365)	–	(1,365)
Movements in cash flow hedging reserve, net of tax	–	16	–	16
Currency translation differences (tax nil)	–	(26)	–	(26)
Total other comprehensive income	–	(1,375)	320	(1,055)
Total comprehensive income	–	(1,375)	3,092	1,717
Transactions with owners				
Capital contributions received	–	–	256	256
Total transactions with owners	–	–	256	256
Balance at 31 December 2013	37,107	(501)	4,532	41,138
Comprehensive income				
Profit for the year	–	–	**2,501**	**2,501**
Other comprehensive income				
Post-retirement defined benefit scheme remeasurements, net of taxation	–	–	**247**	**247**
Movements in revaluation reserve in respect of available-for sale financial assets, net of tax	–	**362**	–	**362**
Movements in cash flow hedging reserve, net of tax	–	**1,257**	–	**1,257**
Currency translation differences (tax nil)	–	**3**	–	**3**
Total other comprehensive income	–	**1,622**	**247**	**1,869**
Total comprehensive income	–	**1,622**	**2,748**	**4,370**
Transactions with owners				
Capital contribution received	–	–	**510**	**510**
Return of capital contributions	–	–	**(198)**	**(198)**
Total transactions with owners	–	–	**312**	**312**
Balance at 31 December 2014	**37,107**	**1,121**	**7,592**	**45,820**

The accompanying notes are an integral part of the financial statements

Cash flow statements

for the year ended 31 December 2014

	Note	The Group 2014 £ million	The Group 2013 £ million	The Bank 2014 £ million	The Bank 2013 £ million
Profit before tax		**2,289**	894	**2,688**	2,514
Adjustments for					
Change in operating assets[1]	55(a)	**2,639**	23,404	**89,217**	(30,843)
Change in operating liabilities[1]	55(b)	**8,369**	(49,000)	**(88,625)**	17,781
Non-cash and other items	55(c)	**(2,632)**	11,910	**845**	1,028
Tax received (paid)		**(140)**	120	**726**	(8)
Net cash provided by (used in) operating activities		**10,525**	(12,672)	**4,851**	(9,528)
Cash flows from investing activities					
Purchase of financial assets		**(11,533)**	(36,959)	**(6,052)**	(30,009)
Proceeds from sale and maturity of financial assets		**4,668**	21,552	**1,626**	16,671
Purchase of fixed assets		**(3,442)**	(2,982)	**(1,182)**	(1,093)
Proceeds from sale of fixed assets		**2,043**	2,090	**100**	30
Additional capital injections to subsidiaries	55(e)	**-**	-	**(750)**	(621)
Capital repayment by subsidiaries		**-**	-	**1,930**	-
Acquisition of businesses, net of cash acquired	55(e)	**(1)**	(6)	**-**	(773)
Disposal of businesses, net of cash disposed	55(f)	**543**	696	**728**	(9)
Net cash used in investing activities		**(7,722)**	(15,609)	**(3,600)**	(15,804)
Cash flows from financing activities					
Dividends paid to non-controlling interests		**(27)**	(25)	**-**	-
Return of capital contribution		**(198)**	-	**(198)**	-
Interest paid on subordinated liabilities		**(2,488)**	(2,354)	**(1,832)**	(1,694)
Proceeds from issue of subordinated liabilities		**-**	1,500	**-**	-
Repayment of subordinated liabilities		**(2,369)**	(5,048)	**(1,380)**	(3,539)
Sale of non-controlling interest in TSB (note 56)		**634**	-	**634**	-
Other changes in non-controlling interests		**1**	-	**-**	-
Net cash provided by financing activities		**(4,447)**	(5,927)	**(2,776)**	(5,233)
Effect of exchange rate changes on cash and cash equivalents		**(6)**	(53)	**6**	(52)
Change in cash and cash equivalents		**(1,650)**	(34,261)	**(1,519)**	(30,617)
Cash and cash equivalents at beginning of year		**66,797**	101,058	**44,491**	75,108
Cash and cash equivalents at end of year	55(d)	**65,147**	66,797	**42,972**	44,491

[1]See note 1

The accompanying notes are an integral part of the financial statements

Notes to the accounts

1 Basis of preparation

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

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

The Group has adopted the following new standards, amendments to standards and interpretations which became effective for financial years beginning on or after 1 January 2014

IFRIC 21 Levies
This interpretation clarifies that the obligating event that gives rise to a liability to pay a government levy is the activity that triggers the payment of the levy as set out in the relevant legislation and that an entity's expectation of operating in a future period, irrespective of the difficulties involved in exiting a market, does not create a constructive obligation to pay a levy The adoption of this interpretation has not had a material impact on these financial statements

Amendments to IAS 32 Financial Instruments Presentation – Offsetting Financial Assets and Financial Liabilities
The amendments to IAS 32 clarify the requirements for offsetting financial instruments and address inconsistencies identified in applying the offsetting criteria used in the standard

In previous years the Group has separately reported, in the balance sheet, cash collateral balances and derivative positions with the same exchange, these cash collateral balances are now offset The effect of this on the Group and the Bank at 31 December 2014 has been to reduce both loans and advances to customers and derivative liabilities by £2,820 million and both customer deposits and derivative assets by £2,294 million Comparative figures for the Group and the Bank have been revised accordingly, the impact at 31 December 2013 being to reduce derivative assets by £2,321 million (31 December 2012 £923 million), loans and advances to customers by £2,329 million (31 December 2012 £461 million), customer deposits by £1,844 million (31 December 2012 £696 million) and derivative liabilities by £2,806 million (31 December 2012 £688 million)

Details of those IFRS pronouncements which will be relevant to the Group but which were not effective at 31 December 2014 and which have not been applied in preparing these financial statements are given in note 57

2 Accounting policies

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

a Consolidation

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

(1) Subsidiaries

Subsidiaries are entities controlled by the Group The Group controls an entity when it has power over the entity, is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through the exercise of its power This generally accompanies a shareholding of more than one half of the voting rights 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 Details of the principal subsidiaries are given in note 27

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

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

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

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

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

(2) Joint ventures and associates

Joint ventures are joint arrangements over which the Group has joint control with other parties and has rights to the net assets of the arrangements Associates are entities over which the Group has significant influence, but not control or joint control, over the financial and operating policies Significant influence is the power to participate in the financial and operating policy decisions of the entity but is not control or joint control of those policies and is generally achieved through holding between 20 per cent and 50 per cent of the voting share capital of the entity

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

b Goodwill

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

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

2 Accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2 Accounting policies (continued)

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

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

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

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

(2) Available-for-sale financial assets

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

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

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

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

(3) Loans and receivables

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

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

(4) Held-to-maturity investments

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

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

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

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

2 Accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2 Accounting policies (continued)

g Offset
Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right of set-off and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously Cash collateral on exchange-traded derivative transactions is presented gross unless the collateral cash flows are always settled net with the derivative cash flows In certain situations, even though master netting agreements exist, the lack of management intention to settle on a net basis results in the financial assets and liabilities being reported gross on the balance sheet

h Impairment of financial assets
(1) Assets accounted for at amortised cost
At each balance sheet date the Group assesses whether, as a result of one or more events occurring after initial recognition of the financial asset and prior to the balance sheet date, there is objective evidence that a financial asset or group of financial assets has become impaired

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

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

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

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

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

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

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

Homogenous groups of loans
In respect of portfolios of smaller balance, homogenous loans, the asset is included in a group of financial assets with similar risk characteristics and collectively assessed for impairment Segmentation takes into account factors, such as the type of asset, industry sector, geographical location, collateral type, past-due status and other relevant factors These characteristics are relevant to the estimation of future cash flows for groups of such assets as they are indicative of the borrower's ability to pay all amounts due according to the contractual terms of the assets being evaluated

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

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

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

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

2 Accounting policies (continued)

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

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

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

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

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

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

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

Premises (excluding land)

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

Equipment

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

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

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

2 Accounting policies (continued)

k Leases

(1) As lessee

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

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

(2) As lessor

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

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

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

l Employee benefits

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

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

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

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

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

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

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

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

m Share-based compensation

Lloyds Banking Group operates a number of equity-settled, share-based compensation plans in respect of services received from certain of its employees The value of the employee services received in exchange for equity instruments granted under these plans is recognised as an expense over the vesting period of the instruments 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

n Taxation

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

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

2 Accounting policies (continued)

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

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

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

o Insurance

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

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

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

The general insurance business issues only insurance contracts

(1) Life insurance business

(i) Accounting for insurance and participating investment contracts

Premiums and claims

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

Liabilities

– Insurance and participating investment contracts in the Group's with-profit funds

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

– Insurance and participating investment contracts which are not unit-linked or in the Group's with-profit funds

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised The liability is calculated by estimating the future cash flows over the duration of in-force policies and discounting them back to the valuation date allowing for probabilities of occurrence The liability will vary with movements in interest rates and with the cost of life insurance and annuity benefits where future mortality is uncertain

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

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

– Insurance and participating investment contracts which are unit-linked

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

Unallocated surplus

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

(ii) Accounting for non-participating investment contracts

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

2 Accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

2 Accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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3 Critical accounting estimates and judgements

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

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

Allowance for impairment losses on loans and receivables
At 31 December 2014 gross loans and receivables of the Group totalled £528,094 million (2013 £547,216 million) against which impairment allowances of £6,540 million (2013 £12,091 million) had been made and of the Bank totalled £302,825 million (2013 £434,095 million) against which impairment allowances of £1,631 million (2013 £2,299 million) had been made (see note 20) The Group's accounting policy for losses arising on financial assets classified as loans and receivables is described in note 2h, this note also provides an overview of the methodologies applied

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

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

3 Critical accounting estimates and judgements (continued)

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

Given the relative size of the mortgage portfolio, a key variable is house prices which determine the collateral value supporting loans in such portfolios The value of this collateral is estimated by applying changes in house price indices to the original assessed value of the property If average house prices were ten per cent lower than those estimated at 31 December 2014, the impairment charge would increase by approximately £195 million for the Group and £17 million for the Bank in respect of UK mortgages and a further £6 million for the Group in respect of Irish mortgages

In addition, a collective unimpaired provision is made for loan losses that have been incurred but have not been separately identified at the balance sheet date This provision is sensitive to changes in the time between the loss event and the date the impairment is specifically identified This period is known as the loss emergence period In the commercial business, an increase of one month in the loss emergence period in respect of the loan portfolio assessed for collective unimpaired provisions would result in an increase in the collective unimpaired provision of approximately £53 million for the Group and £35 million for the Bank (at 31 December 2013, a one month increase in the loss emergence period would have increased the collective unimpaired provision by an estimated £105 million for the Group and £48 million for the Bank)

Recoverability of deferred tax assets

At 31 December 2014, the Group carried deferred tax assets on its balance sheet of £4,190 million (2013 £5,132 million) and deferred tax liabilities of £54 million (2013 £3 million), the Bank carried deferred tax assets of £3,596 million (2013 £4,165 million) and deferred tax liabilities of £nil (2013 £nil) This presentation takes into account the ability of the Group and the Bank to net deferred tax assets and liabilities only where there is a legally enforceable right of offset Note 39 presents deferred tax assets and liabilities by type The largest category of deferred tax assets relates to tax losses carried forward

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

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

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

Total deferred tax assets include £5,759 million (2013 £6,338 million) for the Group and £3,302 million (2013 £3,258 million) for the Bank in respect of trading losses carried forward The tax losses have arisen in individual legal entities and will be used as future taxable profits arise in those legal entities, though substantially all of the unused tax losses for which a deferred tax asset has been recognised arise in Bank of Scotland plc and Lloyds Bank plc

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

In December 2014 Chancellor of the Exchequer announced proposals to restrict to 50 per cent the amount of banks' profits that can be offset by carried forward tax losses for the purposes of calculating corporation tax liabilities These proposals are expected to be included in the Finance Bill 2015 and, if passed into law, will take effect in respect of profits arising after 1 April 2015 The Group estimates that these proposals will result in no change to the level of deferred tax recognition although it will increase the period over which it expects to fully utilise its tax losses from 2019 to 2025

As disclosed in note 39, deferred tax assets totalling £921 million (2013 £803 million) for the Group and £78 million (2013 £2 million) for the Bank have not been recognised in respect of certain capital losses carried forward, trading losses carried forward and unrelieved foreign tax credits as there are no predicted future capital or taxable profits against which these losses can be recognised

Retirement benefit obligations

The net asset recognised in the Group's balance sheet at 31 December 2014 in respect of retirement benefit obligations was £694 million (comprising an asset of £1,147 million and a liability of £453 million) (2013 a net liability of £998 million comprising an asset of £98 million and a liability of £1,096 million), related to post-retirement defined benefit schemes The net asset recognised in the Bank's balance sheet at 31 December 2014 in respect of the retirement benefit obligations was £161 million (2013 a net liability of £413 million), comprising an asset of £351 million (2013 £nil) and a liability of £190 million (2013 £413 million) related to post-retirement defined benefit schemes The defined benefit pension schemes' net accounting surplus for the Group totalled £890 million (2013 a deficit of £787 million), for the Bank there was a net accounting surplus of £268 million (2013 a deficit of £281 million), representing the difference between the schemes' liabilities and the fair value of the related assets at the balance sheet date

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

The effect on the net accounting surplus or deficit and on the pension charge in the Group's income statement of changes to the principal actuarial assumptions are set out in note 38

3 Critical accounting estimates and judgements (continued)

Valuation of assets and liabilities arising from life insurance business
At 31 December 2014, the Group recognised a value of in force business asset of £4,446 million (2013 £4,874 million) and an acquired value of in-force business asset of £418 million (2013 £461 million) The value of in-force business asset represents the present value of future profits expected to arise from the portfolio of in-force life insurance and participating investment contracts The acquired value of in-force business asset represents the contractual rights to benefits from providing investment management services in relation to non-participating investment contracts acquired in business combinations and portfolio transfers The methodology used to value these assets is set out in note 24 The valuation or recoverability of these assets requires assumptions to be made about future economic and operating conditions which are inherently uncertain and changes could significantly affect the value attributed to these assets The key assumptions that have been made in determining the carrying value of the value of in-force business assets at 31 December 2014 are set out in note 24

At 31 December 2014, the Group carried liabilities arising from insurance contracts and participating investment contracts of £86,941 million (2013 £82,801 million) The methodology used to value these liabilities is described in note 33 Elements of the liability valuations require assumptions to be made about future investment returns, future mortality rates and future policyholder behaviour and are subject to significant management judgement and estimation uncertainty The key assumptions that have been made in determining the carrying value of these liabilities are set out in note 33

The effect on the Group's profit before tax and shareholders' equity of changes in key assumptions used in determining the life insurance assets and liabilities is set out in note 34

Payment protection insurance and other regulatory provisions
At 31 December 2014, the Group carried provisions of £3,378 million (2013 £3,815 million) against the cost of making redress payments to customers and the related administration costs in connection with historical regulatory breaches, principally the misselling of payment protection insurance Determining the amount of the provisions, which represent management's best estimate of the cost of settling these issues, requires the exercise of significant judgement It will often be necessary to form a view on matters which are inherently uncertain, such as the number of future complaints, the extent to which they will be upheld and the average cost of redress Consequently the continued appropriateness of the underlying assumptions is reviewed on a regular basis against actual experience and other relevant evidence and adjustments made to the provisions where appropriate

Note 40 contains more detail on the nature of the assumptions that have been made and key sensitivities

Fair value of financial instruments
In accordance with IFRS 13 Fair Value Measurement, the Group and the Bank categorise financial instruments carried on the balance sheet at fair value using a three level hierarchy Financial instruments categorised as level 1 are valued using quoted market prices and therefore there is minimal judgement applied in determining fair value However, the fair value of financial instruments categorised as level 2 and, in particular, level 3 is determined using valuation techniques including discounted cash flow analysis and valuation models These valuation techniques involve management judgement and estimates, the extent of which depends on the complexity of the instrument and the availability of market observable information

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

At 31 December 2014, the Group classified £7,499 million of financial assets, including £2,125 million of derivatives, and £1,512 million of financial liabilities, including £1,456 million of derivatives, as level 3 (the Bank, £1,705 million, including £1,604 million of derivatives, and £1,386 million, including £1,356 million of derivatives, respectively) Further details of the level 3 financial instruments and the sensitivity of their valuation including the effect of applying reasonably possible alternative assumptions in determining their fair value are set out in note 50

4 Segmental analysis

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

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

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

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

Following a reorganisation effective from 1 January 2014, the Group's activities are now organised into five financial reporting segments Retail, Commercial Banking, Consumer Finance, Insurance and TSB The most significant changes to the segmental structure are

- The Wealth business has been integrated into the Retail division,
- The Consumer Finance division now includes credit cards, asset finance and the European online deposits businesses, the Retail and Commercial Banking credit cards businesses have transferred into Consumer Finance,
- TSB operates as a standalone listed entity following the IPO,
- The remaining portfolio of assets which are outside of the Group's risk appetite is managed within Other

In addition certain regulatory costs, such as UK bank levy and charges in relation to the Financial Services Compensation Scheme, which were previously reported in Central items, are now attributed to the operating divisions Comparative figures have been restated for all of these changes The Group's underlying profit and statutory results are unchanged as a result of these restatements

4 Segmental analysis (continued)

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

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

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

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

TSB is a separately listed multi-channel retail banking business with branches in England, Wales and Scotland, it has a digital distribution platform and four telephony contact centres It serves retail and small business customers, providing a full range of retail banking products

Other includes certain assets previously reported as outside of the Group's risk appetite and the results and gains on sale relating to businesses disposed in 2013 and 2014 Other also includes income and expenditure not recharged to divisions, including the costs of certain central and head office functions and the costs of managing the Group's technology platforms, branch and head office property estate, operations (including payments, banking operations and collections) and sourcing, the costs of which are predominantly recharged to the other divisions It also reflects other items not recharged to the divisions

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

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

Year ended 31 December 2014	Retail £m	Commercial Banking £m	Consumer Finance £m	Insurance £m	TSB £m	Other £m	Reported basis total £m
Net interest income	7,079	2,480	1,290	(131)	786	257	11,761
Other income (net of insurance claims)	1,212	1,956	1,364	1,725	140	210	6,607
Total underlying income, net of insurance claims	8,291	4,436	2,654	1,594	926	467	18,368
Total costs	(4,464)	(2,147)	(1,429)	(672)	(370)	(330)	(9,412)
Impairment	(599)	(83)	(215)	–	(98)	(205)	(1,200)
Underlying profit (loss)	3,228	2,206	1,010	922	458	(68)	7,756
External income	9,034	3,800	2,803	1,206	912	613	18,368
Inter-segment income	(743)	636	(149)	388	14	(146)	-
Segment income	8,291	4,436	2,654	1,594	926	467	18,368
Segment external assets	317,246	241,754	25,646	150,615	27,006	92,629	854,896
Segment customer deposits	285,539	119,882	14,955	–	24,625	2,066	447,067
Segment external liabilities	295,880	231,400	18,581	144,921	25,085	89,126	804,993
Other segment items reflected in income statement above							
Depreciation and amortisation	353	153	773	127	17	172	1,595
Decrease in value of in-force business	-	–	–	(428)	-	–	(428)
Defined benefit scheme charges	121	37	9	9	7	161	344
Other segment items							
Additions to fixed assets	419	242	1,633	449	44	655	3,442
Investments in joint ventures and associates at end of year	12	–	-	–	–	62	74

4 Segmental analysis (continued)

Year ended 31 December 2013[1]	Retail £m	Commercial Banking £m	Consumer Finance £m	Insurance £m	TSB £m	Other £m	Underlying basis total £m
Net interest income	6,500	2,113	1,333	(107)	615	431	10,885
Other income (net of insurance claims)	1,435	2,259	1,359	1,864	163	840	7,920
Total underlying income, net of insurance claims	7,935	4,372	2,692	1,757	778	1,271	18,805
Total costs	(4,160)	(2,084)	(1,384)	(669)	(563)	(775)	(9,635)
Impairment	(760)	(398)	(343)	–	(109)	(1,394)	(3,004)
Underlying profit (loss)	3,015	1,890	965	1,088	106	(898)	6,166
External income	8,526	2,959	2,772	2,439	863	1,246	18,805
Inter-segment income	(591)	1,413	(80)	(682)	(85)	25	–
Segment income	7,935	4,372	2,692	1,757	778	1,271	18,805
Segment external assets[2]	317,146	227,771	25,025	155,378	24,084	92,976	842,380
Segment customer deposits[2]	283,189	111,654	18,733	–	23,100	2,791	439,467
Segment external liabilities[2]	300,412	206,729	21,868	149,445	23,289	101,301	803,044
Other segment items reflected in income statement above							
Depreciation and amortisation	299	136	754	136	33	187	1,545
(Decrease) increase in value of in-force business	–	–	–	425	–	(9)	416
Defined benefit scheme charges	109	44	6	12	15	213	399
Other segment items							
Additions to fixed assets	446	160	1,320	373	19	664	2,982
Investments in joint ventures and associates at end of year	23	–	1	–	–	77	101

[1]Restated to reflect changes in Divisional structure – see page 32

[2]See note 1

4 Segmental analysis (continued)

Reconciliation of underlying basis to statutory results

Year ended 31 December 2014	**Lloyds Bank Group statutory £m**	**Impact of other entities in the Lloyds Banking Group[1] £m**	**Removal of: Acquisition related and other items[2] £m**	**Removal of: Volatility arising in insurance businesses £m**	**Removal of: Insurance gross up £m**	**Removal of: Regulatory provisions[3] £m**	**Removal of: Fair value unwind £m**	**Reported basis £m**
Net interest income	10,214	446	(7)	–	482	–	626	11,761
Other income, net of insurance claims	6,455	(716)	1,141	228	(614)	–	113	6,607
Total underlying income, net of insurance claims	16,669	(270)	1,134	228	(132)	–	739	18,368
Operating expenses	(13,628)	(257)	1,175	–	132	3,125	41	(9,412)
Impairment	(752)	–	(197)	–	–	–	(251)	(1,200)
Underlying profit (loss)	2,289	(527)	2,112	228	–	3,125	529	7,756

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

[2]Comprises the effects of asset sales (gain of £138 million) volatile items (gain of £286 million), liability management (loss of £1,386 million), Simplification costs related to severance, IT and business costs of implementation (£966 million), TSB build and dual running costs (£558 million), the past service pension credit of £710 million (which represents the curtailment credit of £843 million following the Group's decision to reduce the cap on pensionable pay partly offset by the cost of other changes to the pay, benefits and reward offered to employees) and the amortisation of purchased intangibles (£336 million)

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

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

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

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

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

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

5 Net interest income

	Weighted average effective interest rate 2014 %	2013[1] %	2014 £m	2013 £m
Interest and similar income				
Loans and advances to customers	3 45	4 03	18,006	20,132
Loans and advances to banks	0 52	0 45	406	457
Debt securities held as loans and receivables	2 57	1 52	42	32
Interest receivable on loans and receivables	3 07	3 42	18,454	20,621
Available-for-sale financial assets	1 90	1 92	957	746
Total interest and similar income	2 98	3 33	19,411	21,367
Interest and similar expense				
Deposits from banks, excluding liabilities under sale and repurchase agreements	0 74	0 65	(86)	(129)
Customer deposits, excluding liabilities under sale and repurchase agreements	1 19	1 87	(5,066)	(6,322)
Debt securities in issue	0 58	1 87	(509)	(2,293)
Subordinated liabilities	9 20	6 83	(2,879)	(2,463)
Liabilities under sale and repurchase agreements	2 61	1 21	(55)	(79)
Interest payable on liabilities held at amortised cost	1 54	2 15	(8,595)	(11,286)
Other	3 23	12 08	(602)	(3,091)
Total interest and similar expense	1 59	2 62	(9,197)	(14,377)
Net interest income			10,214	6,990

[1]See note 1

Included within interest and similar income is £407 million (2013 £901 million) in respect of impaired financial assets Net interest income also includes a credit of £1,165 million (2013 credit of £566 million) transferred from the cash flow hedging reserve (see note 44)

6 Net fee and commission income

	2014 £m	2013 £m
Fee and commission income		
Current accounts	918	973
Credit and debit card fees	1,050	984
Other	1,698	2,162
Total fee and commission income	3,666	4,119
Fee and commission expense	(1,402)	(1,383)
Net fee and commission income	2,264	2,736

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

	2014 £m	2013 £m
Foreign exchange translation (losses) gains	(153)	139
Gains on foreign exchange trading transactions	344	238
Total foreign exchange	191	377
Investment property gains (note 22)	513	156
Securities and other gains (see below)	8,804	16,506
Net trading income	**9,508**	**17,039**

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

	2014 £m	2013 £m
Net income (expense) arising on assets held at fair value through profit or loss		
Debt securities, loans and advances	4,817	70
Equity shares	3,815	15,684
Total net income arising on assets held at fair value through profit or loss	8,632	15,754
Net expense arising on liabilities held at fair value through profit or loss – debt securities in issue	(75)	(92)
Total net gains arising on assets and liabilities held at fair value through profit or loss	8,557	15,662
Net gains on financial instruments held for trading	247	844
Securities and other gains	**8,804**	**16,506**

8 Insurance premium income

	2014 £m	2013 £m
Life insurance		
Gross premiums	6,397	7,382
Ceded reinsurance premiums	(142)	(182)
Net earned premiums	6,255	7,200
Non-life insurance		
Gross written premiums	869	972
Ceded reinsurance premiums	(14)	(18)
Net written premiums	855	954
Change in provision for unearned premiums (note 33(2))	18	49
Change in provision for ceded unearned premiums (note 33(2))	(3)	(6)
Net earned premiums	870	997
Total net earned premiums	**7,125**	**8,197**

Life insurance gross premiums can be further analysed as follows

	2014 £m	2013 £m
Life and pensions	6,070	6,823
Annuities	327	549
Other	–	10
Gross premiums	**6,397**	**7,382**

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

	2014 £m	2013 £m
Credit protection	93	141
Home	773	828
Health	3	3
Gross written premiums	**869**	**972**

9 Other operating income

	2014 £m	2013 £m
Operating lease rental income	1,126	1,120
Rental income from investment properties (note 22)	269	308
Gains less losses on disposal of available-for-sale financial assets (note 44)	131	629
Movement in value of in-force business (note 24)	(428)	416
Liability management	(24)	(142)
Share of results of joint ventures and associates	32	43
Other income	(55)	881
Total other operating income	**1,051**	3,255

Liability management
Losses of £24 million (2013 losses of £142 million) arose on transactions undertaken as part of the Group's management of wholesale funding and capital

Other
On 31 March 2014 the Group completed the sale of Scottish Widows Investment Partnership, realising a gain of £128 million, offset by losses on other asset disposals

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

- The sale, in three tranches, of the Group's shareholding in St James's Place plc, generating a total profit of £540 million
- On 31 May 2013, the Group sold a portfolio of US RMBS (residential mortgage backed securities) for a cash consideration of £3 3 billion, realising a profit of £538 million
- On 30 June 2013 the Group disposed of its Spanish retail banking operations, including Lloyds Bank International S A U and Lloyds Investment España SGIIC S A U, to Banco Sabadell, S A realising a loss of £256 million
- On 31 December 2013, the Group completed the sale of its Australian operations (which principally comprise Capital Finance Australia Limited, a provider of motor and equipment asset finance, and BOS International (Australia) Limited, a corporate lending business) generating a profit on sale of £49 million
- On 21 August 2013 the Group announced the sale of its German life insurance business, Heidelberger Lebensversicherung AG, which completed in the first quarter of 2014, an impairment of £382 million was recognised in the year ended 31 December 2013

10 Insurance claims

Insurance claims comprise

	2014 £m	2013 £m
Life insurance and participating investment contracts		
Claims and surrenders		
Gross	(7,506)	(8,495)
Reinsurers' share	69	108
	(7,437)	(8,387)
Change in insurance and participating investment contracts (note 33(1))		
Change in gross liabilities	(4,392)	(5,184)
Change in assets arising from reinsurance contracts held	8	(48)
	(4,384)	(5,232)
Change in non-participating investment contracts		
Change in gross liabilities	(1,448)	(5,409)
Change in assets arising from reinsurance contracts held	32	-
	(1,416)	(5,409)
Change in unallocated surplus (note 36)	74	(123)
Total life insurance and participating investment contracts	**(13,163)**	(19,151)

10 Insurance claims (continued)

	2014 £m	2013 £m
Non-life insurance		
Claims and claims paid		
Gross	**(400)**	(388)
Reinsurers' share	**–**	–
	(400)	(388)
Change in liabilities (note 36(2))		
Gross	**70**	33
Reinsurers' share	**–**	(1)
	70	32
Total non-life insurance	**(330)**	(356)
Total insurance claims expense	**(13,493)**	(19,507)

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

	2014 £m	2013 £m
Deaths	**(549)**	(611)
Maturities	**(1,656)**	(2,240)
Surrenders	**(4,102)**	(4,486)
Annuities	**(884)**	(860)
Other	**(315)**	(295)
Total life insurance gross claims	**(7,506)**	(8,492)

A non-life insurance claims development table is included in note 33

11 Operating expenses

	2014 £m	2013 £m
Staff costs		
Salaries	3,178	3,331
Performance-based compensation	390	473
Social security costs	398	385
Pensions and other post-retirement benefit schemes (note 38)		
Past service (credit) charge	(822)	104
Other	596	654
	(226)	758
Restructuring costs	264	111
Other staff costs	741	783
	4,745	5,841
Premises and equipment		
Rent and rates	424	467
Hire of equipment	12	15
Repairs and maintenance	221	178
Other	234	310
	891	970
Other expenses		
Communications and data processing	1,118	1,169
Advertising and promotion	336	313
Professional fees	480	424
Other	998	963
	2,932	2,869
Depreciation and amortisation		
Depreciation of tangible fixed assets (note 26)	1,391	1,374
Amortisation of acquired value of in-force non-participating investment contracts (note 24)	43	54
Amortisation of other intangible assets (note 25)	501	512
	1,935	1,940
Total operating expenses, excluding payment protection insurance provision	10,503	11,620
Regulatory provisions		
Payment protection insurance provision (note 40)	2,200	3,050
Other regulatory provisions (note 40)	925	405
	3,125	3,455
Total operating expenses	**13,628**	**15,075**

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

In 2013 the Group agreed certain changes to early retirement and commutation factors in two of its principal defined benefit pension schemes resulting in a curtailment cost of £104 million recognised in the Groups income statement in the year ended 31 December 2013

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

	2014	2013
UK	94,241	96,001
Overseas	847	1,868
Total	**95,088**	**97,869**

Notes to the accounts

11 Operating expenses (continued)

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

	2014 £m	2013 £m
Fees payable for the audit of the Bank's current year annual report	**2 8**	2 5
Fees payable for other services		
Audit of the Bank's subsidiaries pursuant to legislation	**11 9**	12 3
Other services supplied pursuant to legislation	**1 6**	2 7
Other services – audit-related fees	**0 3**	0 9
Taxation compliance services	**0 1**	0 2
All other taxation advisory services	–	0 1
Services relating to corporate finance transactions	–	–
All other services	–	0 4
Total fees payable to the Bank's auditors	**16 7**	19 1

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

	2014 £m	2013 £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 5
Reviews of the financial position of corporate and other borrowers	**0 1**	1 1
Acquisition due diligence and other work performed in respect of potential venture capital investments	–	0 1

12 Impairment

	2014 £m	2013 £m
Impairment losses on loans and receivables		
Loans and advances to customers	**735**	2,725
Debt securities classified as loans and receivables	**2**	1
Total impairment losses on loans and receivables (note 20)	**737**	2,726
Impairment of available-for-sale financial assets	**5**	15
Other credit risk provisions	**10**	–
Total impairment charged to the income statement	**752**	2,741

13 Taxation

a Analysis of tax charge for the year

	2014 £m	2013 £m
UK corporation tax		
Current tax on profit for the year	(260)	(280)
Adjustments in respect of prior years	125	(229)
	(135)	(509)
Foreign tax		
Current tax on profit for the year	(39)	(59)
Adjustments in respect of prior years	3	25
	(36)	(34)
Current tax charge	(171)	(543)
Deferred tax (note 39)		
Origination and reversal of temporary differences	(43)	(428)
Reduction in UK corporation tax rate and related impacts	(26)	(602)
Adjustments in respect of prior years	(182)	313
	(251)	(717)
Tax charge	**(422)**	(1,260)

The charge for tax on the profit for 2014 is based on a UK corporation tax rate of 21 5 per cent (2013 23 25 per cent)

The above income tax charge is made up as follows

	2014 £m	2013 £m
Tax charge attributable to policyholders	(18)	(328)
Shareholder tax charge	(404)	(932)
Tax charge	**(422)**	(1 260)

13 Taxation (continued)

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

	2014 £m	2013 £m
Profit before tax	**2,289**	894
Tax charge thereon at UK corporation tax rate of 21 5 per cent (2013 23 25 per cent)	**(492)**	(208)
Factors affecting (charge) credit		
UK corporation tax rate change and related impacts	**(26)**	(602)
Disallowed items	**(149)**	(207)
Non-taxable items	**151**	236
Overseas tax rate differences	**(24)**	(116)
Gains exempted or covered by capital losses	**181**	57
Policyholder tax	**(14)**	(251)
Deferred tax on losses no longer recognised following sale of Australian operations	**-**	(348)
Deferred tax on Australian tax losses not previously recognised	**-**	60
Adjustments in respect of previous years	**(54)**	109
Effect of profit in joint ventures and associates	**7**	9
Other items	**(2)**	1
Tax charge on profit on ordinary activities	**(422)**	(1,260)

The Finance Act 2013 (the Act) was substantively enacted on 2 July 2013 The Act further reduced the main rate of corporation tax to 21 per cent with effect from 1 April 2014 and 20 per cent with effect from 1 April 2015

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

	The Group 2014 £m	The Group 2013 £m	The Bank 2014 £m	The Bank 2013 £m
Trading assets	**48,504**	37,480	**59,580**	35,580
Other financial assets at fair value through profit or loss	**104,016**	105,727	**6,741**	4,587
Total	**152,520**	143,207	**66,321**	40,167

These assets are comprised as follows

	The Group 2014 Trading assets £m	The Group 2014 Other financial assets at fair value through profit or loss £m	The Group 2013 Trading assets £m	The Group 2013 Other financial assets at fair value through profit or loss £m	The Bank 2014 Trading assets £m	The Bank 2014 Other financial assets at fair value through profit or loss £m	The Bank 2013 Trading assets £m	The Bank 2013 Other financial assets at fair value through profit or loss £m
Loans and advances to customers	**28,513**	**–**	21,083	27	**39,802**	**–**	23,898	6
Loans and advances to banks	**8,212**	**–**	8,333	–	**8,011**	**–**	5,778	–
Debt securities								
Government securities	**7,976**	**17,497**	4,259	16,430	**7,931**	**6,662**	4,144	4,520
Other public sector securities	**–**	**2,170**	14	2,183	**–**	**–**	–	–
Bank and building society certificates of deposit	**554**	**–**	1,491	–	**554**	**–**	32	–
Asset-backed securities								
Mortgage-backed securities	**187**	**847**	5	793	**187**	**–**	7	–
Other asset-backed securities	**129**	**721**	171	756	**129**	**–**	171	–
Corporate and other debt securities	**1,496**	**20,605**	1,949	18,717	**1,529**	**79**	1,496	61
	10,342	**41,840**	7,889	38,879	**10,330**	**6,741**	5,850	4,581
Equity shares	**–**	**62,154**	114	66,767	**–**	**–**	–	–
Treasury bills and other bills	**1,437**	**22**	61	54	**1,437**	**–**	54	–
Total	**48,504**	**104,016**	37,480	105,727	**59,580**	**6,741**	35,580	4,587

At 31 December 2014 £98,906 million (2013 £107,976 million) of trading and other financial assets at fair value through profit or loss of the Group and £15,851 million (2013 £10,000 million) of the Bank had a contractual residual maturity of greater than one year

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

(i) financial assets backing insurance contracts and investment contracts of £94,857 million (2013 £101,211 million) which are so designated because the related liabilities either have cash flows that are contractually based on the performance of the assets or are contracts whose measurement takes account of current market conditions and where significant measurement inconsistencies would otherwise arise Included within these assets are investments in unconsolidated structured entities of £27,590 million (2013 £24,452 million) see note 19,

(ii) loans and advances to customers of £27 million at 31 December 2013 which were economically hedged by interest rate derivatives which were not in hedge accounting relationships and where significant measurement inconsistencies would otherwise have arisen if the related derivatives had not been treated as trading liabilities and the loans and advances had not been carried at amortised cost, and

(iii) private equity investments of £2,350 million (2013 £2,632 million) that are managed and evaluated, on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis

The maximum exposure to credit risk at 31 December 2013 of the loans and advances to banks and customers designated at fair value through profit or loss at that date was £27 million, the Group did not hold any credit derivatives or other instruments in mitigation of this risk There was no significant movement in the fair value of these loans attributable to changes in credit risk which was determined by reference to the publicly available credit ratings of the instruments involved

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

15 Derivative financial instruments

The Group holds derivatives as part of the following strategies

- Customer driven, where derivatives are held as part of the provision of risk management products to Group customers,
- To manage and hedge the Group's interest rate and foreign exchange risk arising from normal banking business The hedge accounting strategy adopted by the Group is to utilise a combination of fair value and cash flow hedge approaches as described in note 53, and
- Derivatives held in policyholders funds as permitted by the investment strategies of those funds

Derivatives are classified as trading except those designated as effective hedging instruments which meet the criteria under IAS 39 Derivatives are held at fair value on the Group's balance sheet A description of the methodology used to determine the fair value of derivative financial instruments and the effect of using reasonably possible alternative assumptions for those derivatives valued using unobservable inputs is set out in note 50

The principal derivatives used by the Group are as follows

- Interest rate related contracts include interest rate swaps, forward rate agreements and options An interest rate swap is an agreement between two parties to exchange fixed and floating interest payments, based upon interest rates defined in the contract, without the exchange of the underlying principal amounts Forward rate agreements are contracts for the payment of the difference between a specified rate of interest and a reference rate, applied to a notional principal amount at a specific date in the future An interest rate option gives the buyer, on payment of a premium, the right, but not the obligation, to fix the rate of interest on a future loan or deposit, for a specified period and commencing on a specified future date
- Exchange rate related contracts include forward foreign exchange contracts, currency swaps and options A forward foreign exchange contract is an agreement to buy or sell a specified amount of foreign currency on a specified future date at an agreed rate Currency swaps generally involve the exchange of interest payment obligations denominated in different currencies, the exchange of principal can be notional or actual A currency option gives the buyer, on payment of a premium, the right, but not the obligation, to sell specified amounts of currency at agreed rates of exchange on or before a specified future date
- Credit derivatives, principally credit default swaps, are used by the Group as part of its trading activity and to manage its own exposure to credit risk A credit default swap is a swap in which one counterparty receives a premium at pre-set intervals in consideration for guaranteeing to make a specific payment should a negative credit event take place The Group also uses credit default swaps to securitise, in combination with external funding, £611 million (2013 £828 million) of corporate and commercial banking loans
- Equity derivatives are also used by the Group as part of its equity-based retail product activity to eliminate the Group's exposure to fluctuations in various international stock exchange indices Index-linked equity options are purchased which give the Group the right, but not the obligation, to buy or sell a specified amount of equities, or basket of equities, in the form of published indices on or before a specified future date

15 Derivative financial instruments (continued)

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

	2014			2013[1]		
The Group	**Contract/ notional amount £m**	**Fair value assets £m**	**Fair value liabilities £m**	Contract/ notional amount £m	Fair value assets £m	Fair value liabilities £m
Trading						
Exchange rate contracts						
Spot, forwards and futures	36,894	941	801	38,213	699	639
Currency swaps	301,451	4,849	4,706	291,667	3,207	4,196
Options purchased	49,085	1,244	–	33,061	780	–
Options written	49,784	–	1,443	33,445	–	836
	437,214	7,034	6,950	396,386	4,686	5,671
Interest rate contracts						
Interest rate swaps	3,999,343	18,668	16,578	1,892,322	14,789	12,582
Forward rate agreements	1,791,219	9	56	1,991,371	17	13
Options purchased	58,600	3,755	–	107,374	3,395	–
Options written	54,031	–	3,725	101,136	–	3,194
Futures	134,117	9	24	141,669	2	12
	6,037,310	22,441	20,383	4,233,872	18,203	15,801
Credit derivatives	18,063	279	1,066	6,507	208	190
Equity and other contracts	14,842	1,430	1,181	18,780	1,753	1,478
Total derivative assets/liabilities held for trading	6,507,429	31,184	29,580	4,655,545	24,850	23,140
Hedging						
Derivatives designated as fair value hedges						
Cross currency swaps	7,281	113	131	35,651	383	612
Interest rate swaps (including swap options)	115,905	2,408	928	154,657	2,662	1,111
Options purchased	553	17	–	522	10	–
Derivatives designated as cash flow hedges						
Cross currency swaps	11,720	155	113	1,135	12	4
Interest rate swaps	518,746	1,606	2,536	559,690	1,670	3,031
Futures	151,102	–	5	92,692	5	–
Total derivative assets/liabilities held for hedging	805,307	4,299	3,713	844,347	4,742	4,758
Total recognised derivative assets/liabilities	7,312,736	35,483	33,293	5,499,892	29,592	27,898

[1]See note 1

The principal amount of the contract does not represent the Group's real exposure to credit risk which is limited to the current cost of replacing contracts with a positive value to the Group should the counterparty default To reduce credit risk the Group uses a variety of credit enhancement techniques such as netting and collateralisation, where security is provided against the exposure Further details are provided in note 53 Credit risk

15 Derivative financial instruments (continued)

Hedged cash flows

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

2014	0-1 years £m	1 2 years £m	2-3 years £m	3-4 years £m	4 5 years £m	5-10 years £m	10 20 years £m	Over 20 years £m	Total £m
Hedged forecast cash flows expected to occur									
Forecast receivable cash flows	250	458	680	845	745	1,928	112	111	5,129
Forecast payable cash flows	(130)	(136)	(53)	(58)	(57)	(346)	(459)	(104)	(1,343)
Hedged forecast cash flows affect profit or loss									
Forecast receivable cash flows	391	536	769	830	646	1,736	114	107	5,129
Forecast payable cash flows	(174)	(105)	(54)	(57)	(63)	(358)	(433)	(99)	(1,343)

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

There were no transactions for which cash flow hedge accounting had to be ceased in 2014 or 2013 as a result of the highly probable cash flows no longer being expected to occur

At 31 December 2014 £29,935 million of total recognised derivative assets of the Group and £27,656 million of total recognised derivative liabilities of the Group (2013 £28,104 million of assets and £25,811 million of liabilities) had a contractual residual maturity of greater than one year

15 Derivative financial instruments (continued)

The Bank	2014 Contract/ notional amount £m	2014 Fair value assets £m	2014 Fair value liabilities £m	2013[1] Contract/ notional amount £m	2013[1] Fair value assets £m	2013[1] Fair value liabilities £m
Trading						
Exchange rate contracts						
Spot, forwards and futures	27,104	885	700	22,913	535	470
Currency swaps	316,921	4,972	5,174	279,345	3,129	4,102
Options purchased	48,976	1,241	–	35,581	776	–
Options written	49,613	–	1,440	35,916	–	838
	442,614	7,098	7,314	373,755	4,440	5,410
Interest rate contracts						
Interest rate swaps	4,834,436	27,713	25,588	2,489,568	18,736	16,636
Forward rate agreements	1,812,978	13	61	2,366,034	18	20
Options purchased	56,676	3,215	–	97,281	2,929	–
Options written	56,215	–	3,651	94,728	–	2,893
Futures	75,817	2	6	35,440	1	5
	6,836,122	30,943	29,306	5,083,051	21,684	19,554
Credit derivatives	17,961	281	1,079	6,236	208	125
Equity and other contracts	7,917	809	795	10,515	825	811
Total derivative assets/liabilities held for trading	7,304,614	39,131	38,494	5 473,557	27,157	25,900
Hedging						
Derivatives designated as fair value hedges						
Cross currency swaps	6,406	61	123	23,509	266	475
Interest rate swaps (including swap options)	119,951	843	2,630	152,177	638	1,933
Options purchased	553	17	–	543	10	–
Options written	–	–	–	43	–	–
Derivatives designated as cash flow hedges						
Interest rate swaps	52,396	98	69	–	–	–
Futures	125,806	–	4	–	–	–
Total derivative assets/liabilities held for hedging	305,112	1,019	2,826	176,272	914	2,408
Total recognised derivative assets/liabilities	7,609,726	40,150	41,320	5,649,829	28,071	28,308

[1]See note 1

15 Derivative financial instruments (continued)

Hedged cash flows

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

2014	0-1 years £m	1 2 years £m	2 3 years £m	3-4 years £m	4-5 years £m	5 10 years £m	10 20 years £m	Over 20 years £m	Total £m
Hedged forecast cash flows expected to occur									
Forecast receivable cash flows	192	321	476	571	564	1,567	104	12	3,807
Forecast payable cash flows	(119)	(105)	–	–	–	–	(67)	(82)	(373)
Hedged forecast cash flows affect profit or loss									
Forecast receivable cash flows	323	388	529	570	553	1,351	82	11	3,807
Forecast payable cash flows	(152)	(72)	–	–	–	–	(68)	(81)	(373)

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

There were no transactions for which cash flow hedge accounting had to be ceased in 2014 or 2013 as a result of the highly probable cash flows no longer being expected to occur

At 31 December 2014 £36,643 million of total recognised derivative assets of the Bank and £35,338 million of total recognised derivative liabilities of the Bank (2013 £26,500 million of assets and £26,389 million of liabilities) had a contractual residual maturity of greater than one year

16 Loans and advances to banks

	The Group		The Bank	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Lending to banks	**2,902**	2,168	**2,745**	1,271
Money market placements with banks	**23,253**	23,197	**1,846**	1,824
Total loans and advances to banks before allowance for impairment losses	**26,155**	25,365	**4,591**	3,095
Allowance for impairment losses (note 12)	–	–	–	–
Total loans and advances to banks	**26,155**	25,365	**4,591**	3,095

At 31 December 2014 £4,969 million (2013 £2,631 million) of loans and advances to banks of the Group and £1,935 million (2013 £191 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 53

17 Loans and advances to customers

	The Group		The Bank	
	2014 £m	2013[1] £m	**2014 £m**	2013[1] £m
Agriculture, forestry and fishing	**6,586**	6,051	**2,790**	2,460
Energy and water supply	**3,853**	4,414	**3,465**	4,057
Manufacturing	**6,000**	7,650	**5,275**	6,261
Construction	**6,425**	7,024	**4,160**	4,440
Transport, distribution and hotels	**15,112**	22,294	**10,226**	12,563
Postal and telecommunications	**2,624**	2,364	**2,184**	2,200
Property companies	**36,682**	44,277	**21,891**	23,451
Financial, business and other services	**44,979**	42,478	**32,742**	25,735
Personal				
Mortgages	**333,318**	335,611	**67,834**	72,972
Other	**23,123**	23,230	**10,777**	10,719
Lease financing	**3,013**	4,435	**215**	311
Hire purchase	**7,403**	5,090	**6,039**	2,704
Total loans and advances to customers before allowance for impairment losses	**489,118**	504,918	**167,598**	167,873
Allowance for impairment losses (note 20)	**(6,414)**	(11,966)	**(1,631)**	(2,299)
Total loans and advances to customers	**482,704**	492,952	**165,967**	165,574

[1]See note 1

At 31 December 2014 £419,193 million (2013 £421,442 million) of loans and advances to customers of the Group and £126,653 million (2013 £124,943 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 53

Included in the amounts reported above are collateral balances in the form of cash provided in respect of reverse repurchase agreements amounting to £nil (2013 £49 million) for the Group and £nil (2013 £nil) for the Bank

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

	The Group		The Bank	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Gross investment in finance leases, receivable				
Not later than 1 year	**573**	557	**33**	9
Later than 1 year and not later than 5 years	**1,214**	1,736	**116**	235
Later than 5 years	**3,136**	4,542	**161**	68
	4,923	6,835	**310**	312
Unearned future finance income on finance leases	**(1,837)**	(2,330)	**(87)**	(1)
Rentals received in advance	**(73)**	(70)	**(8)**	–
Net investment in finance leases	**3,013**	4,435	**215**	311

The net investment in finance leases represents amounts recoverable as follows

	The Group		The Bank	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Not later than 1 year	**339**	277	**28**	9
Later than 1 year and not later than 5 years	**763**	1,140	**103**	234
Later than 5 years	**1,911**	3,018	**84**	68
Net investment in finance leases	**3,013**	4,435	**215**	311

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 2014 and 2013 no contingent rentals in respect of finance leases were recognised in the income statement The allowance for uncollectable finance lease receivables included in the allowance for impairment losses is £1 million for the Group (2013 £6 million)

18 Securitisations and covered bonds

Securitisation programmes

Loans and advances to customers and debt securities classified as loans and receivables include loans securitised under the Group's securitisation programmes, the majority of which have been sold by Group companies to bankruptcy remote structured entities As the structured entities are funded by the issue of debt on terms whereby the majority of risks and rewards of the portfolio are retained by the Group company, the structured entities are consolidated fully and all of these loans are retained on the Group's balance sheet, with the related notes in issue included within debt securities in issue

Covered bond programmes

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

The Group's principal securitisation and covered bonds programmes, together with the balances of the advances subject to these arrangements and the carrying value of the notes in issue at 31 December, are listed below The notes in issue are reported in note 32

	2014		2013	
	Loans and advances securitised £m	**Notes in issue £m**	Loans and advances securitised £m	Notes in issue £m
Securitisation programmes[1]				
UK residential mortgages	**50,250**	**28,392**	55,998	36,286
Commercial loans	**13,372**	**12,533**	10,931	11,259
Credit card receivables	**6,762**	**4,278**	6,314	3,992
Dutch residential mortgages	**3,866**	**4,004**	4,381	4,508
Personal loans	**1,318**	**751**	2,729	750
PPP/PFI and project finance loans	**402**	**99**	525	106
	75,970	**50,057**	80,878	56,901
Less held by the Group		**(38,149)**		(38,288)
Total securitisation programmes (note 32)		**11,908**		18,613
Covered bond programmes				
Residential mortgage-backed	**47,795**	**31,730**	59,576	36,473
Social housing loan-backed	**2,826**	**1,800**	2,536	1,800
	50,621	**33,530**	62,112	38,273
Less held by the Group		**(6,339)**		(7,606)
Total covered bond programmes (note 32)		**27,191**		30,667
Total securitisation and covered bond programmes		**39,099**		49,280

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

Cash deposits of £11,251 million (2013 £13,500 million) held by the Group are restricted in use to repayment of the debt securities issued by the structured entities, the term advances relating to covered bonds and other legal obligations Additionally, the Group had certain contractual arrangements to provide liquidity facilities to some of these structured entities At 31 December 2014 these obligations had not been triggered and the maximum exposure under these facilities was £392 million (2013 £402 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 2014 (2013 none) Such repurchases are made in order to ensure that the expected maturity dates of the notes issued from these programmes are met

19 Structured entities

The Group's interests in structured entities are both consolidated and unconsolidated Detail of the Group's interests in consolidated structured entities are set out in note 18 for securitisations and covered bond vehicles, note 38 for structured entities associated with the Group's pension schemes, and below in part (A) and (B) Details of the Group's interests in unconsolidated structured entities are included below in part (C)

(A) Asset-backed conduits
In addition to the structured entities discussed in note 18, which are used for securitisation and covered bond programmes, the Group sponsors an active asset-backed conduit, Cancara, which invests in debt securities and client receivables The total consolidated exposure of Cancara at 31 December 2014 was £5,245 million (2013 £5,081 million), comprising £4,605 million of loans and advances (2013 £4,781 million) and £640 million of asset-backed securities (2013 £300 million)

All debt securities and lending assets held by the Group in Cancara are restricted in use, as they are held by the collateral agent for the benefit of the commercial paper investors and the liquidity providers only The Group provides liquidity facilities to Cancara under terms that are usual and customary for standard lending activities in the normal course of the Group's banking activities The Group could be asked to provide support under the contractual terms of these arrangements if Cancara experienced a shortfall in external funding, which may occur in the event of market disruption As at 31 December 2014 and 2013 these obligations had not been triggered

In addition, the Group sponsors two further asset-backed conduits, which are being run down These asset-backed conduits have no commercial paper in issue and no external liquidity providers

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

(B) Consolidated collective investment vehicles
The assets and liabilities of the Insurance business held in consolidated collective investment vehicles, such as Open Ended Investment Companies (OEICs) and limited partnerships, are not directly available for use by the Group However, the Group's investment in the majority of these collective investment vehicles is readily realisable As at 31 December 2014, the total carrying value of these consolidated collective investment vehicle assets and liabilities held by the Group was £66,070 million (2013 £55,934 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 £27,255 million at 31 December 2014 (2013 £24,552 million), included within financial assets designated at fair value through profit and loss (see note 15) These investments include both those entities managed by third parties and those managed by the Group At 31 December 2014, the total asset value of these unconsolidated structured entities, including the portion in which the Group has no interest, was £620 billion (2013 £543 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 2014, are reported in note 48

20 Allowance for impairment losses on loans and receivables

The Group	Loans and advances to customers £m	Loans and advances to banks £m	Debt securities £m	Total £m
At 1 January 2013	15,250	3	206	15,459
Exchange and other adjustments	291	-	-	291
Disposal of businesses	(176)	-	-	(176)
Advances written off	(6,229)	(3)	(82)	(6,314)
Recoveries of advances written off in previous years	456	-	-	456
Unwinding of discount	(351)	-	-	(351)
Charge to the income statement (note 12)	2,725	-	1	2,726
At 31 December 2013	11,966	-	125	12,091
Exchange and other adjustments	**(410)**	-	**9**	**(401)**
Disposal of businesses	-	-	-	-
Advances written off	**(6,432)**	-	**(10)**	**(6,442)**
Recoveries of advances written off in previous years	**681**	-	-	**681**
Unwinding of discount	**(126)**	-	-	**(126)**
Charge to the income statement (note 12)	**735**	-	**2**	**737**
At 31 December 2014	**6,414**	-	**126**	**6,540**

Of the Group's total allowance in respect of loans and advances to customers, £5,551 million (2013 £10,217 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, £1,482 million (2013 £2,217 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 £m	Loans and advances to banks £m	Debt securities £m	Total £m
At 1 January 2013	3,179	3	56	3,238
Exchange and other adjustments	(31)	-	-	(31)
Advances written off	(1,689)	(3)	(56)	(1,748)
Recoveries of advances written off in previous years	321	-	-	321
Unwinding of discount	(130)	-	-	(130)
Charge (release) to the income statement	649	-	-	649
At 31 December 2013	2,299	-	-	2,299
Exchange and other adjustments	**(12)**	-	-	**(12)**
Advances written off	**(1,323)**	-	-	**(1,323)**
Recoveries of advances written off in previous years	**320**	-	-	**320**
Unwinding of discount	**(96)**	-	-	**(96)**
Charge to the income statement	**443**	-	-	**443**
At 31 December 2014	**1,631**	-	-	**1,631**

Of the Bank's total allowance in respect of loans and advances to customers, £1,200 million (2013 £1,954 million) related to lending that had been determined to be impaired (either individually or on a collective basis) at the reporting date

Of the Bank's total allowance in respect of loans and advances to customers, £690 million (2013 £690 million) was assessed on a collective basis

21 Available-for-sale financial assets

The Group	2014 Conduits £m	2014 Other £m	2014 Total £m	2013 Conduits £m	2013 Other £m	2013 Total £m
Debt securities						
Government securities	–	47,402	47,402	–	38,290	38,290
Bank and building society certificates of deposit	–	298	298	–	208	208
Asset-backed securities						
Mortgage-backed securities	27	647	674	139	1,124	1,263
Other asset-backed securities	223	462	685	217	698	915
Corporate and other debt securities	–	5,529	5,529	–	1,855	1,855
	250	54,338	54,588	356	42,175	42,531
Equity shares	–	1,042	1,042	–	570	570
Treasury bills and similar securities	–	863	863	–	875	875
Total available-for-sale financial assets	250	56,243	56,493	356	43,620	43,976

The Bank	2014 £m	2013 £m
Debt securities		
Government securities	46,911	38,159
Bank and building society certificates of deposit	186	196
Asset-backed securities		
Mortgage-backed securities	147	366
Other asset-backed securities	120	179
Corporate and other debt securities	3,311	2,276
	50,675	41,176
Equity shares	726	149
Treasury bills and similar securities	11	23
Total available-for-sale financial assets	51,412	41,348

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

At 31 December 2014 £53,041 million (2013 £42,637 million) of available-for-sale financial assets of the Group and £47,688 million (2013 £39,483 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 50

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

At 31 December 2014, the Bank had sold £55 million (2013 £83 million) of debt securities to one of its subsidiary undertakings, however the related agreement is such that the Bank has retained substantially all of the risks and rewards of ownership and, as a consequence, the debt securities continue to be recognised on the Bank's balance sheet

22 Investment properties of the Group

	2014 £m	2013 £m
At 1 January	4,864	5,405
Exchange and other adjustments	(6)	24
Additions		
Acquisitions of new properties	293	261
Consolidation of new subsidiary undertakings	-	805
Additional expenditure on existing properties	83	48
Total additions	376	1,114
Disposals	(1,255)	(1,253)
Disposal of businesses	-	(582)
Changes in fair value (note 7)	513	156
At 31 December	4,492	4,864

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

	2014 £m	2013 £m
Rental income	269	308
Direct operating expenses arising from investment properties that generate rental income	37	59

Capital expenditure in respect of investment properties which had been contracted for but not recognised in the financial statements was £47 million (2013 £2 million)

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

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

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

23 Goodwill of the Group

	2014 £m	2013 £m
At 1 January and 31 December	**2,016**	2,016
Cost[1]	**2,362**	2,362
Accumulated impairment losses	**(346)**	(346)
At 31 December	**2,016**	2,016

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

The goodwill held in the Group's balance sheet is tested at least annually for impairment For the purposes of impairment testing the goodwill is allocated to the appropriate cash generating unit, of the total balance of £2,016 million (2013 £2,016 million), £1,836 million (or 91 per cent of the total) has been allocated to Scottish Widows and £170 million (or 8 per cent of the total) to Asset Finance

The recoverable amount of the goodwill relating to Scottish Widows has been based on a value-in-use calculation The calculation uses pre-tax projections of future cash flows based upon budgets and plans approved by management covering a five-year period, and a discount rate of 10 per cent The budgets and plans are based upon past experience adjusted to take into account anticipated changes in sales volumes, product mix and margins having regard to expected market conditions and competitor activity The discount rate is determined with reference to internal measures and available industry information Cash flows beyond the five-year period have been extrapolated using a steady 3 per cent growth rate which does not exceed the long-term average growth rate for the life assurance market Management believes that any reasonably possible change in the key assumptions would not cause the recoverable amount of Scottish Widows to fall below its balance sheet carrying value

The recoverable amount of the goodwill relating to Asset Finance has also been based on a value in use calculation using pre-tax cash flow projections based on financial budgets and plans approved by management covering a five-year period and a discount rate of 14 per cent The cash flows beyond the five-year period are extrapolated using a growth rate of 0 5 per cent which does not exceed the long-term average growth rates for the markets in which Asset Finance participates Management believes that any reasonably possible change in the key assumptions above would not cause the recoverable amount of Asset Finance to fall below its balance sheet carrying value

24 Value of in-force business

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

	2014 £m	2013 £m
Acquired value of in-force non-participating investment contracts	**418**	461
Value of in-force insurance and participating investment contracts	**4,446**	4,874
Total value of in-force business	**4,864**	5,335

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

	2014 £m	2013 £m
At 1 January	**461**	1,312
Amortisation taken to income statement (note 11)	**(43)**	(54)
Disposal of businesses	**–**	(797)
At 31 December	**418**	461

The acquired value of in-force non-participating investment contracts includes £251 million (2013 £277 million) in relation to OEIC business

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

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

	2014 £m	2013 £m
At 1 January	**4,874**	5,488
Exchange and other adjustments		21
Movements in the year		
New business	**425**	595
Existing business		
Expected return	**(441)**	(432)
Experience variances	**(65)**	(246)
Assumption changes	**(586)**	37
Economic variance	**239**	462
Movement in the value of in-force business taken to income statement (note 9)	**(428)**	416
Disposal of businesses	**–**	(1,051)
At 31 December	**4,446**	4,874

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

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

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

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

The liabilities in respect of the Group's UK annuity business are matched by a portfolio of fixed interest securities, including a large proportion of corporate bonds and, since late 2012, illiquid loan assets The value of the in-force business asset for UK annuity business has been calculated after taking into account an estimate of the market premium for illiquidity in respect of corporate bond holdings and relevant illiquid loan assets The determination of the market premium for illiquidity reflects actual asset allocation and relevant observable market data, and has been checked for consistency with the capital markets The illiquidity premium is estimated to be 120 basis points at 31 December 2014 (2013 91 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

	2014 %	2013 %
Risk-free rate (value of in-force non annuity business)[1]	**0 00 to 3 27**	0 00 to 4 04
Risk-free rate (value of in-force annuity business)[1]	**1 02 to 4 56**	0 64 to 5 06
Risk-free rate (financial options and guarantees)[1]	**0 29 to 2 20**	0 21 to 3 45
Retail price inflation	**3 26**	3 59
Expense inflation	**3 92**	4 25

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

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

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

Mortality and morbidity
The mortality and morbidity assumptions, including allowances for improvements in longevity, are set with regard to the Group's actual experience where this provides a reliable basis and relevant industry data otherwise

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

Lapse (persistency) and paid-up rates
Lapse and paid up rates assumptions are reviewed each year The most recent experience is considered along with the results of previous analyses and management's views on future experience In determining this best estimate view, a number of factors are considered, including the credibility of the results (which will be affected by the volume of data available), any exceptional events that have occurred during the period under consideration and any known or expected trends in underlying data

Maintenance expenses
Allowance is made for future policy costs explicitly Expenses are determined by reference to an internal analysis of current and expected future costs Explicit allowance is made for future expense inflation

These assumptions are intended to represent a best estimate of future experience, and further information about the effect of changes in key assumptions is given in note 34

25 Other intangible assets

	The Group						The Bank
	Brands £m	Core deposit intangibles £m	Purchased credit card relation-ships £m	Customer related intangibles £m	Capitalised software enhance ments £m	Total £m	Capitalised software enhance-ments £m
Cost							
At 1 January 2013	596	2,770	300	881	1,133	5,680	627
Exchange and other adjustments	–	–	–	–	22	22	(1)
Additions	–	–	15	–	274	289	221
Disposals	–	–	–	–	(92)	(92)	–
Disposal of businesses	–	–	–	(343)	(17)	(360)	–
At 31 December 2013	596	2,770	315	538	1,320	5,539	847
Additions	**–**	**–**	**–**	**–**	**297**	**297**	**188**
Disposals	**–**	**–**	**–**	**–**	**(108)**	**(108)**	**–**
At 31 December 2014	**596**	**2,770**	**315**	**538**	**1,509**	**5,728**	**1,035**
Accumulated amortisation							
At 1 January 2013	86	1,560	238	526	478	2,888	216
Exchange and other adjustments	–	–	–	–	9	9	–
Charge for the year (note 11)	21	300	62	20	109	512	67
Disposals	–	–	–	–	(45)	(45)	–
Disposal of businesses	–	–	–	(104)	–	(104)	–
At 31 December 2013	107	1,860	300	442	551	3,260	283
Charge for the year (note 11)	**21**	**300**	**5**	**14**	**161**	**501**	**105**
Disposals	**–**	**–**	**–**	**–**	**(103)**	**(103)**	**–**
At 31 December 2014	**128**	**2,160**	**305**	**456**	**609**	**3,658**	**388**
Balance sheet amount at 31 December 2014	**468**	**610**	**10**	**82**	**900**	**2,070**	**647**
Balance sheet amount at 31 December 2013	489	910	15	96	769	2,279	564

Included within brands above are assets of £380 million (2013 £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 2014 shown above will be amortised, in accordance with the Group's accounting policy, on a straight line basis over its remaining useful life of two years

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

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

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

26 Tangible fixed assets

	The Group				The Bank			
	Premises £m	Equipment £m	Operating lease assets £m	Total tangible fixed assets £m	Premises £m	Equipment £m	Operating lease assets £m	Total tangible fixed assets £m
Cost								
At 1 January 2013	2,616	3,753	4,899	11,268	1,435	3,190	160	4,785
Exchange and other adjustments	–	83	(17)	66	(1)	13	2	14
Additions	300	758	1,326	2,384	232	640	–	872
Disposals	(48)	(406)	(1,460)	(1,914)	(29)	(291)	–	(320)
Disposal of businesses	(2)	(94)	(80)	(176)	–	–	–	–
At 31 December 2013	2,866	4,094	4,668	11,628	1,637	3,552	162	5,351
Exchange and other adjustments	**1**	**1**	**24**	**26**	**1**	**1**	**7**	**9**
Additions	**212**	**971**	**1,673**	**2,856**	**141**	**853**	–	**994**
Disposals	**(186)**	**(223)**	**(1,759)**	**(2,168)**	**(87)**	**(86)**	–	**(173)**
At 31 December 2014	**2,893**	**4,843**	**4,606**	**12,342**	**1,692**	**4,320**	**169**	**6,181**
Accumulated depreciation and impairment								
At 1 January 2013	1,191	1,710	1,025	3,926	902	1,695	2	2,599
Exchange and other adjustments	4	18	(10)	12	–	26	1	27
Depreciation charge for the year (note 11)	145	418	811	1,374	75	292	5	372
Disposals	(41)	(305)	(808)	(1,154)	(21)	(253)	–	(274)
Disposal of businesses	–	(68)	(32)	(100)	–	–	–	–
At 31 December 2013	1,299	1,773	986	4,058	956	1,760	8	2,724
Exchange and other adjustments	–	**1**	**7**	**8**	**(1)**	**1**	–	–
Depreciation charge for the year (note 11)	**142**	**462**	**787**	**1,391**	**63**	**363**	**5**	**431**
Disposals	**(67)**	**(153)**	**(947)**	**(1,167)**	**(41)**	**(22)**	–	**(63)**
At 31 December 2014	**1,374**	**2,083**	**833**	**4,290**	**977**	**2,102**	**13**	**3,092**
Balance sheet amount at 31 December 2014	**1,519**	**2,760**	**3,773**	**8,052**	**715**	**2,218**	**156**	**3,089**
Balance sheet amount at 31 December 2013	1,567	2,321	3,682	7,570	681	1,792	154	2,627

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

	2014 £m	2013 £m
Receivable within 1 year	**965**	1,053
1 to 5 years	**1,103**	1,165
Over 5 years	**203**	356
Total future minimum rentals receivable	**2,271**	2,574

Equipment leased to customers under operating leases primarily relates to vehicle contract hire arrangements During 2014 and 2013 no contingent rentals in respect of operating leases were recognised in the income statement

In addition, total future minimum sub-lease income of £45 million for the Group and £12 million for the Bank at 31 December 2014 (£19 million for the Group and £17 million for the Bank at 31 December 2013) is expected to be received under non-cancellable sub-leases of premises

27 Investment in subsidiary undertakings of the Bank

	2014 £m	2013 £m
At 1 January	**40,929**	39,958
Exchange and other adjustments	–	–
Additional capital injections and transfers	**1,653**	1,394
Disposals	**(1,685)**	(423)
Capital repayment	**(1,930)**	–
Impairment	**(149)**	–
At 31 December	**38,818**	40,929

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

	Share class	Country of registration/ incorporation	Percentage of equity share capital and voting rights held	Nature of business
TSB Bank plc	Ordinary	Scotland	50%	Banking and financial services
Scottish Widows plc	Ordinary	Scotland	100%[1]	Life assurance
HBOS plc	Ordinary	Scotland	100%	Holding company
Bank of Scotland plc	Ordinary	Scotland	100%[1]	Banking and financial services
St Andrew's Insurance plc	Ordinary	England	100%[1]	General insurance
Clerical Medical Investment Group Limited	Ordinary	England	100%[1]	Life assurance
Clerical Medical Managed Funds Limited	Ordinary	England	100%[1]	Life assurance

[1] Indirect interest

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

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 Subject to the foregoing, there were no further significant restrictions on any of the Bank's subsidiaries in paying dividends or repaying loans and advances

A full list of subsidiaries will be included in the Bank's next annual return, the Bank having made use of the exemption in Section 410 of the Companies Act 2006

28 Other assets

	The Group		The Bank	
	2014 £m	2013 £m	2014 £m	2013 £m
Assets arising from reinsurance contracts held (notes 33 and 35)	**682**	732	–	–
Deferred acquisition and origination costs (see below)	**114**	130	–	–
Settlement balances	**1,676**	2,904	**1,430**	801
Corporate pension asset	**12,741**	9,984	–	–
Investments in joint ventures and associates	**74**	101	**5**	5
Assets of disposal groups	–	7,988	–	244
Other assets and prepayments	**6,458**	5,230	**1,016**	807
Total other assets	**21,745**	27,069	**2,451**	1,857

29 Deposits from banks

	The Group		The Bank	
	2014 **£m**	2013 £m	**2014** **£m**	2013 £m
Liabilities in respect of securities sold under repurchase agreements	**1,075**	1,874	**480**	1,251
Other deposits from banks	**9,812**	12,108	**7,726**	9,197
Total deposits from banks	**10,887**	13,982	**8,206**	10,448

At 31 December 2014 £3,597 million (2013 £2,190 million) of deposits from banks of the Group and £1,808 million (2013 £1,009 million) of the Bank had a contractual residual maturity of greater than one year

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

30 Customer deposits

	The Group		The Bank	
	2014 **£m**	2013[1] £m	**2014** **£m**	2013[1] £m
Non-interest bearing current accounts	**46,487**	40,802	**24,334**	21,111
Interest bearing current accounts	**86,131**	77,789	**53,975**	46,881
Savings and investment accounts	**256,701**	265,422	**73,821**	77,011
Liabilities in respect of securities sold under repurchase agreements	**–**	2,978	**–**	2,978
Other customer deposits	**57,748**	52,476	**42,569**	37,574
Total customer deposits	**447,067**	439,467	**194,699**	185,555

[1]See note 1

At 31 December 2014 £31,126 million (2013 £44,702 million) of customer deposits of the Group and £4,904 million (2013 £7,941 million) of the Bank had a contractual residual maturity of greater than one year

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

Included in the amounts above for the Group are deposits of £260,129 million (2013 £258,384 million) which are protected under the UK Financial Services Compensation Scheme

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

	The Group		The Bank	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Liabilities held at fair value through profit or loss (debt securities)	**6,744**	5,306	**6,739**	5,316
Trading liabilities				
Liabilities in respect of securities sold under repurchase agreements	**50,007**	28,902	**60,424**	32,255
Short positions in securities	**3,219**	6,890	**3,172**	1,867
Other	**2,132**	2,527	**2,892**	3,668
	55,358	38,319	**66,488**	37,790
Trading and other financial liabilities at fair value through profit or loss	**62,102**	43,625	**73,227**	43,106

At 31 December 2014, the Group had £8,865 million (2013 £8,990 million) and the Bank had £8,860 million (2013 £9,860 million) of trading and other liabilities at fair value through profit or loss with a contractual residual maturity of greater than one year

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

The amount contractually payable on maturity of the debt securities held at fair value through profit or loss at 31 December 2014 was £10,112 million (2013 £6 625 million), which was £3,373 million higher than the balance sheet carrying value (2013 £1,358 million higher) At 31 December 2014 there was a cumulative £181 million increase (2013 £214 million increase) in the fair value of these liabilities attributable to changes in credit spread risk, this is determined by reference to the quoted credit spreads of the Bank Of the cumulative amount, a decrease of £33 million arose in 2014 and a decrease of £40 million arose in 2013

For the fair value of collateral pledged in respect of repurchase agreements see note 53

32 Debt securities in issue

	The Group		The Bank	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Medium-term notes issued	**22,167**	23,385	**20,397**	20,746
Covered bonds (note 18)	**27,191**	30,667	**32,600**	17,681
Certificates of deposit issued	**7,033**	8,866	**7,033**	8,866
Securitisation notes (note 18)	**11,908**	18,613	**1,901**	4,332
Commercial paper	**7,373**	5,035	**4,131**	1,570
Total debt securities in issue	**75,672**	86,566	**66,062**	53,195

At 31 December 2014 £49,849 million (2013 £61,244 million) of debt securities in issue of the Group and £46,287 million (2013 £35,714 million) of the Bank had a contractual residual maturity of greater than one year

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

Insurance contract and participating investment contract liabilities are comprised as follows

	2014			2013		
	Gross £m	**Reinsurance[1] £m**	**Net £m**	Gross £m	Reinsurance[1] £m	Net £m
Life insurance (see (1) below)						
Insurance contracts	**72,191**	**(636)**	**71,555**	67,650	(675)	66,975
Participating investment contracts	**14,102**	**-**	**14,102**	14,416	-	14,416
	86,293	**(636)**	**85,657**	82,066	(675)	81,391
Non-life insurance contracts (see (2) below)						
Unearned premiums	**424**	**(7)**	**417**	442	(10)	432
Claims outstanding	**224**	**-**	**224**	293	-	293
	648	**(7)**	**641**	735	(10)	725
Total	**86,941**	**(643)**	**86,298**	82,801	(685)	82,116

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

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

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

	Insurance contracts	Participating investment contracts	Gross £m	Reinsurance[1] £m	Net £m
At 1 January 2013	65,665	16,489	82,154	(2,257)	79,897
New business	4,008	295	4,303	(28)	4,275
Changes in existing business	3,230	(2,349)	881	76	957
Change in liabilities charged to the income statement (note 10)	7,238	(2,054)	5,184	48	5,232
Exchange and other adjustments	7	(11)	(4)	(7)	(11)
Disposal of businesses	(5,260)	(8)	(5,268)	1,541	(3,727)
At 31 December 2013	67,650	14,416	82,066	(675)	81,391
New business	**3,123**	**28**	**3,151**	**(20)**	**3,131**
Changes in existing business	**1,582**	**(341)**	**1,241**	**12**	**1,253**
Change in liabilities charged to the income statement (note 10)	**4,705**	**(313)**	**4,392**	**(8)**	**4,384**
Exchange and other adjustments	**(164)**	**(1)**	**(165)**	**47**	**(118)**
At 31 December 2014	**72,191**	**14,102**	**86,293**	**(636)**	**85,657**

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

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

	2014			2013		
	With-profit fund £m	**Non profit fund £m**	**Total £m**	With profit fund £m	Non profit fund £m	Total £m
Insurance contracts	**12,334**	**59,857**	**72,191**	11,739	55,911	67,650
Participating investment contracts	**8,957**	**5,145**	**14,102**	9,227	5,189	14,416
Total	**21,291**	**65,002**	**86,293**	20,966	61,100	82,066

With-profit fund realistic liabilities

(i) Business description

The Group has with-profit funds within Scottish Widows plc and Clerical Medical Investment Group Limited containing both insurance contracts and participating investment contracts

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

(ii) Method of calculation of liabilities

With-profit liabilities are stated at their realistic value, the main components of which are

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

The realistic assessment is carried out using a stochastic simulation model which values liabilities on a market-consistent basis The calculation of realistic liabilities uses best estimate assumptions for mortality, persistency rates and expenses These are calculated in a similar manner to those used for the value of in force business as discussed in note 24

(iii) Assumptions

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

Investment returns and discount rates

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

Guaranteed annuity option take up rates

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

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

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

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

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

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

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

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

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

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

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

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

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

Maintenance expenses
Allowance is made for future policy costs explicitly Expenses are determined by reference to an internal analysis of current and expected future costs plus a margin for adverse deviation Explicit allowance is made for future expense inflation

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

Key changes in assumptions

A detailed review of the Group's assumptions in 2014 resulted in the following key impacts on profit before tax

- Change in persistency assumptions (£119 million decrease)
- Change in the assumption in respect of current and future mortality rates (£23 million increase)
- Change in expenses assumptions (£51 million increase)
- Change in credit default methodology (£36 million increase)

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

(2) Non-life insurance

Gross non-life insurance contract liabilities are analysed by line of business as follows

	2014 £m	2013 £m
Credit protection	**45**	60
Home	**600**	673
Health	**3**	2
Total gross non-life insurance contract liabilities	**648**	735

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

The reserving methodology and associated assumptions are set out below

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

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

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

	Gross £m	Reinsurance[1] £m	Net £m
Provisions for unearned premiums			
At 1 January 2013	494	(16)	478
Increase in the year	972	(18)	954
Release in the year	(1,021)	24	(997)
Change in provision for unearned premiums charged to income statement (note 8)	(49)	6	(43)
Exchange and other adjustments	(3)	–	(3)
At 31 December 2013	442	(10)	432
Increase in the year	**870**	**(13)**	**857**
Release in the year	**(888)**	**16**	**(872)**
Change in provision for unearned premiums charged to income statement (note 8)	**(18)**	**3**	**(15)**
Exchange and other adjustments	**–**	**–**	**–**
At 31 December 2014	**424**	**(7)**	**417**

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

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

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

	Gross £m	Reinsurance £m	Net £m
Claims outstanding			
Notified claims	280	–	280
Incurred but not reported	40	(1)	39
At 1 January 2013	320	(1)	319
Cash paid for claims settled in the year	(385)	–	(385)
Increase (decrease) in liabilities			
Arising from current year claims	379	–	379
Arising from prior year claims	(27)	1	(26)
Change in liabilities charged to income statement (note 10)	(33)	1	(32)
Exchange and over adjustments	6	–	6
At 31 December 2013	293	–	293
Cash paid for claims settled in the year	**(398)**	–	**(398)**
Increase (decrease) in liabilities			
Arising from current year claims	**368**	–	**368**
Arising from prior year claims	**(40)**	–	**(40)**
Change in liabilities charged to income statement (note 10)	**(70)**	–	**(70)**
Exchange and other adjustments	**1**	–	**1**
At 31 December 2014	**224**	–	**224**
Notified claims	**194**	–	**194**
Incurred but not reported	**30**	–	**30**
At 31 December 2014	**224**	–	**224**
Notified claims	263	–	263
Incurred but not reported	30	–	30
At 31 December 2013	293	–	293

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

Non-life insurance claims development table

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

Non-life insurance all risks – gross

	Accident year							
	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	**2014 £m**	**Total £m**
Estimate of ultimate claims costs								
At end of accident year	205	262	609	446	421	349	**283**	**2,575**
One year later	199	237	517	366	382	339		
Two years later	195	216	497	353	393			
Three years later	187	208	493	367				
Four years later	186	276	506					
Five years later	186	203						
Six years later	180							
Current estimate in respect of above claims	180	203	506	367	393	339	**283**	**2,271**
Current estimate of claims relating to HBOS general insurance business transferred in 2010	257	276	–	–	–	–	**–**	**533**
Current estimate of cumulative claims	437	479	506	367	393	339	**283**	**2,804**
Cumulative payments to date	(434)	(475)	(494)	(355)	(377)	(294)	**(173)**	**(2,602)**
Liability recognised in the balance sheet	3	4	12	12	16	45	**110**	**202**
Liability in respect of earlier years								**8**
Total liability included in the balance sheet								**210**

The liability of £210 million shown in the above table excludes £10 million of unallocated claims handling expenses and £4 million of unexpired risk reserve

34 Life insurance sensitivity analysis of the Group

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

31 December 2014	Change in variable	Increase (reduction) in profit before tax £m	Increase (reduction) in equity £m
Non-annuitant mortality[1]	5% reduction	37	30
Annuitant mortality[2]	5% reduction	(176)	(141)
Lapse rates[3]	10% reduction	105	84
Future maintenance and investment expenses[4]	10% reduction	259	208
Risk-free rate[5]	0 25% reduction	29	24
Guaranteed annuity option take-up[6]	5% reduction	1	1
Equity investment volatility[7]	1% reduction	(3)	(3)
Widening of credit default spreads on corporate bonds[8]	0 25% reduction	(260)	(208)
Increase in illiquidity premia[9]	0 10% reduction	101	81

31 December 2013	Change in variable	Increase (reduction) in profit before tax £m	Increase (reduction) in equity £m
Non-annuitant mortality[1]	5% reduction	39	31
Annuitant mortality[2]	5% reduction	(151)	(121)
Lapse rates[3]	10% reduction	132	106
Future maintenance and investment expenses[4]	10% reduction	194	155
Risk-free rate[5]	0 25% reduction	50	40
Guaranteed annuity option take-up[6]	5% addition	–	–
Equity investment volatility[7]	1% addition	(8)	(6)
Widening of credit default spreads on corporate bonds[8]	0 25% addition	(238)	(191)
Increase in illiquidity premia[9]	0 10% addition	82	66

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

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

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

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

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

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

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

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

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

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

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

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

	Gross £m	Reinsurance[1] £m	Net £m
At 1 January 2013	54,372	(46)	54,326
New business	1,294	(1)	1,293
Changes in existing business	1,899	-	1,899
Disposal of businesses	(29,953)	-	(29,953)
Exchange and other adjustments	(22)	-	(22)
At 31 December 2013	27,590	(47)	27,543
New business	**257**	**(1)**	**256**
Changes in existing business	**(583)**	**9**	**(574)**
Disposal of businesses	**-**	**-**	**-**
Exchange and other adjustments	**(16)**	**-**	**(16)**
At 31 December 2014	**27,248**	**(39)**	**27,209**

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

36 Unallocated surplus within insurance businesses for the Group

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

	2014 £m	2013 £m
At 1 January	**391**	267
Change in unallocated surplus recognised in the income statement (note 10)	**(74)**	123
Exchange and other adjustments	**3**	1
At 31 December	**320**	391

37 Other liabilities

	The Group		The Bank	
	2014 £m	2013 £m	2014 £m	2013 £m
Settlement balances	**1,024**	3,358	**571**	642
Unitholders' interest in Open Ended Investment Companies	**19,525**	22,219	**-**	-
Liabilities of disposal groups	**-**	7,302	**-**	-
Other creditors and accruals	**8,234**	8,090	**3,787**	3,698
	28,783	40,969	**4,358**	4,340

38 Retirement benefit obligations

	2014 £m	2013 £m
Charge to the Group income statement		
Past service (credits) charges[1]	(822)	104
Other	334	392
Defined benefit pension schemes	(488)	496
Other post-retirement benefit schemes	10	7
Total defined benefit schemes	(478)	503
Defined contribution pension schemes	252	255
Total (credit) charge to the income statement (note 11)	(226)	758

[1]On 11 March 2014 the Group announced a change to its defined benefit pension schemes revising the existing cap on the increases in pensionable pay used in calculating the pension benefit from 2 per cent to nil with effect from 2 April 2014 The effect of this change was to reduce the Groups retirement benefit obligations recognised on the balance sheet by £843 million with a corresponding curtailment gain recognised in the income statement This has been partly offset by a charge of £21 million following changes to pension arrangements for staff within the TSB business In 2013, the Group agreed certain changes to early retirement and commutation factors in two of its principal defined benefit pension schemes resulting in a cost of £104 million recognised in the Groups income statement in the year ended 31 December 2013

	The Group		The Bank	
	2014 £m	2013 £m	2014 £m	2013 £m
Amounts recognised in the balance sheet				
Retirement benefit assets	1,147	98	351	–
Retirement benefit obligations	(453)	(1,096)	(190)	(413)
Total amounts recognised in the balance sheet	694	(998)	161	(413)

The total amount recognised in the balance sheet relates to

	The Group		The Bank	
	2014 £m	2013 £m	2014 £m	2013 £m
Defined benefit pension schemes	890	(787)	268	(281)
Other post-retirement benefit schemes	(196)	(211)	(107)	(132)
Total amounts recognised in the balance sheet	694	(998)	161	(413)

Pension schemes

Defined benefit schemes

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

The Group has established a number of defined benefit pension schemes in the UK and overseas All significant schemes are based in the UK, with the three most significant being the defined benefit sections of the Lloyds Bank Pension Schemes No's 1 and 2 and the HBOS Final Salary Pension Scheme These schemes provide retirement benefits calculated as a percentage of final pensionable salary depending upon the length of service, the minimum retirement age under the rules of the schemes at 31 December 2014 is generally 55 although certain categories of member are deemed to have a contractual right to retire at 50

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

The latest full valuations of the three main schemes were carried out as at 30 June 2011, the results have been updated to 31 December 2014 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 2014 by qualified independent actuaries

During 2009, the Group made one-off contributions to the Lloyds Bank Pension Scheme No 1 and Lloyds Bank Pension Scheme No 2 of approximately £1 billion in aggregate These contributions took the form of interests in limited liability partnerships for each of the two schemes which contained assets of approximately £5 4 billion in aggregate entitling the schemes to annual payments of approximately £215 million in aggregate until 31 December 2014 As all scheduled distributions have now been made, the value of the partnership interests equates to a nominal amount and the limited liability partnerships will continue to hold assets to provide security for the Group's obligations to the Lloyds Bank Pension Scheme No1 and Lloyds Bank Pension Scheme No 2 At 31 December 2014, the limited liability partnerships held assets of approximately £5 1 billion and cash payments of £215 million were made to the pension schemes during the year (2013 £215 million) The limited liability partnerships are consolidated fully in the Group's balance sheet (see note 19)

The Group has also established two private limited companies which hold assets to provide security for the Group's obligations to the HBOS Final Salary Pension Scheme and a section of the Lloyds Bank Pension Scheme No 1 At 31 December 2014 these held assets of approximately £2 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 2014

38 Retirement benefit obligations (continued)

The Group currently expects to pay contributions of approximately £425 million to its defined benefit schemes in 2015

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

(ii) Amounts in the financial statements

	The Group		The Bank	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Amount included in the balance sheet				
Present value of funded obligations	**(37,243)**	(33,355)	**(19,742)**	(16,714)
Fair value of scheme assets	**38,133**	32,568	**20,010**	16,433
Net amount recognised in the balance sheet	**890**	(787)	**268**	(281)

	The Group		The Bank	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Net amount recognised in the balance sheet				
At 1 January	**(787)**	(957)	**(281)**	(989)
Net defined benefit pension credit (charge)	**488**	(496)	**127**	(188)
Actuarial losses on defined benefit obligation	**(4,272)**	(1,265)	**(2,574)**	(332)
Return on plan assets	**4,928**	1,133	**2,856**	736
Employer contributions	**531**	804	**152**	501
Exchange and other adjustments	**2**	(6)	**(12)**	(9)
At 31 December	**890**	(787)	**268**	(281)

38 Retirement benefit obligations (continued)

	The Group		The Bank	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Movements in the defined benefit obligation				
At 1 January	**(33,355)**	(31,324)	**(16,714)**	(16,060)
Current service cost	**(277)**	(351)	**(110)**	(139)
Interest expense	**(1,471)**	(1,414)	**(769)**	(685)
Remeasurements				
Actuarial (losses) gains – experience	**186**	184	**156**	143
Actuarial (losses) gains – demographic assumptions	**(13)**	15	**14**	3
Actuarial (losses) gains – financial assumptions	**(4,445)**	(1,464)	**(2,744)**	(478)
Benefits paid	**1,147**	1,061	**633**	543
Past service cost	**(20)**	(5)	**(73)**	6
Employee contributions	**(2)**	(3)	**(1)**	(2)
Curtailments	**822**	(104)	**343**	(86)
Settlements	**117**	62	**111**	55
Exchange and other adjustments	**68**	(12)	**(588)**	(14)
At 31 December	**(37,243)**	(33,355)	**(19,742)**	(16,714)
The total defined benefit obligation comprises				
Amounts owing to active members	**(7,801)**	(8,647)	**(3,678)**	(3,874)
Amounts owing to deferred members	**(12,928)**	(9,927)	**(6,874)**	(5,047)
Amounts owing to pensioners	**(15,139)**	(13,547)	**(8,326)**	(7,069)
Amounts owing to dependents	**(1,375)**	(1,234)	**(864)**	(724)
Total defined benefit obligation at 31 December	**(37,243)**	(33,355)	**(19,742)**	(16,714)

	The Group		The Bank	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Changes in the fair value of scheme assets				
At 1 January	**32,568**	30,367	**16,433**	15,071
Return on plan assets excluding amounts included in interest income	**4,928**	1,133	**2,856**	736
Interest income	**1,477**	1,392	**758**	710
Employer contributions	**531**	801	**152**	500
Employee contributions	**2**	3	**1**	2
Benefits paid	**(1,147)**	(1,058)	**(633)**	(542)
Settlements	**(124)**	(55)	**(115)**	(41)
Administrative costs paid	**(36)**	(21)	**(18)**	(8)
Exchange and other adjustments	**(66)**	6	**576**	5
At 31 December	**38,133**	32,568	**20,010**	16,433

38 Retirement benefit obligations (continued)

Composition of scheme assets

The Group	2014 Quoted £m	2014 Unquoted £m	2014 Total £m	2013 Quoted £m	2013 Unquoted £m	2013 Total £m
Equity instruments	1,047	–	1,047	1,276	–	1,276
Debt instruments	21,243	–	21,243	12,845	–	12,845
Property	–	1,138	1,138	–	1,062	1,062
Pooled investment vehicles	3,603	10,555	14,158	4,684	10,671	15,355
Money market instruments, derivatives, cash and other assets and liabilities	1,179	(632)	547	506	1,524	2,030
At 31 December	27,072	11,061	38,133	19,311	13,257	32,568

The Bank	2014 Quoted £m	2014 Unquoted £m	2014 Total £m	2013 Quoted £m	2013 Unquoted £m	2013 Total £m
Equity instruments	311	–	311	530	–	530
Debt instruments	10,400	–	10,400	5,740	–	5,740
Property	–	730	730	–	612	612
Pooled investment vehicles	2,145	5,674	7,819	1,797	6,203	8,000
Money market instruments, derivatives, cash and other assets and liabilities	562	188	750	429	1,122	1,551
At 31 December	13,418	6,592	20,010	8,496	7,937	16,433

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

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

The Group	Investment grade[1] £m	Sub investment grade £m	Not rated £m	Total £m
At 31 December 2014				
Fixed interest government bonds	3,933	210	7	4,150
Index linked government bonds	10,396	–	–	10,396
Corporate and other debt securities	4,880	1,535	208	6,623
Asset-backed securities	–	–	74	74
Total debt securities	19,209	1,745	289	21,243
At 31 December 2013				
Fixed interest government bonds	2,122	80	–	2,202
Index linked government bonds	6,955	–	–	6,955
Corporate and other debt securities	3,080	482	75	3,637
Asset-backed securities	–	–	51	51
Total debt securities	12,157	562	126	12,845

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

38 Retirement benefit obligations (continued)

The Bank	Investment[1] grade £m	Sub-investment grade £m	Not rated £m	Total £m
At 31 December 2014				
Fixed interest government bonds	**815**	**19**	**7**	**841**
Index linked government bonds	**6,338**	**–**	**–**	**6,338**
Corporate and other debt securities	**2,194**	**877**	**150**	**3,221**
Total debt securities	**9,347**	**896**	**157**	**10,400**
At 31 December 2013				
Fixed interest government bonds	366	1	–	367
Index linked government bonds	4,162	–	–	4,162
Corporate and other debt securities	1,034	149	28	1,211
Total debt securities	5,562	150	28	5,740

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

The pension schemes' pooled investment vehicles comprise

	The Group		The Bank	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Equity funds	**2,581**	4,699	**1,599**	3,162
Hedge and mutual funds	**2,170**	2,382	**838**	785
Liquidity funds	**2,566**	3,588	**1,424**	1,233
Bond and debt funds	**2,570**	1,996	**1,699**	1,083
Other	**4,271**	2,690	**2,259**	1,737
At 31 December	**14,158**	15,355	**7,819**	8,000

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

	The Group	
	2014 £m	2013 £m
Current service cost	**277**	351
Net interest amount	**(6)**	22
Past service credits and curtailments	**(822)**	104
Settlements	**7**	(7)
Past service cost – plan amendments	**20**	5
Plan administration costs incurred during the year	**36**	21
Total defined benefit pension expense	**(488)**	496

38 Retirement benefit obligations (continued)

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

	2014 %	2013 %
Discount rate	**3 67**	4 60
Rate of inflation		
Retail Prices Index	**2 95**	3 30
Consumer Price Index	**1 95**	2 30
Rate of salary increases	**0 00**	2 00
Weighted-average rate of increase for pensions in payment	**2 59**	2 80
	2014 Years	2013 Years
Life expectancy for member aged 60, on the valuation date		
Men	**27 5**	27 4
Women	**29 8**	29 7
Life expectancy for member aged 60, 15 years after the valuation date		
Men	**28 7**	28 6
Women	**31 1**	31 0

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 2014 is assumed to live for, on average, 27 5 years for a male and 29 8 years for a female In practice there will be much variation between individual members but these assumptions are expected to be appropriate across all members It is assumed that younger members will live longer in retirement than those retiring now This reflects the expectation that mortality rates will continue to fall over time as medical science and standards of living improve To illustrate the degree of improvement assumed the table also shows the life expectancy for members aged 45 now, when they retire in 15 years time at age 60

(iii) Amount timing and uncertainty of future cash flows

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

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

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

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

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

38 Retirement benefit obligations (continued)

Sensitivity analysis

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

	Effect of reasonably possible alternative assumptions			
	Increase (decrease) in the income statement charge		Increase (decrease) in the net defined benefit pension scheme liability	
	2014 £m	2013 £m	2014 £m	2013 £m
Inflation (including pension increases) [1]				
Increase of 0 1 per cent	**18**	24	**383**	414
Decrease of 0 1 per cent	**(16)**	(6)	**(362)**	(122)
Discount rate [2]				
Increase of 0 1 per cent	**(30)**	(30)	**(611)**	(542)
Decrease of 0 1 per cent	**29**	33	**623**	550
Expected life expectancy of members				
Increase of one year	**34**	38	**750**	686
Decrease of one year	**(32)**	(36)	**(738)**	(676)

[1]At 31 December 2014, the assumed rate of RPI inflation is 2 95 per cent and CPI inflation 1 95 per cent (2013 RPI 3 3 per cent and CPI 2 3 per cent)

[2]At 31 December 2014 the assumed discount rate is 3 67 per cent (2013 4 60 per cent)

Sensitivity analysis method and assumptions

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

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

The sensitivity analysis (including the inflation sensitivity) does not include the impact of 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, this is achieved by investing scheme assets in bonds, primarily fixed interest gilts and index linked gilts, and by entering into interest rate and inflation swap arrangements These investments are structured to take into account the profile of scheme liabilities, and actively managed to reflect both changing market conditions and changes to the liability profile

The asset-liability matching strategy currently mitigates approximately 89 per cent (2013 54 per cent) of the interest rate volatility and 94 per cent (2013 71 per cent) of the inflation rate volatility of the liabilities

38 Retirement benefit obligations (continued)

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

	The Group		The Bank	
	2014 Years	2013 Years	**2014 Years**	2013 Years
Duration of the defined benefit obligation	**19**	19	**17**	19
	2014 £m	2013 £m	**2014 £m**	2013 £m
Maturity analysis of benefits expected to be paid				
Benefits expected to be paid within 12 months	**1,179**	1,067	**652**	532
Benefits expected to be paid between 1 and 2 years	**1,059**	1,009	**610**	540
Benefits expected to be paid between 2 and 5 years	**3,538**	3,420	**2,038**	1,822
Benefits expected to be paid between 5 and 10 years	**7,334**	7,207	**4,145**	3,761
Benefits expected to be paid between 10 and 15 years	**8,831**	8,945	**4,797**	4,459
Benefits expected to be paid between 15 and 25 years	**20,011**	21,102	**10,256**	9,791
Benefits expected to be paid between 25 and 35 years	**18,995**	20,851	**9,174**	9,011
Benefits expected to be paid between 35 and 45 years	**14,434**	16,374	**6,524**	6,684
Benefits expected to be paid in more than 45 years	**9,617**	11,403	**3,555**	3,955

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

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

During the year ended 31 December 2014 the charge to the income statement in respect of defined contribution schemes was £252 million (2013 £255 million), representing the contributions payable by the employer in accordance with each scheme's rules

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

For the principal post-retirement healthcare scheme, the latest actuarial valuation of the liability was carried out at 31 December 2014 by qualified independent actuaries The principal assumptions used were as set out above, except that the rate of increase in healthcare premiums has been assumed at 6 55 per cent (2013 6 90 per cent)

Movements in the other post-retirement benefits obligation

	The Group		The Bank	
	2014 £m	2013 £m	**2014 £m**	2013 £m
At 1 January	**(211)**	(207)	**(132)**	(129)
Exchange and other adjustments	**18**	(4)	**26**	(3)
Insurance premiums paid	**7**	7	**5**	5
Charge for the year	**(10)**	(7)	**(6)**	(5)
At 31 December	**(196)**	(211)	**(107)**	(132)

39 Deferred tax

The movement in the net deferred tax balance is as follows

	The Group		The Bank	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Asset at 1 January	**5,129**	4,602	**4,165**	4,188
Exchange and other adjustments	**10**	6	**6**	(11)
Disposals	**(60)**	558	**-**	(12)
Income statement (charge) credit (note 13)				
Due to change in UK corporation tax rate and related impacts	**(26)**	(602)	**(9)**	(550)
Other	**(225)**	(115)	**(175)**	269
	(251)	(717)	**(184)**	(281)
Amount credited (charged) to equity				
Post retirement defined benefit scheme remeasurements	**(135)**	28	**(62)**	(80)
Available-for-sale financial assets (note 44)	**(10)**	274	**(14)**	366
Cash flow hedges (note 44)	**(547)**	378	**(315)**	(5)
	(692)	680	**(391)**	281
Asset at 31 December	**4,136**	5,129	**3,596**	4,165

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	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Statutory position				
Deferred tax assets	**4,190**	5,132	**3,596**	4,165
Deferred tax liabilities	**(54)**	(3)	**-**	-
Net deferred tax asset	**4,136**	5,129	**3,596**	4,165
Tax disclosure				
Deferred tax assets	**7,016**	8,082	**4,037**	4,280
Deferred tax liabilities	**(2,880)**	(2,953)	**(441)**	(115)
Net deferred tax asset	**4,136**	5,129	**3,596**	4,165

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

	2014 £m	2013 £m
Accelerated capital allowances	**34**	482
Pensions and other post-retirement benefits	**(243)**	(14)
Long-term assurance business	**312**	86
Allowances for impairment losses	**(24)**	(86)
Trading losses	**(565)**	(1,041)
Tax on fair value of acquired assets	**159**	322
Other temporary differences	**76**	(466)
Deferred tax charge in the income statement	**(251)**	(717)

39 Deferred tax (continued)

Deferred tax assets and liabilities are comprised as follows

	The Group		The Bank	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Deferred tax assets				
Pensions and other post retirement benefits	**–**	288	**–**	160
Allowances for impairment losses	**5**	22	**10**	20
Other provisions	**15**	33	**20**	28
Derivatives	**–**	–	**5**	9
Available-for-sale asset revaluation	**–**	–	**–**	–
Tax losses carried forward	**5,759**	6,338	**3,302**	3,258
Accelerated capital allowances	**682**	649	**436**	369
Other temporary differences	**555**	752	**264**	436
Total deferred tax assets	**7,016**	8,082	**4,037**	4,280
Deferred tax liabilities				
Pensions and other post retirement benefits	**(87)**	–	**(11)**	–
Long-term assurance business	**(944)**	(1,195)	**–**	–
Tax on fair value of acquired assets	**(1,072)**	(1,236)	**–**	–
Available for sale asset revaluation	**(12)**	(30)	**–**	–
Derivatives	**(417)**	(208)	**(318)**	–
Effective interest rate	**(10)**	(19)	**(1)**	(1)
Other temporary differences	**(338)**	(265)	**(111)**	(114)
Total deferred tax liabilities	**(2,880)**	(2,953)	**(441)**	(115)

The Finance Act 2013 (the Act) was substantively enacted on 2 July 2013 The Act further reduced the main rate of corporation tax to 21 per cent with effect from 1 April 2014 and 20 per cent with effect from 1 April 2015

Deferred tax assets

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable Group companies have recognised a deferred tax asset of £5,759 million and £3,302 million for the Bank (2013 £6,338 million for the Group and £3,258 million for the Bank) in relation to trading losses carried forward After reviews of medium-term profit forecasts, the Group considers that there will be sufficient profits in the future against which these trading losses will be offset

Deferred tax assets of £614 million for the Group (2013 £593 million) and £nil for the Bank (2013 £nil) have not been recognised in respect of trading losses carried forward, mainly in certain overseas companies and in respect of other temporary differences in the insurance business Trading losses can be carried forward indefinitely, except for losses in the USA which expire after 20 years

Deferred tax assets of £190 million for the Group (2013 £169 million) and £nil for the Bank (2013 £nil) have not been recognised in respect of capital losses carried forward as there are no predicted future capital profits Capital losses can be carried forward indefinitely

In addition, deferred tax assets have not been recognised in respect of unrelieved foreign tax carried forward as at 31 December 2014 of £117 million for the Group (2013 £41 million) and £78 million (2013 £2 million) for the Bank, as there are no predicted future taxable profits against which the unrelieved foreign tax credits can be utilised These tax credits can be carried forward indefinitely

40 Other provisions

The Group	Provisions for commitments £m	Payment protection insurance £m	Other regulatory provisions £m	Vacant leasehold property £m	Other £m	Total £m
At 1 January 2014	177	2,807	1,008	69	427	4,488
Exchange and other adjustments	(86)	–	–	15	(5)	(76)
Provisions applied	–	(2,458)	(1,104)	(19)	(184)	(3,765)
Charge (release) for the year	10	2,200	925	5	413	3,553
At 31 December 2014	101	2,549	829	70	651	4,200

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 2014	66	1,739	415	31	300	2,551
Exchange and other adjustments	(31)	–	–	15	(11)	(27)
Provisions applied	–	(1,650)	(667)	–	(140)	(2,457)
Charge (release) for the year	(7)	1,394	561	(18)	798	2,728
At 31 December 2014	28	1,483	309	28	947	2,795

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

Payment protection insurance
Following the unsuccessful legal challenge by the British Bankers' Association against the Financial Services Authority (FSA) (now known as the Financial Conduct Authority (FCA)) and the Financial Ombudsman Service (FOS), the Group made provisions totalling £9,825 million to 31 December 2013 against the costs of paying redress to customers in respect of past sales of PPI policies, including the related administrative expenses

During 2014 customer initiated complaints have continued to fall, albeit slower than expected The proactive mailings have been substantially completed and remediation of previously defended cases commenced A further £2,200 million has been added to the provision in 2014, which brings the total amount provided to £12,025 million, of which approximately £2,520 million relates to anticipated administrative expenses

As at 31 December 2014, £2,549 million of the provision remained unutilised (21 per cent of total provision) relative to an average monthly spend including administration costs in 2014 of approximately of £205 million The main drivers of the provision are as follows

Volumes of customer initiated complaints (after excluding complaints from customers where no PPI policy was held)
At 31 December 2013, the provision assumed a total of 3 0 million complaints would be received During 2014, complaint volumes were 22 per cent lower than 2013, but continue to be higher than expected As a result, the Group is forecasting a slower decline in future volumes than previously expected, largely due to more sustained Claims Management Company (CMC) activity, non-CMC complaints have declined sharply This has resulted in a further provision of approximately £1,080 million At 31 December 2014, approximately 3 million complaints have been received, with the provision assuming approximately a further 0 6 million complaints will be received in the future

Quarter	Average monthly reactive complaint volume	Quarter on Quarter %
Q1 2012	109,893	
Q2 2012	130,752	19%
Q3 2012	110,807	(15)%
Q4 2012	84,751	(24)%
Q1 2013	61,259	(28)%
Q2 2013	54,086	(12)%
Q3 2013	49,555	(8)%
Q4 2013	37,457	(24)%
Q1 2014	42,259	13%
Q2 2014	39,426	(7)%
Q3 2014	40,624	3%
Q4 2014	35,910	(12)%

During the fourth quarter the Group has seen a fall of approximately 12 per cent in complaint levels However, the provision remains sensitive to future trends

40 Other provisions (continued)

Proactive mailing resulting from Past Business Reviews (PBR)

The Group is proactively mailing customers where it has been identified that there was a risk of potential mis-sale. At 31 December 2014 mailing of the original scope has been completed. During 2014, as a result of ongoing monitoring, some limited additional mailings have been added to the PBR scope. In addition, PBR responses to mailings have been higher than expected resulting in a further provision for PBR of approximately £300 million added during 2014.

Uphold rates

Uphold rates have increased following changes to the complaint handling policy. The impact to date and going forward resulted in a £110 million increase to the provision.

Average redress

Average redress per policy has increased, reversing the trend seen in the first three quarters of 2014. This higher level is expected to continue going forward and has resulted in an additional provision for the year of £40 million.

Re-review of previously handled cases

Approximately 0.6 million cases were included within the scope of remediation at 31 December 2013. These largely related to previously defended complaints which are being reviewed again to ensure consistency with the current complaint handling policy, now in operation. This exercise has commenced and is expected to be substantially complete by the end of June 2015, albeit with payments made in the second half of 2015 for some cases. The Group expects to uphold more of these cases due to the recent increase in uphold rates. Further cases have also been added to the remediation scope and relate to previously upheld cases. These cases have previously received redress and may receive a top-up payment. Given the increase in uphold rates and additional volumes to the scope, this has resulted in a further provision for the year of £250 million.

Expenses

The Group expects to maintain the PPI operation on its current scale for longer than previously expected given the update to volume related assumptions and the re-review of previously handled cases continuing into 2015. The estimate for administrative expenses, which comprise litigation and complaint handling costs as well as costs arising from cases subsequently referred to the FOS, has increased by approximately £420 million in 2014.

An Enforcement team of the FCA is investigating the Group's governance of third party suppliers and potential failings in the PPI complaint handling process. This investigation is ongoing and it is not possible at this stage to make any assessment of what, if any, additional liability may result from the investigation, although the administration costs of supporting the investigation have been provided for previously.

The Group estimates that it has sold approximately 16 million policies since 2000. These include policies that were not mis-sold as they were suitable for, and appropriately disclosed to, the customer. Since the commencement of the PPI redress programme in 2011 the Group estimates that it has contacted, settled or provided for approximately 45 per cent of the policies sold since 2000, covering both customer-initiated complaints and actual and expected proactive mailings undertaken by the Group.

The total amount provided for PPI represents the Group's best estimate of the likely future costs, albeit a number of risks and uncertainties remain, including complaint volumes, uphold rates, average redress paid, the scope and cost of proactive mailings and remediation, litigation costs and the outcome of the FCA Enforcement investigation. The cost of these factors could differ materially from the Group's estimates and the assumptions underpinning them and could result in a further provision being required.

Key metrics and sensitivities are highlighted in the table below.

Sensitivities[1]	To date unless noted	Future	Sensitivity
Customer initiated complaints since origination (m)[2]	3.0	0.6	0.1 = £230m
Proactive Mailing – number of policies (m)[3]	2.7	0.1	0.1 = £45m
– response rate[4]	34%	30%	1% = £3m
Average uphold rate per policy[5]	85%	80%	1% = £12m
Average redress per upheld policy[6]	£1,700	£1,790	£100 = £90m
Remediation Cases (m)[7]	0.2	1.0	1 case = £600
Administrative expenses (£m)	2,035	485	1 case = £500
FOS Referral Rate[8]	40%	40%	1% = £3m
FOS Change Rate[9]	58%	30%	1% = £2m

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

[2] Sensitivity includes complaint handling costs and has increased as a result of higher uphold rates and a shift towards older policies.

[3] To date volume includes customer initiated complaints.

[4] Metric has been adjusted to include mature mailings only. Future response rates are expected to be lower than experienced to date as mailings to higher risk customers have been prioritised. The sensitivity has reduced from the half year as the higher risk population continues to decrease.

[5] The percentage of complaints where the Group finds in favour of the customer. This is a blend of proactive and customer initiated complaints. The 85 per cent uphold rate is based on six months to December 2014. The lower uphold rate in the future reflects a lower proportion of PBR related cases which typically have a higher uphold rate, reflecting the higher risk nature of those policy sales.

[6] The amount that is paid in redress in relation to a policy found to have been mis sold, comprising, where applicable, the refund of premium, compound interest charged and interest at 8 per cent per annum. Actuals are based on the six months to December 2014. The increase in future average redress is influenced by fewer PBR policies due to the maturity of the PBR mailing. The increase is also due to a shift in the reactive complaint mix towards older, and therefore more expensive, policies.

[7] Remediation to date is based on cases reviewed as at 31 December 2014, but not necessarily settled and also includes a small portion relating to previously upheld complaints. The average cost included in the sensitivity is based on all cases included within the remediation scope, and is therefore a weighted average of full payments, top-up payments on previously upheld cases, and nil payouts where the original decision is retained.

[8] The percentage of cases reviewed by the Group that are subsequently referred to the FOS by the customer. A complaint is considered mature when six months have elapsed since initial decision. Actuals are based on decisions made by the Group during January 2014 to June 2014 and subsequently referred to the FOS.

[9] The percentage of complaints referred where the FOS arrive at a different decision to the Group. Actuals are based on the six months to December 2014. The overturn rate to date is high as it continues to include a significant number of cases assessed prior to the implementation of changes to the case review process during 2013.

40 Other provisions (continued)

The provision remains sensitive to future trends, as an example, were reactive complaint levels in the first two quarters of 2015 to remain broadly in line with the fourth quarter of 2014 then the revised modelled total complaints and associated administration costs would increase the provision by approximately £700 million

Other regulatory provisions

Litigation in relation to insurance branch business in Germany

Clerical Medical Investment Group Limited (CMIG) has received a number of claims in the German courts relating to policies issued by CMIG but sold by independent intermediaries in Germany, principally during the late 1990s and early 2000s Following decisions in July 2012 from the Federal Court of Justice in Germany the Group recognised provisions totalling £400 million in 2012 and 2013 Volumes of claims have not decreased as quickly as expected and as a result the Group has recognised a further £120 million during 2014 bringing the total provision to £520 million The remaining unutilised provision as at 31 December 2014 is £199 million

The validity of the claims facing CMIG depends upon the facts and circumstances in respect of each claim As a result the ultimate financial effect, which could be significantly different from the current provision, will only be known once all relevant claims have been resolved

LIBOR and other trading rates

During 2014 the Group charged £225 million to the income statement in respect of this matter In July, the Lloyds Banking Group announced that it had reached settlements totalling £217 million (at 30 June 2014 exchange rates) to resolve with UK and US federal authorities legacy issues regarding the manipulation several years ago of Group companies' submissions to the British Bankers' Association (BBA) London Interbank Offered Rate (LIBOR) and Sterling Repo Rate

On LIBOR, the Lloyds Banking Group has reached settlements with the FCA in the United Kingdom, the United States Commodity Futures Trading Commission (CFTC) and the United States Department of Justice (DOJ) in relation to investigations into submissions between May 2006 and 2009 and related systems and controls failings

The settlements in relation to LIBOR are part of an industry-wide investigation into the setting of interbank offered rates across a range of currencies Under the settlement, the Lloyds Banking Group has paid £35 million, £62 million and £50 million to the FCA, CFTC and DOJ respectively As part of the settlement with the DOJ, the Lloyds Banking Group has also entered into a two-year Deferred Prosecution Agreement in relation to one count of wire fraud relating to the setting of LIBOR

In relation to the BBA Sterling Repo Rate, the Lloyds Banking Group has reached a settlement with the FCA regarding submissions made between April 2008 and September 2009 This issue involved four individuals who the FCA has concluded manipulated BBA Repo Rate submissions to reduce fees payable under the Special Liquidity Scheme (SLS) The issue was proactively brought to the FCA's attention when it was identified by the Lloyds Banking Group as part of its internal investigation into the LIBOR issues

The Lloyds Banking Group has paid £70 million to the FCA in connection with the resolution of the BBA Repo Rate issue and related systems and controls failings Both the CFTC and DOJ settlements are in respect of LIBOR only and neither agency has taken action regarding the BBA Repo Rate

The BBA Repo Rate was used by the Bank of England (BoE) to calculate the fees for the SLS During the period that Lloyds TSB and HBOS used the SLS they paid £1 278 million in fees, just under half of all the fees payable by the industry under the Scheme As a result of the actions of the four individuals involved, the Group has paid nearly £8 million to compensate the BoE for amounts underpaid (by Lloyds TSB and HBOS and the other banks that used the SLS)

Interest rate hedging products

In June 2012, a number of banks, including the Lloyds Banking Group, reached agreement with the FSA (now FCA) to carry out a review of sales made since 1 December 2001 of interest rate hedging products (IRHP) to certain small and medium-sized businesses As at 31 December 2014 the Lloyds Banking Group had identified 1,676 sales of IRHPs to customers within scope of the agreement with the FCA which have opted in and are being reviewed and, where appropriate, redressed The Lloyds Banking Group agreed that on conclusion of this review it would provide redress to any in-scope customers where appropriate The Lloyds Banking Group continues to review the remaining cases within the scope of the agreement with the FCA but has met all of the regulator's requirements to date

During 2014, the Group has charged a further £150 million in respect of estimated redress costs, increasing the total amount provided for redress and related administration costs for in-scope customers to £680 million (31 December 2013 £530 million) This increase relates to an extension in the timetable for customers being able to opt-in to the review and the volume and complexity of claims As at 31 December 2014, the Group has utilised £571 million (31 December 2013 £162 million), with £109 million (31 December 2013 £368 million) of the provision remaining

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 2014 the provision was increased by a further £430 million, in respect of a number of matters affecting the Retail, Commercial Banking and Consumer Finance divisions, including potential claims and remediation in respect of products sold through the branch network and continuing investigation of matters highlighted through industry-wide regulatory reviews, as well as legacy product sales and historical systems and controls such as those governing legacy incentive schemes This brings the total amount charged to £730 million of which £209 million had been utilised at 31 December 2014 This increase reflected the Group's assessment of a limited number of matters under discussion, none of which currently is individually considered financially material in the context of the Group

40 Other provisions (continued)

Vacant leasehold property

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

Other

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

Other provisions include those arising out of the insolvency of a third party insurer, which remains exposed to asbestos and pollution claims in the US The ultimate cost and timing of payments are uncertain The provision held of £28 million at 31 December 2014 represents management's current best estimate of the cost after having regard to actuarial estimates of future losses

41 Subordinated liabilities

	The Group		The Bank	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Preferred securities	**6,265**	6,687	**4,575**	4,835
Undated subordinated liabilities	**2,486**	2,552	**807**	774
Dated subordinated liabilities	**23,222**	24,295	**16,208**	16,991
Total subordinated liabilities	**31,973**	33,534	**21,590**	22,600

The movement in subordinated liabilities during the year was as follows

	The Group	The Bank
	£m	£m
At 1 January 2013	37,590	26,249
Issued during the year	1,500	-
Repurchases and redemptions during the year	(5,048)	(3,539)
Foreign exchange and other movements	(508)	(110)
At 31 December 2013	33,534	22,600
Issued during the year	-	-
Repurchases and redemptions during the year	(2,369)	(1,380)
Foreign exchange and other movements	808	370
At 31 December 2014	31,973	21,590

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 (2013 none) No repayment or purchase by the issuer of the subordinated liabilities may be made prior to their stated maturity without the consent of the Prudential Regulation Authority

41 Subordinated liabilities (continued)

The Group	Note	2014 £m	2013 £m
Preferred securities			
6 90% Perpetual Capital Securities (US$1,000 million)	c	–	209
Floating Rate Non-Cumulative Callable Preference Shares callable 2015 (£600 million)	a	601	601
Floating Rate Non-Cumulative Callable Preference Shares callable 2016 (US$1,000 million)	a	642	605
6% Non-cumulative Redeemable Preference Shares	b	–	–
7 875% Non-cumulative Preference Shares callable 2013 (€500 million)	c	393	419
7 875% Non-cumulative Preference Shares callable 2013 (US$1,250 million)	c	808	761
6 35% Step-up Perpetual Capital Securities callable 2013 (€500 million)	c, k	–	212
7 834% Sterling Step-up Non-Voting Non-Cumulative Preferred Securities callable 2015 (£250 million)		5	5
4 385% Step-up Perpetual Capital Securities callable 2017 (€750 million)		77	89
13% Step-up Perpetual Capital Securities callable 2019 (£785 million)		10	8
13% Euro Step-up Perpetual Capital Securities callable 2019 (€532 million)		47	50
12% Fixed to Floating Rate Perpetual Tier 1 Capital Securities callable 2024 (US$2,000 million)		1,326	1,211
13% Step-up Perpetual Capital Securities callable 2029 (£700 million)		662	660
6 071% Non-cumulative Perpetual Preferred Securities (US$750 million)		–	423
6 85% Non-cumulative Perpetual Preferred Securities (US$1,000 million)	c	259	121
6 461% Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities (£600 million)		481	455
8 117% Non-cumulative Perpetual Preferred Securities (Class A) (£250 million)	c, d	252	256
7 754% Non-cumulative Perpetual Preferred Securities (Class B) (£150 million)		105	101
7 881% Guaranteed Non-voting Non-cumulative Preferred Securities (£245 million)		238	187
7 627% Fixed to Floating Rate Guaranteed Non voting Non-cumulative Preferred Securities (€415 million)	c, f	77	66
4 939% Non-voting Non-cumulative Perpetual Preferred Securities (€750 million)		27	26
7 286% Perpetual Regulatory Tier One Securities (Series A) (£150 million)		138	132
7 281% Perpetual Regulatory Tier One Securities (Series B) (£150 million)		117	90
Total preferred securities		6,265	6,687

41 Subordinated liabilities (continued)

	Note	2014 £m	2013 £m
Undated subordinated liabilities			
Primary Capital Undated Floating Rate Notes			
Series 1 (US$750 million)	c	**172**	162
Series 2 (US$500 million)	c	**180**	169
Series 3 (US$600 million)	c	**231**	218
11 75% Perpetual Subordinated Bonds (£100 million)		**102**	102
6 625% Undated Subordinated Step-up Notes (£410 million)	c, e	**5**	6
5 125% Step-up Perpetual Subordinated Notes callable 2015 (£560 million) (Scottish Widows plc)		**546**	533
5 125% Undated Subordinated Step-up Notes callable 2016 (£500 million)		**2**	2
6 5% Undated Subordinated Step-up Notes callable 2019 (£270 million)		**1**	1
8% Undated Subordinated Step-up Notes callable 2023 (£200 million)		**–**	–
6 5% Undated Subordinated Step-up Notes callable 2029 (£450 million)		**–**	–
6% Undated Subordinated Step-up Guaranteed Bonds callable 2032 (£500 million)		**114**	114
5 625% Cumulative Callable Fixed to Floating Rate Undated Subordinated Notes callable 2019 (£500 million)		**–**	5
4 875% Undated Subordinated Fixed to Floating Rate Instruments (€750 million)		**–**	79
Floating Rate Undated Subordinated Notes (€500 million)		**–**	49
5 375% Undated Fixed to Floating Rate Subordinated Notes (US$1,000 million)		**–**	–
5 125% Undated Subordinated Fixed to Floating Rate Notes (€750 million)		**50**	49
5 75% Undated Subordinated Step-up Notes (£600 million)		**2**	3
6 05% Fixed to Floating Rate Undated Subordinated Notes (€500 million)	c, g	**10**	8
7 5% Undated Subordinated Step-up Notes (£300 million)		**4**	5
8 625% Perpetual Subordinated Notes (£200 million)		**–**	–
7 375% Undated Subordinated Guaranteed Bonds (£200 million) (Clerical Medical Finance plc)		**41**	44
Floating Rate Undated Subordinated Step-up Notes (€300 million)	c	**19**	16
Floating Rate Primary Capital Notes (US$250 million)	c	**116**	109
10 25% Subordinated Undated Instruments (£100 million)		**1**	1
12% Perpetual Subordinated Bonds (£100 million)		**20**	20
8 75% Perpetual Subordinated Bonds (£100 million)		**5**	5
13 625% Perpetual Subordinated Bonds (£75 million)		**18**	19
9 375% Perpetual Subordinated Bonds (£50 million)		**14**	14
5 75% Undated Subordinated Step-up Notes (£500 million)		**6**	4
4 25% Perpetual Fixed to Floating Rate Reset Subordinated Guaranteed Notes (€750 million) (Clerical Medical Finance plc)		**295**	283
7 375% Subordinated Undated Instruments (£150 million)		**–**	–
4 25% Subordinated Undated Instruments (¥17,000 million)		**–**	–
Floating Rate Undated Subordinated Notes (£524 million) (Scottish Widows Group Limited)		**532**	532
Total undated subordinated liabilities		**2,486**	2,552

41 Subordinated liabilities (continued)

	Note	2014 £m	2013 £m
Dated subordinated liabilities			
Subordinated Floating Rate Notes 2014 (£464 million)		–	465
5 875% Subordinated Notes 2014 (£150 million)		–	155
6 625% Subordinated Notes 2015 (£350 million)		369	371
Subordinated Step-up Floating Rate Notes 2016 (£300 million)	c	–	183
Subordinated Step-up Floating Rate Notes 2016 (€500 million)	c	–	172
6 9625% Callable Subordinated Fixed to Floating Rate Notes 2020 callable 2015 (£750 million)		741	701
Subordinated Floating Rate Notes 2020 (€100 million)		78	85
5 75% Subordinated Fixed to Floating Rate Notes 2025 callable 2020 (£350 million)		347	331
9 625% Subordinated Bonds 2023 (£300 million)		371	341
Subordinated Non-Interest Bearing Loan on rolling 6 year notice (£150 million)		150	150
11% Subordinated Bonds 2014 (£250 million)		–	275
4 875% Subordinated Notes 2015 (€1,000 million)		801	862
Callable Floating Rate Subordinated Notes 2016 (€500 million)	c	99	109
Callable Floating Rate Subordinated Notes 2016 (€500 million)	c	158	156
Subordinated Callable Notes 2016 (US$750 million)	c	260	218
Subordinated Callable Notes 2017 (€1,000 million)	c	284	276
Subordinated Callable Notes 2017 (US$1,000 million)	c	245	211
Subordinated Callable Floating Rate Instruments 2017 (Aus$400 million)	c	–	33
6 75% Subordinated Callable Fixed to Floating Rate Instruments 2017 (Aus$200 million)	c, h	–	5
5 109% Callable Fixed to Floating Rate Notes 2017 (Can$500 million)	c, i	10	10
6 305% Subordinated Callable Fixed to Floating Rate Notes 2017 (£500 million)	c, j	26	23
10 5% Subordinated Bonds 2018 (£150 million)		169	174
6 75% Subordinated Fixed Rate Notes 2018 (US$2,000 million)		1,209	1,102
10 375% Subordinated Fixed to Fixed Rate Notes 2024 callable 2019 (€154 million)		130	141
6 375% Subordinated Instruments 2019 (£250 million)		266	256
4 375% Callable Fixed to Floating Rate Subordinated Notes 2019 (€750 million)		–	621
6 5% Dated Subordinated Notes 2020 (€1,500 million)		1,404	1,433
7 375% Dated Subordinated Notes 2020		3	3
6 5% Subordinated Fixed Rate Notes 2020 (US$2,000 million)		1,338	1,231
9 375% Subordinated Bonds 2021 (£500 million)		648	617
5 374% Subordinated Fixed Rate Notes 2021 (€160 million)		147	147
7 07% Subordinated Fixed Rate Notes 2023 (€175 million)		179	175
7 625% Dated Subordinated Notes 2025 (£750 million)		904	822

41 Subordinated liabilities (continued)

	Note	2014 £m	2013 £m
Dated subordinated liabilities (continued)			
4 50% Fixed Rate Step-up Subordinated Notes due 2030 (€750 million)		**506**	445
6% Subordinated Notes 2033 (US$750 million)		**433**	313
11 875% Subordinated Fixed to Fixed Rate Notes 2021 callable 2016 (€1,147 million)		**923**	975
10 75% Subordinated Fixed to Fixed Rate Notes 2021 callable 2016 (£466 million)		**465**	458
9 875% Subordinated Fixed to Fixed Rate Notes 2021 callable 2016 (US$568 million)		**369**	349
10 125% Subordinated Fixed to Fixed Rate Notes 2021 callable 2016 (Can$387 million)		**217**	223
13% Subordinated Fixed to Fixed Rate Notes 2021 callable 2016 (Aus$417 million)		**228**	234
5 50% Subordinated Notes 2023 (£850 million) (Scottish Widows plc)		**930**	794
7 00% Subordinated Notes 2043 (£650 million) (Scottish Widows plc)		**708**	593
11 77% Subordinated Notes 2020 (€115 million)		**95**	99
10 81% Subordinated Notes 2020 (€78 million)		**66**	68
10 55% Subordinated Notes 2019 (£1,005 million)		**958**	977
10 17% Subordinated Notes 2020 (US$361 million)		**242**	225
11 84% Subordinated Notes 2020 (€496 million)		**427**	441
11 84% Subordinated Notes 2020 (€532 million)		**459**	473
10 21% Subordinated Notes 2020 (US$1,095 million)		**732**	681
11 88% Subordinated Notes 2020 (€176 million)		**148**	154
10 24% Subordinated Notes 2020 (US$854 million)		**572**	532
10 61% Subordinated Notes 2020 (£773 million)		**772**	774
10 33% Subordinated Notes 2021 (US$243 million)		**161**	150
10 67% Subordinated Notes 2020 (£614 million)		**650**	637
10 69% Subordinated Notes 2020 (£517 million)		**543**	534
10 75% Subordinated Notes 2022 (£101 million)		**97**	99
10 85% Subordinated Notes 2019 (£91 million)		**94**	93
10 86% Subordinated Notes 2019 (£292 million)		**309**	303
10 89% Subordinated Notes 2020 (£207 million)		**213**	211
10 88% Subordinated Notes 2019 (£4 million)		**3**	4
10 90% Subordinated Notes 2020 (£65 million)		**65**	65
10 90% Subordinated Notes 2019 (£126 million)		**134**	131
10 91% Subordinated Notes 2023 (£100 million)		**101**	101
11 02% Subordinated Notes 2024 (£83 million)		**81**	82
10 94% Subordinated Notes 2020 (£139 million)		**143**	142
10 95% Subordinated Notes 2024 (£39 million)		**38**	39
10 97% Subordinated Notes 2020 (£39 million)		**39**	40
10 92% Subordinated Notes 2024 (£83 million)		**86**	85
11 07% Subordinated Notes 2029 (£92 million)		**91**	92
11 18% Subordinated Notes 2023 (£57 million)		**58**	58
11 21% Subordinated Notes 2023 (£67 million)		**68**	68
11 46% Subordinated Notes 2029 (£92 million)		**94**	93
11 52% Subordinated Notes 2032 (£84 million)		**87**	86
11 35% Subordinated Notes 2019 (€603 million)		**454**	492
11 42% Subordinated Notes 2020 (€30 million)		**27**	28
Total dated subordinated liabilities		**23,222**	24,295
Total subordinated liabilities		**31,973**	33,534

At 31 December 2014 £27,532 million (2013 £32,639 million) of subordinated liabilities had a contractual residual maturity of greater than one year

41 Subordinated liabilities (continued)

The Bank	Note	2014 £m	2013 £m
Preferred securities			
6 90% Perpetual Capital Securities (US$1,000 million)	c	–	209
Floating Rate Non-Cumulative Callable Preference Shares callable 2015 (£600 million)	a	601	601
Floating Rate Non-Cumulative Callable Preference Shares callable 2016 (US$1,000 million)	a	642	605
6% Non-cumulative Redeemable Preference Shares	b	–	–
7 875% Non-cumulative Preference shares callable 2013 (€500 million)	c	393	419
7 875% Non-cumulative Preference shares callable 2013 (US$1,250 million)	c	808	761
6 35% Step-up Perpetual Capital Securities callable 2013 (€500 million)	c, k	–	212
7 834% Sterling Step-up Non-Voting Non-Cumulative Preferred Securities callable 2015 (£250 million)		5	5
4 385% Step-up Perpetual Capital Securities callable 2017 (€750 million)		77	89
13% Step-up Perpetual Capital Securities callable 2019 (£785 million)		12	11
13% Step-up Perpetual Capital Securities callable 2019 (€532 million)		47	50
13% Step-up Perpetual Capital Securities callable 2029 (£700 million)		664	662
12% Fixed to Floating Rate Perpetual Tier 1 Capital Securities callable 2024 (US$2,000 million)		1,326	1,211
		4,575	4,835
Undated subordinated liabilities			
Primary Capital Undated Floating Rate Notes			
Series 1 (US$750 million)	c	172	162
Series 2 (US$500 million)	c	180	169
Series 3 (US$600 million)	c	231	218
11 75% Perpetual Subordinated Bonds (£100 million)		102	102
6 625% Undated Subordinated Step-up Notes (£410 million)	c, e	5	6
5 125% Undated Subordinated Step-up Notes callable 2016 (£500 million)		2	2
6 5% Undated Subordinated Step-up Notes callable 2019 (£270 million)		1	1
8% Undated Subordinated Step-up Notes callable 2023 (£200 million)		–	–
6 5% Undated Subordinated Step-up Notes callable 2029 (£450 million)		–	–
6% Undated Subordinated Step-up Guaranteed Bonds callable 2032 (£500 million)		114	114
		807	774
Dated subordinated liabilities			
Subordinated Floating Rate Notes 2014 (£464 million)		–	465
5 875% Subordinated Notes 2014 (£150 million)		–	155
6 625% Subordinated Notes 2015 (£350 million)		369	371
Subordinated Step-up Floating Rate Notes 2016 (£300 million)	c	–	183
Subordinated Step-up Floating Rate Notes 2016 (€500 million)	c	–	172
6 9625% Callable Subordinated Fixed to Floating Rate Notes due 2020 callable 2015 (£750 million)		754	749
Subordinated Floating Rate Notes 2020 (€100 million)		78	85
5 75% Subordinated Fixed to Floating Rate Notes 2025 callable 2020 (£350 million)		388	374
9 625% Subordinated Bonds 2023 (£300 million)		371	341

41 Subordinated liabilities (continued)

The Bank (continued)	Note	2014 £m	2013 £m
Dated subordinated liabilities (continued)			
Subordinated Non-Interest Bearing Loan on rolling 6 year notice (£150 million)		150	150
10 375% Subordinated Fixed to Fixed Rate Notes 2024 callable 2019 (€154 million)		140	147
6 5% Dated Subordinated Notes 2020 (€1,500 million)		1,391	1,433
7 375% Dated Subordinated Notes 2020		3	3
6 5% Subordinated Fixed Rate Notes 2020 (US$2,000 million)		1,338	1,231
7 625% Dated Subordinated Notes 2025 (£750 million)		911	828
11 875% Subordinated Fixed to Fixed Rate Notes 2021 callable 2016 (€1,147 million)		923	975
10 75% Subordinated Fixed to Fixed Rate Notes 2021 callable 2016 (£466 million)		471	466
9 875% Subordinated Fixed to Fixed Rate Notes 2021 callable 2016 (US$568 million)		369	349
10 125% Subordinated Fixed to Fixed Rate Notes 2021 callable 2016 (Can$387 million)		217	223
13% Subordinated Fixed to Fixed Rate Notes 2021 callable 2016 (Aus$417 million)		228	234
11 77% Subordinated Notes 2020 (€115 million)		95	99
11 81% Subordinated Notes 2020 (€78 million)		66	68
10 55% Subordinated Notes 2019 (£1,005 million)		958	977
10 17% Subordinated Notes 2020 (US$361 million)		242	225
11 84% Subordinated Notes 2020 (€496 million)		427	441
11 84% Subordinated Notes 2020 (€532 million)		459	473
10 21% Subordinated Notes 2020 (US$1,095 million)		732	681
11 88% Subordinated Notes 2020 (€176 million)		148	154
10 24% Subordinated Notes 2020 (US$854 million)		572	532
10 61% Subordinated Notes 2020 (£773 million)		772	774
10 33% Subordinated Notes 2021 (US$243 million)		161	150
10 67% Subordinated Notes 2020 (£614 million)		650	637
10 69% Subordinated Notes 2020 (£517 million)		543	534
10 75% Subordinated Notes 2022 (£101 million)		97	99
10 85% Subordinated Notes 2019 (£91 million)		94	93
10 86% Subordinated Notes 2019 (£292 million)		309	303
10 89% Subordinated Notes 2020 (£207 million)		213	211
10 88% Subordinated Notes 2019 (£4 million)		3	4
10 90% Subordinated Notes 2020 (£65 million)		65	65
10 90% Subordinated Notes 2019 (£126 million)		134	131
10 91% Subordinated Notes 2023 (£100 million)		101	101
11 02% Subordinated Notes 2024 (£83 million)		81	82
10 94% Subordinated Notes 2020 (£139 million)		143	142
10 95% Subordinated Notes 2024 (£39 million)		38	39
10 96% Subordinated Notes 2020 (£39 million)		39	40
10 92% Subordinated Notes 2024 (£83 million)		86	85
11 07% Subordinated Notes 2029 (£92 million)		91	92
11 18% Subordinated Notes 2023 (£57 million)		58	58
11 21% Subordinated Notes 2023 (£67 million)		68	68
11 46% Subordinated Notes 2029 (£92 million)		94	93
11 52% Subordinated Notes 2032 (£84 million)		87	86
11 35% Subordinated Notes 2019 (€603 million)		454	492
11 42% Subordinated Notes 2020 (€30 million)		27	28
Total dated subordinated liabilities		**16,208**	16,991
Total subordinated liabilities		**21,590**	22,600

At 31 December 2014 £18,654 million (2013 £21,980 million) of subordinated liabilities had a contractual residual maturity of greater than one year

41 Subordinated liabilities (continued)

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

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

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

d) The fixed rate on this security was reset from 8 117 per cent to 6 059 per cent with effect from 31 May 2010

e) The fixed rate payable on this security was reset from 6 625 per cent to 4 64821 per cent with effect from 15 July 2010

f) The fixed rate on this security was reset from 7 627 per cent to 3 months Euribor plus 2 875 per cent with effect from 9 December 2011

g) The fixed rate on this security was reset from 6 05 per cent to 3 month Euribor plus 2 25 per cent with effect from 23 November 2011

h) The interest rate payable on this security was reset from 6 75 per cent fixed to Bank Bill Swap Rate plus 0 76 per cent with effect from 1 May 2012

i) The interest rate payable on this security was reset from 5 109 per cent fixed to Canadian Dealer Offered Rate plus 0 65 per cent with effect from 21 June 2012

j) The interest rate payable on this security was reset from 6 305 per cent fixed to 3 month Libor plus 1 2 per cent with effect from 18 October 2012

k) The fixed rate on this security was reset from 6 35 per cent to 3-month Euribor plus 2 50 per cent with effect from 25 February 2013

42 Share capital

(1) Authorised share capital

	Group and Bank	
	2014 £m	2013 £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

	2014 Number of shares	2013 Number of shares	**2014 £m**	2013 £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

Ordinary shares

The holders of ordinary shares, who held 100 per cent of the total ordinary share capital at 31 December 2014, 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 41

43 Share premium account

	Group and Bank	
	2014 £m	2013 £m
At 1 January and 31 December	**35,533**	35,533

44 Other reserves

	The Group		The Bank	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Other reserves comprise				
Merger reserve	**6,348**	6,348	**–**	–
Revaluation reserve in respect of available-for-sale financial assets	**(736)**	(1,273)	**(211)**	(573)
Cash flow hedging reserve	**1,357**	(827)	**1,257**	–
Foreign currency translation reserve	**(127)**	(125)	**75**	72
At 31 December	**6,842**	4,123	**1,121**	(501)

Movements in other reserves were as follows

	The Group		The Bank	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Merger reserve				
At 1 January and 31 December	**6,348**	6,348	**–**	–

	The Group		The Bank	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Revaluation reserve in respect of available-for-sale financial assets				
At 1 January	**(1,273)**	(259)	**(573)**	792
Adjustment on transfer from held-to-maturity portfolio	**–**	–	**–**	–
Change in fair value of available-for-sale financial assets	**676**	(680)	**364**	(889)
Deferred tax	**(62)**	92	**(12)**	129
Current tax	**–**	3	**–**	–
	614	(585)	**352**	(760)
Income statement transfers				
Disposals (see note 9)	**(131)**	(629)	**11**	(842)
Deferred tax	**52**	185	**(2)**	237
	(79)	(444)	**9**	(605)
Impairment	**2**	18	**1**	–
Deferred tax	**–**	(3)	**–**	–
	2	15	**1**	–
At 31 December	**(736)**	(1,273)	**(211)**	(573)

	The Group		The Bank	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Cash flow hedging reserve				
At 1 January	**(827)**	590	**–**	(16)
Change in fair value of hedging derivatives	**3,896**	(1,229)	**1,799**	21
Deferred tax	**(765)**	259	**(360)**	(5)
	3,131	(970)	**1,439**	16
Income statement transfers	**(1,165)**	(566)	**(227)**	–
Deferred tax	**218**	119	**45**	–
	(947)	(447)	**(182)**	–
At 31 December	**1,357**	(827)	**1,257**	–

44 Other reserves (continued)

	The Group		The Bank	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Foreign currency translation reserve				
At 1 January	**(125)**	(106)	**72**	98
Currency translation differences arising in the year	**(24)**	(168)	**3**	(26)
Foreign currency gains (losses) on net investment hedges (tax £nil)	**22**	149	**–**	–
At 31 December	**(127)**	(125)	**75**	72

45 Retained profits

	The Group		The Bank	
	2014 £m	2013 £m	**2014 £m**	2013 £m
At 1 January	**2,509**	2,618	**4,532**	1,184
Profit (loss) for the year[1]	**1,780**	(402)	**2,501**	2,772
Adjustment on sale of non-controlling interest in TSB (note 56)	**(171)**	–	**–**	–
Post-retirement defined benefit scheme remeasurements	**539**	(108)	**247**	320
Capital contribution received	**367**	401	**510**	256
Value of employee services	**2**	–	**–**	–
Return of capital contribution	**(198)**	–	**(198)**	–
At 31 December	**4,828**	2,509	**7,592**	4,532

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

46 Ordinary dividends

No dividends were paid on the Bank's ordinary shares in 2013 or 2014 The board have recommended a dividend of £540 million which subject to approval by shareholders, will be paid in May 2015 and has not been reflected in these financial statements

47 Share-based payments

Share-based payment scheme details
During the year ended 31December 2014 Lloyds Banking Group plc operated a number of share-based payment schemes for which employees of the Lloyds Bank Group were eligible and all of which are equity settled Details of all schemes operated by Lloyds Banking Group are set out below, these are managed and operated on a Lloyds Banking Group-wide basis The amount charged to the Group's income statement in respect of Lloyds Banking Group share-based payment schemes, and which is included within staff costs (note 11), was £340 million (2013 £399 million)

Deferred bonus plans
The Lloyds Banking Group operates a number of deferred bonus plans that are equity settled Bonuses in respect of employee performance in 2014 have been recognised in the charge in line with the proportion of the deferral period completed

Lloyds Banking Group executive share option schemes
The executive share option schemes were long-term incentive schemes available to certain senior executives of the Lloyds Banking Group, with grants usually made annually Options were granted within limits set by the rules of the schemes relating to the number of shares under option and the price payable on the exercise of options The last grant of executive options was made in August 2005 These options were granted without a performance multiplier and the maximum limit for the grant of options in normal circumstances was three times annual salary Between March 2004 and August 2004, the aggregate value of the award based upon the market price at the date of grant could not exceed four times the executive's annual remuneration and, normally, the limit for the grant of options to an executive in any one year would be equal to 1 5 times annual salary with a maximum performance multiplier of 3 5

Performance conditions for executive options

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

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

47 Share-based payments (continued)

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

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

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

All options granted in 2004 lapsed on 18 March 2014 and 12 August 2014

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

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

Options granted in 2005 became exercisable as the performance condition was met when tested The performance condition vested at 82 5 per cent for all options granted

Movements in the number of share options outstanding under the executive share option schemes during 2014 and 2013 are set out below

	2014		2013	
	Number of options	Weighted average exercise price (pence)	Number of options	Weighted average exercise price (pence)
Outstanding at 1 January	6,052,593	224 04	8,044,896	224 95
Forfeited	–	–	(1,992,303)	227 70
Lapsed	(3,417,306)	215 39	–	–
Outstanding at 31 December	**2,635,287**	**235 26**	6,052,593	224 04
Exercisable at 31 December	**2,635,287**	**235 26**	6,052,593	224 03

No options were exercised during 2014 or 2013 The weighted average remaining contractual life of options outstanding at the end of the year was 0 2 years (2013 0 8 years) The fair values of the executive share options have been determined using a standard Black-Scholes model

Save-As-You-Earn schemes
Eligible employees may enter into contracts through the Save-As-You-Earn schemes to save up to £500 per month and, at the expiry of a fixed term of three or five years, have the option to use these savings within six months of the expiry of the fixed term to acquire shares in the Lloyds Banking Group at a discounted price of no less than 80 per cent of the market price at the start of the invitation

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

	2014		2013	
	Number of options	Weighted average exercise price (pence)	Number of options	Weighted average exercise price (pence)
Outstanding at 1 January	500,969,617	41 16	314,572,023	48 01
Granted	326,565,564	60 02	510,414,399	40 62
Exercised	(7,287,899)	41 29	(294,905,606)	46 78
Forfeited	(18,949,167)	41 68	(7,715,717)	43 08
Cancelled	(15,561,144)	54 04	(10,761,588)	45 61
Expired	(2,110,588)	48 15	(10,633,894)	56 28
Outstanding at 31 December	**783,626,383**	**48 73**	500,969,617	41 16
Exercisable at 31 December	**1,852**	**180 66**	2,255,239	120 76

The weighted average share price at the time that the options were exercised during 2014 was £0 77 (2013 £0 65) The weighted average remaining contractual life of options outstanding at the end of the year was 2 6 years (2013 2 9 years)

The weighted average fair value of SAYE options granted during 2014 was £0 22 (2013 £0 24) The fair values of the SAYE options have been determined using a standard Black-Scholes model

47 Share-based payments (continued)

For the HBOS sharesave plan, no options were exercised during 2014 or 2013 The options outstanding at 31 December 2014 had an exercise price of £1 8066 (2013 £1 8066) and a weighted average remaining contractual life of 1 4 years (2013 1 1 years)

Other share option plans

Lloyds Banking Group Executive Share Plan 2003

The Plan was adopted in December 2003 and under the Plan share options may be granted to senior employees Options under this plan have been granted specifically to facilitate recruitment and as such were not subject to any performance conditions The Plan is used not only to compensate new recruits for any lost share awards but also to make grants to key individuals for retention purposes with, in some instances, the grant being made subject to individual performance conditions

For options granted on 27 March 2014 under the Commercial Banking Transformation Plan (CBTP), the number of options that may be delivered in March 2017 may vary by a factor of 0-4 from the original 'on-target' award, depending on the degree to which the performance conditions have been met An 'on-target' vesting is contingent upon Commercial Banking achieving £2 5 billion Underlying Profit and 2 per cent Return on Risk Weighted Assets ('RoRWA') on 31 December 2016 The Plan will pay out at between £1 9 billion and £3 billion underlying profit, and between 1 6 per cent and 2 5 per cent RoRWA

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

	2014		2013	
	Number of options	**Weighted average exercise price (pence)**	Number of options	Weighted average exercise price (pence)
Outstanding at 1 January	**37,354,979**	**Nil**	45,614,150	Nil
Granted	**225,424,109**	**Nil**	9,284,956	Nil
Exercised	**(21,870,649)**	**Nil**	(16,079,222)	Nil
Forfeited	**(7,114,199)**	**Nil**	(1,290,720)	Nil
Lapsed	**(405,156)**	**Nil**	(174,185)	Nil
Outstanding at 31 December	**233,389,084**	**Nil**	37,354,979	Nil
Exercisable at 31 December	**9,068,802**	**Nil**	4,275,432	Nil

The weighted average fair value of options granted in the year was £0 72 (2013 £0 56) 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 2014 was £0 75 (2013 £0 55) The weighted average remaining contractual life of options outstanding at the end of the year was 7 0 years (2013 3 6 years)

Lloyds Banking Group Share Buy Out Awards

As part of arrangements to facilitate the recruitment of certain Executives, options have been granted by individual deed and, where appropriate, in accordance with the Listing Rules of the UK Listing Authority

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

Movements in the number of options outstanding are set out below

	2014		2013	
	Number of options	**Weighted average exercise price (pence)**	Number of options	Weighted average exercise price (pence)
Outstanding at 1 January	**11,172,600**	**Nil**	21,321,237	Nil
Exercised	**(5,173,429)**	**Nil**	(5,953,810)	Nil
Forfeited	**–**	**Nil**	(4,194,827)	Nil
Outstanding at 31 December	**5,999,171**	**Nil**	11,172,600	Nil
Exercisable at 31 December	**5,999,171**	**Nil**	11,083,749	Nil

No options were granted in 2014 or 2013 The weighted average remaining contractual life of options outstanding at the end of the year was 6 7 years (2013 7 5 years)

The weighted average share price at the time the options were exercised during 2014 was £0 70 (2013 £0 75)

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

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

47 Share-based payments (continued)

HBOS share option plans

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

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

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

	2014		2013	
	Number of options	**Weighted average exercise price (pence)**	Number of options	Weighted average exercise price (pence)
Outstanding at 1 January	**13,119,584**	**369 76**	19,857,692	363 76
Exercised	**(5,222,260)**	**51 83**	(2,609,272)	51 83
Forfeited	**(103,007)**	**580**	(240,349)	568 80
Lapsed	**(321,138)**	**580**	(2,144,026)	546 43
Cancelled	**(7,473,179)**	**580**	(1,744,461)	532 39
Outstanding at 31 December	**–**	**–**	13,119,584	369 76
Exercisable at 31 December	**–**	**–**	13,119,584	369 76

The weighted average share price at the time the options were exercised during 2014 was £0 77 (2013 £0 72)

The options under the HBOS Share Option Plan and St James's Place Share Option Plan lapsed on 15 March 2014 and 20 April 2014 respectively

Other share plans

Lloyds Banking Group Long-Term Incentive Plan

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

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

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

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

If the adjusted EPS reaches 6 4p, 25 per cent of this element of the award, being the threshold, will vest

If adjusted EPS reaches 7 8p, 100 per cent of this element will vest

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

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

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

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

For awards made to Executive Directors, a third performance condition was set, relating to Absolute Total Shareholder Return, relevant to one third of the award Performance will be measured based on the annualised Absolute Total Shareholder Return over the three year performance period If the annualised Absolute Total Shareholder Return at the end of the performance period is less than 8 per cent, none of this element of the award will vest If the Absolute Total Shareholder Return is 8 per cent, 25 per cent of this element of the award, being the threshold, will vest If the Absolute Total Shareholder Return is 14 per cent or higher, 100 per cent of this element will vest Vesting between threshold and maximum will be on a straight line basis The EPS and EP performance conditions will each relate to 33 3 per cent of the total award

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

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

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

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

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

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

47 Share-based payments (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

If a run rate of net Simplification benefits of £1 5 billion is achieved, 25 per cent of this element of the award, being the threshold, will vest

If a run rate of net Simplification benefits of £1 8 billion is achieved, 100 per cent of this element will vest

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

(vi) **FCA reportable complaints** relevant to 10 per cent of the award Performance will be measured by reference to the total number of FSA reportable complaints per 1,000 customers (excluding PPI complaints) over the three year period to 31 December 2014

If complaints per 1,000 customers average 1 5 per annum or less over three years, 25 per cent of this element of the award, being the threshold, will vest

If complaints per 1,000 customers average 1 3 per annum or less over three years, 100 per cent of this element will vest

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

At the end of the performance period, it has been assessed that rewards will vest at 97 per cent of maximum

The performance conditions for awards made in March and October 2013 are as follows

(i) **EP** relevant to 35 per cent of the award The performance target is based on 2015 adjusted EP outcome

If the adjusted EP reaches £1,254 million, 25 per cent of this element of the award, being the threshold, will vest

If the adjusted EP reaches £1,881 million, 100 per cent of this element will vest

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

(ii) **Absolute Total Shareholder Return (ATSR)** relevant to 30 per cent of the award Performance will be measured against the annualised return over the three year period ending 31 December 2015

If the ATSR reaches 8 per cent per annum, 25 per cent of this element of the award, being the threshold, will vest

If the ATSR reaches 16 per cent per annum, 100 per cent of this element will vest

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

(iii) **Adjusted total costs** relevant to 10 per cent of the award The performance target is based on 2015 adjusted total costs

If adjusted total costs are £9,323 million or less, 25 per cent of this element of the award, being the threshold, will vest

If adjusted total costs are £8,973 million or less, 100 per cent of this element will vest

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

(iv) **Non-core assets excluding UK Retail at the end of 2015** relevant to 10 per cent of the award Performance will be measured by reference to balance sheet non-core assets at 31 December 2015

If non-core assets amount to £37 billion or less, 25 per cent of this element of the award, being the threshold, will vest

If non-core assets amount to £28 billion or less, 100 per cent of this element will vest

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

(v) **FCA reportable complaints** relevant to 10 per cent of the award Performance will be measured by reference to the total number of FCA reportable complaints per 1,000 customers over the three year period to 31 December 2015

47 Share-based payments (continued)

If complaints per 1,000 customers average 1 05 per annum or less over three years, 25 per cent of this element of the award, being the threshold, will vest

If complaints per 1,000 customers average 0 95 per annum or less over three years, 100 per cent of this element will vest

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

(vi) **SME lending** relevant to 5 per cent of the award Performance will be measured by reference to the movement in lending to SMEs relative to the market as reported by the Bank of England over the three year period ending 31 December 2015

If the movement in SME lending equates to this market movement, 25 per cent of this element of the award, being the threshold, will vest

If the movement in SME lending is 4 per cent or more greater than the market movement, 100 per cent of this element will vest

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

In addition, short-term funding must remain within that stated in the Lloyds Banking Group's Risk Appetite throughout the three year period to 31 December 2015

The weighted average fair value of the share awards granted in 2014 was £0 62 (2013 £0 34) The fair values of the majority of share awards granted have been determined using a standard Black-Scholes model The fair values of the remaining share awards have been determined by Monte Carlo simulation

The performance conditions for awards made in March and August 2014 are as follows

(i) **EP** relevant to 30 per cent of the award The performance target is based on 2016 adjusted EP outcome

If the adjusted EP reaches £2,154 million, 25 per cent of this element of the award, being the threshold will vest

If the adjusted EP reaches £3,231 million, 100 per cent of this element will vest

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

(ii) **Absolute Total Shareholder Return (ATSR)** relevant to 30 per cent of the award Performance will be measured against the annualised return over the three year period ending 31 December 2016

If the ATSR reaches 8 per cent per annum, 25 per cent of this element of the award, being the threshold, will vest

If the ATSR reaches 16 per cent per annum, 100 per cent of this element will vest

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

(iii) **Cost income ratio** relevant to 10 per cent of the award

Performance will be measured against the adjusted total costs (total costs excluding FSCS costs and Bank Levy on underlying basis) as a percentage of total underlying income net of insurance claims based on full year 2016 figures

If the adjusted total costs reaches

- 48 9 per cent, 25 per cent of this element will vest
- 46 5 per cent, 100 per cent of this element will vest

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

(iv) **FCA reportable complaints** relevant to 10 per cent of the award Performance will be measured by reference to the total number of FCA reportable complaints per 1,000 accounts (excluding PPI complaints) over the three year period to 31 December 2016 If complaints per 1,000 accounts average 1 15 per annum or less, 25 per cent of this element of the award, being the threshold, will vest

If complaints per 1,000 accounts average 1 05 per annum or less, 100 per cent of this element will vest

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

(v) **Net Promoter Score** relevant to 10 per cent of the award Performance will be measured against the Major Group Ranking position of Lloyds Banking Group, the position averaged over the final twelve months of the performance period

If the final averaged ranking position of Lloyds Banking Group is third, 25 per cent of this element will vest

If the final averaged ranking position of Lloyds Banking Group is first, 100 per cent of this element will vest

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

(vi) **SME lending** relevant to 5 per cent of the award Performance will be measured by reference to the percentage increase in net lending to SMEs over the three year period ending 31 December 2016

If there is a 14 per cent increase in net lending, 25 per cent of this element will vest

If there is an 18 per cent increase in net lending, 100 per cent of this element will vest

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

(vii) **First Time Buyer Lending** relevant to 5 per cent of the award Performance will be measured against percentage market shares based on Council of Mortgage Lenders Volumes data Calculated as three point average of year-end positions over the three year period ending 31 December 2016

If the percentage market share reaches 20 per cent, 25 per cent of this element will vest

If the percentage market share reaches 25 per cent, 100 per cent of this element will vest

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

47 Share-based payments (continued)

	2014 Number of shares	2013 Number of shares
Outstanding at 1 January	**548,885,895**	515,951,517
Granted	**120,952,253**	186,360,995
Vested	**(73,516,122)**	–
Forfeited	**(73,485,915)**	(153,426,617)
Outstanding at 31 December	**522,836,111**	548,885,895

Scottish Widows Investment Partnership Long-Term Incentive Plan

The Scottish Widows Investment Partnership (SWIP) Long-Term Incentive Plan applicable to senior executives and employees of SWIP, which had previously been a cash-only scheme, was amended in May 2012 for awards granted on or after that date The amendment introduced the receipt of shares in Lloyds Banking Group plc as an element of the total award For awards made in June 2012, the other element continued to be cash-based, with the split between cash-based and share-based determined by the Remuneration Committee Awards made in June 2013 were fully share-based The amendment was aimed at delivering shareholder value by linking the receipt of shares to an improvement in the performance of SWIP over a three year period Awards were made within limits set by the rules of the Plan, with the maximum limits for combined cash and shares awarded equating to 3 5 times annual salary In exceptional circumstances this could increase to four times annual salary

The 2012 and 2013 performance conditions were evaluated upon completion of the sale of SWIP to Aberdeen Asset Management PLC, and the awards were pro rated as appropriate The 2012 award will vest at 155 per cent and 165 6 per cent for Code Staff in March 2015 and the 2013 award will vest at 165 7 per cent in March 2016

The ranges of exercise prices, weighted average exercise prices, weighted average remaining contractual life and number of options outstanding for the option schemes were as follows

	Executive schemes			SAYE schemes			Other share option plans		
	Weighted average exercise price (pence)	Weighted average remaining life (years)	Number of options	Weighted average exercise price (pence)	Weighted average remaining life (years)	Number of options	Weighted average exercise price (pence)	Weighted average remaining life (years)	Number of options
At 31 December 2014									
Exercise price range									
£0 to £1	–	–	–	**48 63**	**2 57**	**783,025,625**	–	–	–
£1 to £2	–	–	–	**180 66**	**1 41**	**600,758**	–	–	–
£2 to £3	**235 26**	**0 2**	**2,635,287**	–	–	–	–	–	–
£3 to £4	–	–	–	–	–	–	–	–	–
£5 to £6	–	–	–	–	–	–	–	–	–
At 31 December 2013									
Exercise price range									
£0 to £1	–	–	–	40 63	2 91	499,088,383	5 25	4 1	51,528,728
£1 to £2	199 91	0 6	196,201	180 64	1 09	1,881,234	–	–	–
£2 to £3	224 85	0 8	5,856,392	–	–	–	–	–	–
£5 to £6	–	–	–	–	–	–	580 00	0 2	7,897,324

47 Share-based payments (continued)

The fair value calculations at 31 December 2014 for grants made in the year, using Black-Scholes models and Monte Carlo simulation, are based on the following assumptions

	Save-As-You-Earn	Executive Share Plan 2003	LTIP	Commercial Banking Transformation Program
Weighted average risk-free interest rate	1 30%	0 58%	1 03%	1 03%
Weighted average expected life	3 3 years	1 2 years	3 0 years	3 0 years
Weighted average expected volatility	35%	23%	41%	41%
Weighted average expected dividend yield	2 5%	2 5%	2 5%	2 5%
Weighted average share price	£0 75	£0 76	£0 79	£0 78
Weighted average exercise price	£0 60	Nil	Nil	Nil

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

Matching shares
The Lloyds Banking Group undertakes to match shares purchased by employees up to the value of £30 per month, these matching shares are held in trust for a mandatory period of three years on the employee's behalf, during which period the employee is entitled to any dividends paid on such shares The award is subject to a non-market based condition if an employee leaves within this three year period for other than a 'good' reason, 100 per cent of the matching shares are forfeited Similarly if the employees sell their purchased shares within three years, their matching shares are forfeited

The number of shares awarded relating to matching shares in 2014 was 16,248,562 (2013 19,870,495), with an average fair value of £0 78 (2013 £0 63), 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 2014 was 7,761,624

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

48 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

	2014 £m	2013 £m
Compensation		
Salaries and other short-term benefits	15	15
Post-employment benefits	1	–
Share-based payments	17	21
Total compensation	**33**	36

The aggregate of the emoluments of the directors was £12 3 million (2013 £14 9 million)

Aggregate company contributions in respect of key management personnel to defined contribution pension schemes were £0 1 million (2013 £0 2 million)

The total for the highest paid director (António Horta-Osório) was £4,782,000 (2013 (António Horta-Osório) £6,542,000), this did not include any gain on exercise of Lloyds Banking Group plc shares in either year

	2014 million	2013 million
Share options over Lloyds Banking Group plc shares		
At 1 January	14	25
Granted, including certain adjustments (includes entitlements of appointed key management personnel)	–	5
Exercised/lapsed (includes entitlements of former key management personnel)	(1)	(16)
At 31 December	**13**	14

	2014 million	2013 million
Share plans settled in Lloyds Banking Group plc shares		
At 1 January	105	70
Granted, including certain adjustments (includes entitlements of appointed key management personnel)	19	42
Exercised/lapsed (includes entitlements of former key management personnel)	(22)	(7)
At 31 December	**102**	105

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

	2014 £m	2013 £m
Loans		
At 1 January	2	2
Advanced (includes loans of appointed key management personnel)	2	2
Repayments (includes loans of former key management personnel)	(1)	(2)
At 31 December	**3**	2

The loans are on both a secured and unsecured basis and are expected to be settled in cash The loans attracted interest rates of between 0 5 per cent and 23 95 per cent in 2014 (2013 2 5 per cent and 23 9 per cent)

No provisions have been recognised in respect of loans given to key management personnel (2013 £nil)

48 Related party transactions (continued)

	2014 £m	2013 £m
Deposits		
At 1 January	13	10
Placed (includes deposits of appointed key management personnel)	32	29
Withdrawn (includes deposits of former key management personnel)	(29)	(26)
At 31 December	**16**	13

Deposits placed by key management personnel attracted interest rates of up to 4 7 per cent (2013 2 9 per cent)

At 31 December 2014, the Group did not provide any guarantees in respect of key management personnel (2013 none)

At 31 December 2014, transactions, arrangements and agreements entered into by the Group and its banking subsidiaries with directors and connected persons included amounts outstanding in respect of loans and credit card transactions of £1 million with six directors and six connected persons (2013 £1 million with six directors and five 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

	2014 £m	2013 £m
Assets, included within		
Derivative financial instruments	15,464	10,751
Trading and other assets designated at fair value through profit or loss	12,288	10,154
Loans and receivables	119,689	250,996
Available-for-sale financial assets	2,052	1,876
	149,493	273,777
Liabilities, included within		
Deposits from banks and customers	89,383	239,595
Trading and other financial liabilities at fair value through profit or loss	13,296	25,759
Derivative financial instruments	15,359	10,169
Debt securities in issue	17,140	3,028
Subordinated liabilities	81	115
	135,259	278,666

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 2014 the Bank earned interest income on the above asset balances of £2,545 million (2013 £2,732 million) and incurred interest expense on the above liability balances of £1,481 million (2013 £2,073 million)

In addition, the Bank raised recharges of £803 million (2013 £819 million) on its subsidiaries in respect of costs incurred and also received fees of £179 million (2013 £262 million), and paid fees of £143 million (2013 £131 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 49

48 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	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Assets, included within				
Loans and receivables	**11,482**	15,453	**10,947**	11,981
Other	**–**	–	**10**	22
	11,482	15,453	**10,957**	12,003
Liabilities, included within				
Customer deposits	**5,288**	8,797	**2,499**	4,430
Derivative financial instruments	**106**	239	**106**	239
Subordinated liabilities	**11,364**	11,705	**10,813**	11,173
	16,758	20,741	**13,418**	15,842

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 2014 the Group earned £163 million and the Bank earned £132 million interest income on the above asset balances (2013 Group £202 million, Bank £169 million), the Group incurred £1,143 million and the Bank incurred £1,031 million interest expense on the above liability balances (2013 Group £1,510 million, Bank £1,374 million)

UK Government
In January 2009, the UK Government through HM Treasury became a related party of Lloyds Banking Group plc, the Bank's ultimate parent company, following its subscription for ordinary shares issued under a placing and open offer At 31 December 2014, HM Treasury held more than 20 per cent of Lloyds Banking Group plc's ordinary share capital and consequently HM Treasury remained a related party of the Bank during the year ended 31 December 2014

In accordance with IAS 24, UK Government-controlled entities became related parties of the Group The Group regards the Bank of England and entities controlled by the UK Government, including The Royal Bank of Scotland Group plc, Northern Rock (Asset Management) plc and Bradford & Bingley plc, as related parties

During the year ended 31 December 2014, the Lloyds Banking Group participated in a number of schemes operated by the UK Government and central banks and made available to eligible banks and building societies

National Loan Guarantee Scheme
The Lloyds Banking Group has participated in the UK government's National Loan Guarantee Scheme, which was launched on 20 March 2012 Through the scheme, the Lloyds Banking Group is providing eligible UK businesses with discounted funding, subject to continuation of the scheme and its financial benefits, and based on the Lloyds Banking Group's existing lending criteria Eligible businesses who have taken up the funding benefit from a 1 per cent discount on their funding rate for a pre-agreed period of time

Business Growth Fund
In May 2011 the Lloyds Banking Group agreed, together with The Royal Bank of Scotland plc (and three other non-related parties), to commit up to £300 million of equity investment by subscribing for shares in the Business Growth Fund plc which is the company created to fulfil the role of the Business Growth Fund as set out in the British Bankers' Association's Business Taskforce Report of October 2010 At 31 December 2014, the Lloyds Banking Group had invested £118 million (31 December 2013 £64 million) in the Business Growth Fund and carried the investment at a fair value of £105 million (31 December 2013 £52 million)

Big Society Capital
In January 2012 the Lloyds Banking Group agreed, together with The Royal Bank of Scotland plc (and two other non-related parties), to commit up to £50 million each of equity investment into the Big Society Capital Fund The Fund, which was created as part of the Project Merlin arrangements, is a UK social investment fund The Fund was officially launched on 3 April 2012 and the Lloyds Banking Group had invested £23 million in the Fund by 31 December 2013 and invested a further £8 million during the year ended 31 December 2014

Funding for Lending
In August 2012, the Lloyds Banking Group announced its support for the UK government's Funding for Lending Scheme and confirmed its intention to participate in the scheme The Funding for Lending Scheme represents a further source of cost effective secured term funding available to the Lloyds Banking Group The initiative supported a broad range of UK based customers, providing householders with more affordable housing finance and businesses with cheaper finance to invest and grow In November 2013, the Lloyds Banking Group entered into extension letters with the Bank of England to take part in the extension of the Funding for Lending Scheme until the end of January 2015 The extension of the Funding for Lending Scheme focuses on providing businesses with cheaper finance to invest and grow £10 billion has been drawn down under this extension In December 2014, the Bank of England announced a further extension to the end of January 2016 with an increased focus on supporting small businesses At 31 December 2014, the Lloyds Banking Group had drawn down £20 billion under the Funding for Lending Scheme

48 Related party transactions (continued)

Enterprise Finance Guarantee Scheme
The Lloyds Banking Group participates in the Enterprise Finance Guarantee Scheme which was launched in January 2009 as a replacement for the Small Firms Loan Guarantee Scheme The scheme is a UK government-backed loan guarantee, which supports viable businesses with access to lending where they would otherwise be refused a loan due to a lack of lending security The Department for Business, Innovation and Skills (formerly the Department for Business, Enterprise and Regulatory Reform) provides the lender with a guarantee of up to 75 per cent of the capital of each loan subject to the eligibility of the customer within the rules of the scheme As at 31 December 2014, the Lloyds Banking Group had offered 6,250 loans to customers, worth over £500 million The Lloyds Banking Group entities, Lloyds Bank plc, TSB Bank plc, Lloyds Commercial Finance Limited and Bank of Scotland plc contracted with The Secretary of State for Business, Innovation and Skills

Help to Buy
On 7 October 2013, Bank of Scotland plc entered into an agreement with The Commissioners of Her Majesty's Treasury by which it agreed that the Halifax Division of Bank of Scotland plc would participate in the Help to Buy Scheme with effect from 11 October 2013 and that Lloyds Bank plc would participate from 3 January 2014 The Help to Buy Scheme is a scheme promoted by the UK government and is aimed to encourage participating lenders to make mortgage loans available to customers who require higher loan-to-value mortgages Halifax and Lloyds are currently participating in the Scheme whereby customers borrow between 90 per cent and 95 per cent of the purchase price

In return for the payment of a commercial fee, HM Treasury has agreed to provide a guarantee to the lender to cover a proportion of any loss made by the lender arising from a higher loan-to-value loan being made £1,950 million of outstanding loans at 31 December 2014 had been advanced under this scheme

Central bank facilities
In the ordinary course of business, the Lloyds Banking Group may from time to time access market-wide facilities provided by central banks

Other government-related entities
Other than the transactions referred to above, there were no other significant transactions with the UK Government and UK Government-controlled entities (including UK Government-controlled banks) during the period that were not made in the ordinary course of business or that were unusual in their nature or conditions

Other related party transactions
Pension funds
The Group provides banking and some investment management services to certain of its pension funds At 31 December 2013, customer deposits of £129 million (2013 £145 million) and investment and insurance contract liabilities of £3,278 million (2013 £4,728 million) related to the Group's pension funds

Collective investment vehicles
The Group manages 132 (2013 210) collective investment vehicles, such as Open Ended Investment Companies (OEICs), and of these 80 (2013 145) are consolidated The Group invested £811 million (2013 £2 472 million) and redeemed £984 million (2013 £2 189 million) in the unconsolidated collective investment vehicles during the year and had investments, at fair value, of £2,243 million (2013 £3,291 million) at 31 December The Group earned fees of £201 million from the unconsolidated collective investment vehicles during 2014 (2013 £277 million)

Joint ventures and associates
The Group provided both administration and processing services to Sainsbury's Bank plc, which was its principal joint venture up until the completion of the sale of the Group's investment in that company on 31 January 2014 The amounts receivable by the Group during January 2014 were £3 million (year ended 31 December 2013 £35 million, of which £10 million was outstanding at 31 December 2013) At 31 December 2013, Sainsbury's Bank plc had also had balances with the Group that were included in loans and advances to banks of £806 million and deposits by banks of £927 million

At 31 December 2014 there were loans and advances to customers of £1,901 million (2013 £4,448 million) outstanding and balances within customer deposits of £24 million (2013 £70 million) relating to other joint ventures and associates

In addition to the above balances, the Group has a number of other associates held by its venture capital business that it accounts for at fair value through profit or loss At 31 December 2014, these companies had total assets of approximately £5,553 million (2013 £6,913 million), total liabilities of approximately £6,312 million (2013 £7,084 million) and for the year ended 31 December 2014 had turnover of approximately £5,634 million (2013 £6,989 million) and made a net loss of approximately £272 million (2013 net loss of £16 million) In addition, the Group has provided £2,364 million (2013 £3,355 million) of financing to these companies on which it received £149 million (2013 £170 million) of interest income in the year

On 25 June 2014, the Bank entered into an agreement for the exclusive provision of conveyancing panel services with United Legal Services Limited (ULS), which is a related party of the Bank by virtue of ULS Technology plc, ULS's parent, being an investee company of Lloyds Development Capital, the UK regional equity provider which is part of the Group

49 Contingent liabilities and commitments

Interchange fees
On 11 September 2014, the European Court of Justice (the ECJ) upheld the European Commission's 2007 decision that an infringement of EU competition law had arisen from arrangements whereby MasterCard issuers charged a uniform fallback multilateral interchange fee (MIF) in respect of cross-border transactions in relation to the use of a MasterCard or Maestro branded payment card

In parallel

- the European Commission has proposed legislation to regulate interchange fees which continues through the EU legislative process A political agreement has been reached between the European Parliament and the Council and the legislation is expected to be adopted and come into force in the second quarter of 2015 with certain articles applying six months or a year after that (the adoption and entry into force dates remain subject to change),
- the European Commission has adopted commitments proposed by VISA to settle an investigation into VISA's cross-border interchange arrangements and aspects of its scheme rules VISA has, amongst other things, agreed to reduce the level of interchange fees for cross-border card transactions to 30 basis points (for credit) and 20 basis points (for debit) VISA has also changed a number of its rules in relation to cross-border acquiring MasterCard unilaterally undertook, amongst other things, to reduce the level of cross border interchange fees to the same levels as agreed between the Commission and Visa,
- the Commission also continues to pursue other competition investigations into MasterCard and Visa probing, amongst other things, interchange paid in respect of cards issued outside the EEA,
- litigation continues in the English High Court against both Visa and MasterCard This litigation has been brought by several retailers who are seeking damages for allegedly 'overpaid' MIFs,
- the new UK payments regulator may exercise its powers, when these come in to force (in April 2015), to regulate domestic interchange fees In November 2014, the Competition and Markets Authority (the CMA) announced that it would not reopen the investigation into domestic interchange levels at this time following MasterCard's agreement to introduce a phased reduction of domestic interchange rates commencing in April 2015 In addition, the FCA has started a market study in relation to the UK credit cards market

The ultimate impact on the Group of the above investigations, regulatory or legislative developments and the litigation against VISA and MasterCard can only be known at the conclusion of these matters

LIBOR and other trading rates
On 28 July 2014, the Lloyds Banking Group announced that it had reached settlements totalling £217 million (at 30 June 2014 exchange rates) to resolve with UK and US federal authorities legacy issues regarding the manipulation several years ago of Lloyds Banking Group companies' submissions to the British Bankers' Association (BBA) London Interbank Offered Rate (LIBOR) and Sterling Repo Rate The settlements in relation to LIBOR are part of an industry-wide investigation into the setting of interbank offered rates across a range of currencies

The Lloyds Banking Group continues to cooperate with various other government and regulatory authorities, including the Serious Fraud Office, the European and Swiss Competition Commissions, and a number of US State Attorneys General, in conjunction with their investigations into submissions made by panel members to the bodies that set LIBOR and various other interbank offered rates

Certain Lloyds Banking Group companies, together with other panel banks, have also been named as defendants in private lawsuits, including purported class action suits, in the US in connection with their roles as panel banks contributing to the setting of US Dollar and Japanese Yen LIBOR The claims have been asserted by plaintiffs claiming to have had an interest in various types of financial instruments linked to US Dollar and Japanese Yen LIBOR The allegations in these cases, the majority of which have been coordinated for pre-trial purposes in multi-district litigation proceedings (MDL) in the US Federal Court for the Southern District of New York (the 'District Court'), are substantially similar to each other The lawsuits allege violations of the Sherman Antitrust Act, the Racketeer Influenced and Corrupt Organizations Act (RICO) and the Commodity Exchange Act (CEA), as well as various state statutes and common law doctrines Certain of the plaintiffs' claims have been dismissed by the District Court

The Lloyds Banking Group is also reviewing its activities in relation to the setting of certain foreign exchange daily benchmark rates and related matters, following the FCA's publicised initiation of an investigation into other financial institutions in relation to this activity The Lloyds Banking Group is co-operating with the FCA and other regulators and is providing information about the Lloyds Banking Group's review to those regulators In addition, the Lloyds Banking Group, together with a number of other banks, was named as a defendant in several actions filed in the District Court between late 2013 and February 2014, in which the plaintiffs alleged that the defendants manipulated WM/Reuters foreign exchange rates in violation of US antitrust laws On 31 March 2014, plaintiffs effectively withdrew their claims against the Lloyds Banking Group (but not against all defendants) by filing a superseding consolidated and amended pleading against a number of other defendants without naming any Lloyds Banking Group entity as a defendant

It is currently not possible to predict the scope and ultimate outcome on the Lloyds Banking 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 Lloyds Banking Group's contractual arrangements, including their timing and scale

Financial Services Compensation Scheme
The Financial Services Compensation Scheme (FSCS) is the UK's independent statutory compensation fund of last resort for customers of authorised financial services firms and pays compensation if a firm is unable or likely to be unable to pay claims against it The FSCS is funded by levies on the authorised financial services industry Each deposit-taking institution contributes towards the FSCS levies in proportion to their share of total protected deposits on 31 December of the year preceding the scheme year, which runs from 1 April to 31 March

Following the default of a number of deposit takers in 2008, the FSCS borrowed funds from HM Treasury to meet the compensation costs for customers of those firms At the end of the latest FSCS scheme year (31 March 2014), the principal balance outstanding on these loans was £16,591 million (31 March 2013 £17,246 million) Although the substantial majority of this loan will be repaid from funds the FSCS receives from asset sales, surplus cash flow or other recoveries in relation to the assets of the firms that defaulted, any shortfall will be funded by deposit-taking participants of the FSCS The amount of future levies payable by the Group depends on a number of factors including the amounts recovered by the FSCS from asset sales, the Group's participation in the deposit-taking market at 31 December, the level of protected deposits and the population of deposit-taking participants

Investigation into Bank of Scotland and report on HBOS
The FSA's enforcement investigation into Bank of Scotland plc's Corporate division between 2006 and 2008 concluded with the publication of a Final Notice on 9 March 2012 No financial penalty was imposed on the Group or Bank of Scotland plc On 12 September 2012 the FSA confirmed it was starting work on a public interest report on HBOS That report is now being produced as a joint PRA / FCA report Although the Terms of Reference for the HBOS review (issued on 11 July 2014) stated an aim to publish the final report by the end of 2014, the report has not yet been published

49 Contingent liabilities and commitments (continued)

US-Swiss tax programme
The US Department of Justice (the DOJ) and the Swiss Federal Department of Finance announced on 29 August 2013 a programme (the Programme) for Swiss banks to obtain resolution concerning their status in connection with on-going investigations by the DOJ into individuals and entities that use foreign (i e non-US) bank accounts to evade US taxes and reporting requirements, and individuals and entities that facilitate or have facilitated the evasion of such taxes and reporting requirements Swiss banks that chose to participate notified the DOJ of their election to categorise their relevant banking operations according to one of a number of defined categories under the Programme

The Group carried out private banking operations in Switzerland with assets under management of approximately £7 billion Those operations were sold in November 2013 Therefore, as a protective measure, in December 2013 the Group notified the DOJ of its intent to participate in the Programme Having completed due diligence under the terms of the Programme, the Group has concluded that its further participation in the Programme is not warranted and it has communicated to the DOJ its decision to withdraw from the Programme

Tax authorities
The Group provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities This includes open matters where Her Majesty's Revenue and Customs (HMRC) adopt a different interpretation and application of tax law which might lead to additional tax The Lloyds Banking Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010 In the second half of 2013 HMRC informed the Lloyds Banking Group that their interpretation of the UK rules, permitting the offset of such losses, denies the claim, if HMRC's position is found to be correct management estimate that this would result in an increase in current tax liabilities of approximately £600 million and a reduction in the Lloyds Banking Group's deferred tax asset of approximately £400 million (overall impact on the Group of approximately £950 million) The Lloyds Banking Group does not agree with HMRC's position and, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due

Residential mortgage repossessions
In August 2014, the Northern Ireland High Court handed down judgment in favour of the borrowers in relation to three residential mortgage test cases, concerning certain aspects of the Lloyds Banking Group's practice with respect to the recalculation of contractual monthly instalments of customers in arrears The Lloyds Banking Group is reviewing the issues raised by the judgment and will respond as appropriate to any investigations or proceedings that may in due course be instigated as a result of these issues

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 employees, customers, investors or other third parties, as well as regulatory reviews, challenges, investigations and enforcement actions, both in the UK and overseas All such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Group incurring a liability In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required at the relevant balance sheet date In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed properly to assess the merits of the case, and no provisions are held in relation to such matters However the Group does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows

Contingent liabilities and commitments arising from the banking business
Acceptances and endorsements arise where the Group or the Bank agrees to guarantee payment on a negotiable instrument drawn up by a customer

Other items serving as direct credit substitutes include standby letters of credit, or other irrevocable obligations, where the Group or the Bank has an irrevocable obligation to pay a third party beneficiary if the customer fails to repay an outstanding commitment, they also include acceptances drawn under letters of credit or similar facilities where the acceptor does not have specific title to an identifiable underlying shipment of goods

Performance bonds and other transaction related contingencies (which include bid or tender bonds, advance payment guarantees, VAT Customs & Excise bonds and standby letters of credit relating to a particular contract or non-financial transaction) are undertakings where the requirement to make payment under the guarantee depends on the outcome of a future event

49 Contingent liabilities and commitments (continued)

The Group's and the Bank's maximum exposure to loss is represented by the contractual nominal amount detailed in the table below Consideration has not been taken of any possible recoveries from customers for payments made in respect of such guarantees under recourse provisions or from collateral held

	The Group		The Bank	
	2014 £m	2013 £m	2014 £m	2013 £m
Contingent liabilities				
Acceptances and endorsements	59	204	58	124
Other				
Other items serving as direct credit substitutes	330	710	322	686
Performance bonds and other transaction-related contingencies	2,293	1,966	2,015	1,647
	2,623	2,676	2,337	2,333
Total contingent liabilities	2,682	2,880	2,395	2,457

	The Bank	
	2014 £m	2013 £m
Incurred on behalf of fellow Lloyds Banking Group undertakings	7	-

The contingent liabilities of the Group and the Bank arise in the normal course of banking business and it is not practicable to quantify their future financial effect

	The Group		The Bank	
	2014 £m	2013 £m	2014 £m	2013 £m
Commitments				
Documentary credits and other short-term trade-related transactions	101	54	100	51
Forward asset purchases and forward deposits placed	162	440	162	440
Undrawn formal standby facilities, credit lines and other commitments to lend				
Less than 1 year original maturity				
Mortgage offers made	8,809	9,559	859	1,112
Other commitments	64,015	55,002	37,892	30,404
	72,824	64,561	38,751	31,516
1 year or over original maturity	34,455	40,616	29,474	35,912
Total commitments	107,542	105,671	68,487	67,919

	The Bank	
	2014 £m	2013 £m
Incurred on behalf of fellow Lloyds Banking Group undertakings	6,231	4,718

Of the amounts shown above in respect of undrawn formal standby facilities, credit lines and other commitments to lend £55,029 million (2013 £56,292 million) for the Group and £39,755 million (2013 £40,341 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	
	2014 £m	2013 £m	2014 £m	2013 £m
Not later than 1 year	301	292	154	148
Later than 1 year and not later than 5 years	945	928	473	452
Later than 5 years	1,141	1,166	480	500
Total operating lease commitments	2,387	2,386	1,107	1,100

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 22), capital expenditure contracted but not provided for at 31 December 2014 amounted to £373 million (2013 £345 million) for the Group and £3 million (2013 £1 million) for the Bank Of this amount for the Group, £368 million (2013 £344 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

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

50 Financial instruments (continued)

The Group	Derivatives designated as hedging instruments £m	At fair value through profit or loss: Held for trading £m	Designated upon initial recognition £m	Available-for sale £m	Loans and receivables £m	Held at amortised cost £m	Insurance contracts £m	Total £m
At 31 December 2013[1]								
Financial assets								
Cash and balances at central banks	–	–	–	–	–	49,915	–	49,915
Items in the course of collection from banks	–	–	–	–	–	1,007	–	1,007
Trading and other financial assets at fair value through profit or loss	–	37,480	105,727	–	–	–	–	143,207
Derivative financial instruments	4,742	24,850	–	–	–	–	–	29,592
Loans and receivables								
Loans and advances to banks	–	–	–	–	25,365	–	–	25,365
Loans and advances to customers	–	–	–	–	492,952	–	–	492,952
Debt securities	–	–	–	–	1,355	–	–	1,355
Due from fellow Lloyds Banking group undertakings	–	–	–	–	15,453	–	–	15,453
	–	–	–	–	535,125	–	–	535,125
Available-for-sale financial assets	–	–	–	43,976	–	–	–	43,976
Total financial assets	4,742	62,330	105,727	43,976	535,125	50,922	–	802,822
Financial liabilities								
Deposits from banks	–	–	–	–	–	13,982	–	13,982
Customer deposits	–	–	–	–	–	439,467	–	439,467
Due to fellow Lloyds Banking group undertakings	–	–	–	–	–	8,797	–	8,797
Items in course of transmission to banks	–	–	–	–	–	774	–	774
Trading and other financial liabilities at fair value through profit or loss	–	38,319	5,306	–	–	–	–	43,625
Derivative financial instruments	4,758	23,140	–	–	–	–	–	27,898
Notes in circulation	–	–	–	–	–	1,176	–	1,176
Debt securities in issue	–	–	–	–	–	86,566	–	86,566
Liabilities arising from insurance contracts and participating investment contracts	–	–	–	–	–	–	82,801	82,801
Liabilities arising from non-participating investment contracts	–	–	–	–	–	–	27,590	27,590
Unallocated surplus within insurance businesses	–	–	–	–	–	–	391	391
Financial guarantees	–	–	50	–	–	–	–	50
Subordinated liabilities	–	–	–	–	–	33,534	–	33,534
Total financial liabilities	4,758	61,459	5,356	–	–	584,296	110,782	766,651

[1]See note 1

50 Financial instruments (continued)

The Bank	Derivatives designated as hedging instruments £m	At fair value through profit or loss: Held for trading £m	At fair value through profit or loss: Designated upon initial recognition £m	Available-for sale £m	Loans and receivables £m	Held at amortised cost £m	Total £m
At 31 December 2014							
Financial assets							
Cash and balances at central banks	–	–	–	–	–	40,965	40,965
Items in the course of collection from banks	–	–	–	–	–	802	802
Trading and other financial assets at fair value through profit or loss	–	59,580	6,741	–	–	–	66,321
Derivative financial instruments	1,019	39,131	–	–	–	–	40,150
Loans and receivables							
Loans and advances to banks	–	–	–	–	4,591	–	4,591
Loans and advances to customers	–	–	–	–	165,967	–	165,967
Due from fellow Lloyds Banking Group undertakings	–	–	–	–	130,636	–	130,636
	–	–	–	–	301,194	–	301,194
Available-for-sale financial assets	–	–	–	51,412	–	–	51,412
Total financial assets	1,019	98,711	6,741	51,412	301,194	41,767	500,844
Financial liabilities							
Deposits from banks	–	–	–	–	–	8,206	8,206
Customer deposits	–	–	–	–	–	194,699	194,699
Due to fellow Lloyds Banking Group undertakings	–	–	–	–	–	91,979	91,979
Items in course of transmission to banks	–	–	–	–	–	560	560
Trading and other financial liabilities at fair value through profit or loss	–	66,488	6,739	–	–	–	73,227
Derivative financial instruments	2,826	38,494	–	–	–	–	41,320
Debt securities in issue	–	–	–	–	–	65,965	65,965
Financial guarantees	–	–	30	–	–	–	30
Subordinated liabilities	–	–	–	–	–	21,590	21,590
Total financial liabilities	2,826	104,982	6,769	–	–	382,999	497,576

50 Financial instruments (continued)

The Bank	Derivatives designated as hedging instruments £m	At fair value through profit or loss: Held for trading £m	At fair value through profit or loss: Designated upon initial recognition £m	Available-for-sale £m	Loans and receivables £m	Held at amortised cost £m	Total £m
At 31 December 2013[1]							
Financial assets							
Cash and balances at central banks	–	–	–	–	–	42,283	42,283
Items in the course of collection from banks	–	–	–	–	–	663	663
Trading and other financial assets at fair value through profit or loss	–	35,580	4,587	–	–	–	40,167
Derivative financial instruments	914	27,157	–	–	–	–	28,071
Loans and receivables							
Loans and advances to banks	–	–	–	–	3,095	–	3,095
Loans and advances to customers	–	–	–	–	165,574	–	165,574
Debt securities	–	–	–	–	150	–	150
Due from fellow Lloyds Banking Group undertakings	–	–	–	–	262,977	–	262,977
	–	–	–	–	431,796	–	431,796
Available-for-sale financial assets	–	–	–	41,348	–	–	41,348
Total financial assets	914	62,737	4,587	41,348	431,796	42,946	584,328
Financial liabilities							
Deposits from banks	–	–	–	–	–	10,448	10,448
Customer deposits	–	–	–	–	–	185,555	185,555
Due to fellow Lloyds Banking Group undertakings	–	–	–	–	–	244,025	244,025
Items in course of transmission to banks	–	–	–	–	–	432	432
Trading and other financial liabilities at fair value through profit or loss	–	37,790	5,316	–	–	–	43,106
Derivative financial instruments	2,408	25,900	–	–	–	–	28,308
Debt securities in issue	–	–	–	–	–	53,195	53,195
Financial guarantees	–	–	33	–	–	–	33
Subordinated liabilities	–	–	–	–	–	22,600	22,600
Total financial liabilities	2,408	63,690	5,349	–	–	516,255	587,702

[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

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

50 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

50 Financial instruments (continued)

Fair values of financial assets and liabilities

The following table summarises the carrying values of financial assets and liabilities presented on the Group's and Bank's balance sheets The fair values presented in the table are at a specific date and may be significantly different from the amount which will actually be paid on the maturity or settlement date

	The Group				The Bank			
	2014		2013[1]		2014		2013[1]	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets								
Trading and other financial assets at fair value through profit or loss	152,520	152,520	143,207	143,207	66,321	66,321	40 167	40,167
Derivative financial instruments	35,483	35,483	29,592	29,592	40,150	40,150	28,071	28,071
Loans and receivables								
Loans and advances to banks	26,155	26,031	25,365	25,296	4,591	4,533	3,095	3,073
Loans and advances to customers	482,704	480,631	492,952	484,166	165,967	163,950	165,574	162,673
Debt securities	1,213	1,100	1,355	1,251	–	–	150	150
Due from fellow Lloyds Banking Group undertakings	11,482	11,482	15,453	15,453	130,636	130,636	262,977	262,977
	521,554	519,244	535,125	526,166	301,194	299,119	431,796	428,873
Available-for-sale financial assets	56,493	56,493	43,976	43,976	51,412	51,412	41,348	41,348
Reverse repurchase agreements included in above amounts								
Loans and advances to customers	5,148	5,148	120	120	5,148	5,148	120	120
Loans and advances to banks	1,899	1,899	183	183	1,899	1,899	183	183
Financial liabilities								
Deposits from banks	10,887	10,902	13,982	14,101	8,206	8,213	10,448	10,536
Customer deposits	447,067	450,038	439,467	440,011	194,699	196,958	185,555	185,890
Due to fellow Lloyds Banking Group undertakings	5,288	5,288	8,797	8,797	91,979	91,979	244,025	244,025
Trading and other financial liabilities at fair value through profit or loss	62,102	62,102	43,625	43,625	73,227	73,227	43,106	43,106
Derivative financial instruments	33,293	33,293	27,898	27,898	41,320	41,320	28,308	28,308
Debt securities in issue	75,672	79,664	86,566	90,268	65,965	71,617	53,195	52,666
Liabilities arising from non-participating investment contracts	27,248	27,248	27,590	27,590	–	–	–	–
Financial guarantees	51	51	50	50	30	30	33	33
Subordinated liabilities	31,973	34,780	33,534	33,976	21,590	23,314	22,600	24,442
Repurchase agreements included in the above amounts								
Deposits from banks	1,075	1,075	1,874	1,874	480	480	1,251	1,251
Customer deposits	–	–	2,978	2,978	–	–	2,978	2,978

[1]See note 1

The carrying amount of the following financial instruments is a reasonable approximation of fair value cash and balances at central banks, items in the course of collection from banks, items in course of transmission to banks and notes in circulation

50 Financial instruments (continued)

(3) Financial assets and liabilities carried at fair value
(A) Financial assets, excluding derivatives
Valuation hierarchy
At 31 December 2014, the Group's financial assets carried at fair value, excluding derivatives, totalled £209,013 million (31 December 2013 £187,183 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 111) 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 2014				
Trading and other financial assets at fair value through profit or loss				
Loans and advances to customers	-	28,513	-	28,513
Loans and advances to banks	-	8,212	-	8,212
Debt securities				
Government securities	23,950	1,523	-	25,473
Other public sector securities	-	781	1,389	2,170
Bank and building society certificates of deposit	-	554	-	554
Asset-backed securities				
Mortgage-backed securities	24	963	47	1,034
Other asset backed securities	1	849	-	850
Corporate and other debt securities	255	19,825	2,021	22,101
	24,230	24,495	3,457	52,182
Equity shares	60,164	343	1,647	62,154
Treasury and other bills	1,459	-	-	1,459
Total trading and other financial assets at fair value through profit or loss	85,853	61,563	5,104	152,520
Available-for-sale financial assets				
Debt securities				
Government securities	47,402	-	-	47,402
Bank and building society certificates of deposit	-	298	-	298
Asset-backed securities				
Mortgage-backed securities	-	674	-	674
Other asset-backed securities	-	685	-	685
Corporate and other debt securities	35	5,494	-	5,529
	47,437	7,151	-	54,588
Equity shares	45	727	270	1,042
Treasury and other bills	852	11	-	863
Total available for-sale financial assets	48,334	7,889	270	56,493
Total financial assets carried at fair value, excluding derivatives	**134,187**	**69,452**	**5,374**	**209,013**

50 Financial instruments (continued)

The Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2013				
Trading and other financial assets at fair value through profit or loss				
Loans and advances to customers	–	21,110	–	21,110
Loans and advances to banks	–	8,333	–	8,333
Debt securities				
Government securities	20,191	498	–	20,689
Other public sector securities	–	1,312	885	2,197
Bank and building society certificates of deposit	–	1,491	–	1,491
Asset-backed securities				
Mortgage-backed securities	30	768	–	798
Other asset-backed securities	171	756	–	927
Corporate and other debt securities	244	18,735	1,687	20,666
	20,636	23,560	2,572	46,768
Equity shares	65,211	10	1,660	66,881
Treasury and other bills	7	108	–	115
Total trading and other financial assets at fair value through profit or loss	85,854	53,121	4,232	143,207
Available-for-sale financial assets				
Debt securities				
Government securities	38,262	28	–	38,290
Bank and building society certificates of deposit	–	208	–	208
Asset-backed securities				
Mortgage-backed securities	–	1 263	–	1,263
Other asset-backed securities	–	841	74	915
Corporate and other debt securities	56	1,799	–	1,855
	38,318	4,139	74	42,531
Equity shares	48	147	375	570
Treasury and other bills	852	23	–	875
Total available-for-sale financial assets	39,218	4,309	449	43,976
Total financial assets carried at fair value, excluding derivatives	125,072	57,430	4,681	187,183

There were no significant transfers between level 1 and level 2 during the year

50 Financial instruments (continued)

Valuation hierarchy

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

50 Financial instruments (continued)

Valuation hierarchy

The Bank	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2013				
Trading and other financial assets at fair value through profit or loss				
Loans and advances to customers	–	23,904	–	23,904
Loans and advances to banks	–	5,778	–	5,778
Debt securities				
Government securities	8,567	97	–	8,664
Bank and building society certificates of deposit	–	32	–	32
Asset-backed securities				
Mortgage-backed securities	–	7	–	7
Other asset-backed securities	171	–	–	171
Corporate and other debt securities	6	1,533	18	1,557
	8,744	1,669	18	10,431
Equity shares	–	–	–	–
Treasury and other bills	–	54	–	54
Total trading and other financial assets at fair value through profit or loss	8,744	31,405	18	40,167
Available-for-sale financial assets				
Debt securities				
Government securities	38,159	–	–	38,159
Bank and building society certificates of deposit	–	196	–	196
Asset-backed securities				
Mortgage-backed securities	–	366	–	366
Other asset-backed securities	–	171	8	179
Corporate and other debt securities	32	2,244	–	2,276
	38,191	2,977	8	41,176
Equity shares	41	108	–	149
Treasury and other bills	–	23	–	23
Total available-for-sale financial assets	38,232	3,108	8	41,348
Total financial assets carried at fair value, excluding derivatives	46,976	34,513	26	81,515

50 Financial instruments (continued)

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

The Group	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 2013	3,306	567	3,873
Exchange and other adjustments	21	15	36
Gains recognised in the income statement within other income	296	-	296
Gains recognised in other comprehensive income within the revaluation reserve in respect of available-for-sale financial assets	-	40	40
Purchases	582	43	625
Sales	(631)	(224)	(855)
Transfers into the level 3 portfolio	995	12	1,007
Transfers out of the level 3 portfolio	(337)	(4)	(341)
At 31 December 2013	4,232	449	4,681
Exchange and other adjustments	**5**	**(7)**	**(2)**
Gains recognised in the income statement within other income	**579**	-	**579**
Gains recognised in other comprehensive income within the revaluation reserve in respect of available-for-sale financial assets	-	**(61)**	**(61)**
Purchases	**552**	**229**	**781**
Sales	**(587)**	**(266)**	**(853)**
Transfers into the level 3 portfolio	**708**	-	**708**
Transfers out of the level 3 portfolio	**(385)**	**(74)**	**(459)**
At 31 December 2014	**5,104**	**270**	**5,374**
Gains recognised in the income statement, within other income, relating to the change in fair value of those assets held at 31 December 2014	**547**	-	**547**
Gains recognised in the income statement, within other income, relating to the change in fair value of those assets held at 31 December 2013	70	-	70

50 Financial instruments (continued)

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
At 1 January 2013	–	85	85
Purchases	–	8	8
Sales	(295)	(85)	(380)
Transfers into the level 3 portfolio	313	–	313
Transfers out of the level 3 portfolio	–	–	–
At 31 December 2013	18	8	26
Gains recognised in the income statement within other income	1	–	1
Purchases	–	–	–
Sales	(3)	(8)	(11)
Transfers into the level 3 portfolio	85	–	85
Transfers out of the level 3 portfolio	–	–	–
At 31 December 2014	**101**	–	**101**
Gains recognised in the income statement, within other income, relating to the change in fair value of those assets held at 31 December 2014	1	–	1
Losses recognised in the income statement, within other income, relating to the change in fair value of those assets held at 31 December 2013	–	–	–

Valuation methodology for financial assets, excluding derivatives

Loans and advances and debt securities

Loans and advances and debt securities measured at fair value and classified as level 2 are valued by discounting expected cash flows using an observable credit spread applicable to the particular instrument

Where there is limited trading activity in debt securities, the Group uses valuation models, consensus pricing information from third party pricing services and broker or lead manager quotes to determine an appropriate valuation Debt securities are classified as level 3 if there is a significant valuation input that cannot be corroborated through market sources or where there are materially inconsistent values for an input Asset classes classified as level 3 mainly comprise certain collateralised loan obligations and collateralised debt obligations

Equity investments

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

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

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

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

50 Financial instruments (continued)

(B) Financial liabilities, excluding derivatives
Valuation hierarchy
At 31 December 2014, the Group's financial liabilities carried at fair value, excluding derivatives, totalled £62,153 million (31 December 2013 £43,675 million) The table below analyses these financial liabilities by balance sheet classification and valuation methodology (level 1, 2 or 3, as described on page 111) 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 2014				
Trading and other financial liabilities at fair value through profit or loss				
Liabilities held at fair value through profit or loss	-	6,739	5	6,744
Trading liabilities				
Liabilities in respect of securities sold under repurchase agreements	-	50,007	-	50,007
Short positions in securities	2,700	519	-	3,219
Other	-	2,132	-	2,132
	2,700	52,658	-	55,358
Total trading and other financial liabilities at fair value through profit or loss	2,700	59,397	5	62,102
Financial guarantees	-	-	51	51
Total financial liabilities carried at fair value, excluding derivatives	2,700	59,397	56	62,153

There were no significant transfers between level 1 and level 2 during the year

The Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2013				
Trading and other financial liabilities at fair value through profit or loss				
Liabilities held at fair value through profit or loss	-	5,267	39	5,306
Trading liabilities				
Liabilities in respect of securities sold under repurchase agreements	-	28,902	-	28,902
Short positions in securities	6,473	417	-	6,890
Other	-	2,527	-	2,527
	6,473	31,846	-	38,319
Total trading and other financial liabilities at fair value through profit or loss	6,473	37,113	39	43,625
Financial guarantees	-	-	50	50
Total financial liabilities carried at fair value, excluding derivatives	6,473	37,113	89	43,675

50 Financial instruments (continued)

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

The Bank	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2013				
Trading and other financial liabilities at fair value through profit or loss				
Liabilities held at fair value through profit or loss	–	5,316	–	5,316
Trading liabilities				
Liabilities in respect of securities sold under repurchase agreements	–	32,255	–	32,255
Short positions in securities	1,450	417	–	1,867
Other	–	3,668	–	3,668
	1,450	36,340	–	37,790
Total trading and other financial liabilities at fair value through profit or loss	1,450	41,656	–	43,106
Financial guarantees	–	–	33	33
Total financial liabilities carried at fair value, excluding derivatives	1,450	41,656	33	43,139

The table below analyses movements in level 3 financial liabilities excluding derivatives

The Group	Trading and other financial liabilities at fair value through profit or loss £m	Financial guarantees £m	Total level 3 financial liabilities carried at fair value excluding derivatives £m
At 1 January 2013	–	48	48
Losses recognised in the income statement within other income	10	3	13
Additions	29	–	29
Redemptions	–	(1)	(1)
At 31 December 2013	39	50	89
(Gains) losses recognised in the income statement within other income	(5)	1	(4)
Additions	–	–	–
Redemptions	(29)	–	(29)
At 31 December 2014	**5**	**51**	**56**
Losses recognised in the income statement, within other income, relating to the change in fair value of those liabilities held at 31 December 2014	–	1	1
Losses recognised in the income statement, within other income, relating to the change in fair value of those liabilities held at 31 December 2013	10	3	13

50 Financial instruments (continued)

The Bank	Financial guarantees £m	Total level 3 financial liabilities carried at fair value excluding derivatives £m
At 1 January 2013	34	34
Gains recognised in the income statement within other income	(1)	(1)
At 31 December 2013	33	33
Gains recognised in the income statement within other income	(3)	(3)
At 31 December 2014	**30**	**30**
Gains recognised in the income statement, within other income, relating to the change in fair value of those liabilities held at 31 December 2014	**(3)**	**(3)**
Gains recognised in the income statement, within other income, relating to the change in fair value of those liabilities held at 31 December 2013	(1)	(1)

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

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 2014, the own credit adjustment arising from the fair valuation of £6,739 million (2103 £5,267 million) of the Group s debt securities in issue designated at fair value through profit or loss resulted in a gain of £33 million (2013 gain of £40 million)

(C) Derivatives

All of the Group's derivative assets and liabilities are carried at fair value At 31 December 2014, such assets totalled £35,483 million for the Group and £40,150 million for the Bank (31 December 2013 £31,913 million for the Group and £30,392 million for the Bank) and liabilities totalled £33,293 million for the Group and £41,320 million for the Bank (31 December 2013 £30,704 million for the Group and £31,114 million for the Bank) The table below analyses these derivative balances by valuation methodology (level 1, 2 or 3, as described on page 111) The fair value measurement approach is recurring in nature There were no significant transfers between level 1 and level 2 during the year

The Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2014				
Derivative assets	**94**	**33,264**	**2,125**	**35,483**
Derivative liabilities	**(68)**	**(31,769)**	**(1,456)**	**(33,293)**
At 31 December 2013[1]				
Derivative assets	235	27,550	1,807	29,592
Derivative liabilities	(119)	(26,793)	(986)	(27,898)

The Bank	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2014				
Derivative assets	**–**	**38,546**	**1,604**	**40,150**
Derivative liabilities	**–**	**(39,964)**	**(1,356)**	**(41,320)**
At 31 December 2013[1]				
Derivative assets	–	26,704	1,367	28,071
Derivative liabilities	–	(27,368)	(940)	(28,308)

[1]See note 1

50 Financial instruments (continued)

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

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

The Group	Derivative assets £m	Derivative liabilities £m
At 1 January 2013	937	(543)
Exchange and other adjustments	2	(8)
Gains (losses) recognised in the income statement within other income	353	30
Purchases (additions)	271	(262)
(Sales) redemptions	(102)	29
Transfers into the level 3 portfolio	354	(233)
Transfers out of the level 3 portfolio	(8)	1
At 31 December 2013	1,807	(986)
Exchange and other adjustments	**(11)**	**4**
Gains recognised in the income statement within other income	**354**	**(375)**
Purchases (additions)	**68**	**(59)**
(Sales) redemptions	**(153)**	**66**
Transfers into the level 3 portfolio	**114**	**(110)**
Transfers out of the level 3 portfolio	**(53)**	**4**
At 31 December 2014	**2,126**	**(1,456)**
Gains (losses) recognised in the income statement, within other income, relating to the change in fair value of those assets or liabilities held at 31 December 2014	**354**	**(376)**
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 2013	376	(20)

50 Financial instruments (continued)

The Bank	Derivative assets £m	Derivative liabilities £m
At 1 January 2013	765	(488)
Exchange and other adjustments	(2)	1
Gains (losses) recognised in the income statement within other income	154	2
Purchases (additions)	270	(262)
(Sales) redemptions	(10)	–
Transfers into the level 3 portfolio	192	(194)
Transfers out of the level 3 portfolio	(2)	1
At 31 December 2013	1,367	(940)
Exchange and other adjustments	**(2)**	**3**
Gains recognised in the income statement within other income	**196**	**(317)**
Purchases (additions)	**68**	**(59)**
(Sales) redemptions	**(139)**	**63**
Transfers into the level 3 portfolio	**114**	**(110)**
Transfers out of the level 3 portfolio	**–**	**4**
At 31 December 2014	**1,604**	**(1,356)**
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 2014	**196**	**(317)**
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 2013	178	–

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 2014 and 2013

	2014 £m	2013 £m
At 1 January	**498**	897
Income statement (credit) charge	**95**	(241)
Transfers	**15**	(158)
At 31 December	**608**	498

Represented by

	2014 £m	2013 £m
Credit Valuation Adjustment	**568**	485
Debit Valuation Adjustment	**(85)**	(122)
Funding Valuation Adjustment	**125**	135
	608	498

Credit and Debit Valuation Adjustments (CVA and DVA) are applied to the Group's over-the-counter derivative exposures with counterparties that are not subject to standard interbank collateral arrangements These exposures largely relate to the provision of risk management solutions for corporate customers within the Commercial Banking division

A CVA is taken where the Group has a positive future uncollateralised exposure (asset) A DVA is taken where the Group has a negative future uncollateralised exposure (liability) These adjustments reflect interest rates and expectations of counterparty creditworthiness and the Group's own credit spread respectively

The CVA is sensitive to

- the current size of the mark-to-market position on the uncollateralised asset,
- expectations of future market volatility of the underlying asset, and
- expectations of counterparty creditworthiness

In circumstances where exposures to a counterparty become impaired, any associated derivative valuation adjustment is transferred and assessed for specific loss alongside other non-derivative assets and liabilities that the counterparty may have with the Group

50 Financial instruments (continued)

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 £105 million Current market value is used to estimate the projected exposure for products not supported by the model, which are principally complex interest rate options that are traded in very low volumes For these, the CVA is calculated on an add-on basis (in total contributing £2 million of the overall CVA balance at 31 December 2014)

The DVA is sensitive to

- the current size of the mark-to-market position on the uncollateralised liability,
- expectations of future market volatility of the underlying liability, and
- the Group's own CDS spread

A one per cent rise in the CDS spread would lead to an increase in the DVA of £122 million to £207 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 £183 million fall in the overall valuation adjustment to £300 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 certain uncollateralised derivative positions where the Group considers that this cost is included in market pricing This adjustment is calculated on the expected future exposure discounted at a suitable cost of funds A ten basis points increase in the cost of funds will increase the funding valuation adjustment by approximately £7 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 2014, the Group's derivative trading business held mid to bid-offer valuation adjustments of £74 million (2013 £70 million)

50 Financial instruments (continued)

(D) Sensitivity of level 3 valuations

	Valuation basis/technique	Significant unobservable inputs[1]	At 31 December 2014 Carrying value £m	At 31 December 2014 Effect of reasonably possible alternative assumptions[2] Favourable changes £m	At 31 December 2014 Effect of reasonably possible alternative assumptions[2] Unfavourable changes £m	At 31 December 2013 Carrying value £m	At 31 December 2013 Effect of reasonably possible alternative assumptions Favourable changes £m	At 31 December 2013 Effect of reasonably possible alternative assumptions Unfavourable changes £m
Trading and other financial assets at fair value through profit or loss								
Debt securities	Discounted cash flows	Credit spreads (bps) n/a[3]	35	5	(5)	18	5	(2)
Asset-backed securities	Lead manager or broker quote	n/a	65	-	(2)	-	-	-
Equity and venture capital investments	Market approach	Earnings multiple (4/14)	2,214	75	(75)	2,132	70	(70)
	Underlying asset/ net asset value (incl property prices)[4]	n/a	173	26	(23)	130	17	(16)
Unlisted equities and debt securities, property partnerships in the life funds	Underlying asset/ net asset value (incl property prices)[4]	n/a	2,617	4	(2)	1,952	-	-
			5,104			4,232		
Available-for-sale financial assets								
Asset-backed securities	Lead manager or broker quote/consensus pricing	n/a	-	-	-	74	-	-
Equity and venture capital investments	Underlying asset/ net asset value (incl property prices)[4]	n/a	270	10	(18)	375	28	(19)
			270			449		
Derivative financial assets								
Interest rate derivatives	Discounted cash flow	Inflation swap rate – funding component (3 bps/167 bps)	1,382	17	(16)	1,461	66	(39)
	Option pricing model	Interest rate volatility (4%/120%)	743	6	(6)	346	6	(7)
			2,125			1,807		
Level 3 financial assets carried at fair value			7,499			6,488		
Trading and other financial liabilities at fair value through profit or loss			5	-	-	39	1	(1)
Derivative financial liabilities								
Interest rate derivatives	Discounted cash flow	Inflation swap rate – funding component (3 bps/167 bps)	807	-	-	754	-	-
	Option pricing model	Interest rate volatility (4%/120%)	649	-	-	232	-	-
			1,456			986		
Financial guarantees			51			50		
Level 3 financial liabilities carried at fair value			1,512			1,075		

[1]Ranges are shown where appropriate and represent the highest and lowest inputs used in the level 3 valuations

[2]Where the exposure to an unobservable input is managed on a net basis only the net impact is shown in the table

[3]A single pricing source is used

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

50 Financial instruments (continued)

Unobservable inputs
Significant unobservable inputs affecting the valuation of debt securities, unlisted equity investments and derivatives are as follows

- Interest rates and inflation rates are referenced in some derivatives where the payoff that the holder of the derivative receives depends on the behaviour of those underlying references through time
- Credit spreads represent the premium above the benchmark reference instrument required to compensate for lower credit quality, higher spreads lead to a lower fair value
- Volatility parameters represent key attributes of option behaviour, higher volatilities typically denote a wider range of possible outcomes
- Earnings multiples are used to value certain unlisted equity investments, a higher earnings multiple will result in a higher fair value

Reasonably possible alternative assumptions
Valuation techniques applied to many of the Group's level 3 instruments often involve the use of two or more inputs whose relationship is interdependent The calculation of the effect of reasonably possible alternative assumptions included in the table above reflects such relationships

Debt securities
Reasonably possible alternative assumptions have been determined in respect of the Group's structured credit investment by flexing credit spreads

Derivatives
Reasonably possible alternative assumptions have been determined in respect of the Group's derivative portfolios as follows

- Uncollateralised inflation swaps are valued using appropriate discount spreads for such transactions These spreads are not generally observable for longer maturities The reasonably possible alternative valuations reflect flexing of the spreads for the differing maturities to alternative values of between 3 bps and 167 bps (2013 62 bps and 192 bps)
- Swaptions are priced using industry standard option pricing models Such models require interest rate volatilities which may be unobservable at longer maturities To derive reasonably possible alternative valuations these volatilities have been flexed within a range of 4 per cent to 120 per cent (2013 3 per cent and 112 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

50 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 111) 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

The Group	Fair value £m	Valuation hierarchy Level 1 £m	Level 2 £m	Level 3 £m
At 31 December 2014				
Loans and advances to customers	**480,631**	–	–	**480,631**
Loans and advances to banks	**26,031**	–	–	**26,031**
Debt securities	**1,100**	**7**	**1,050**	**43**
Due from fellow Lloyds Banking Group undertakings	**11,482**	–	–	**11,482**
Reverse repos included in above amounts				
Loans and advances to customers	**5,148**	–	–	**5,148**
Loans and advances to banks	**1,899**	–	–	**1,899**
At 31 December 2013[1]				
Loans and advances to customers	484,166	–	–	484,166
Loans and advances to banks	25,296	–	–	25,296
Debt securities	1,251	157	42	1,052
Due from fellow Lloyds Banking Group undertakings	15,453	–	–	15,453
Reverse repos included in above amounts				
Loans and advances to customers	**120**	–	–	**120**
Loans and advances to banks	**183**	–	–	**183**

[1]See note 1

50 Financial instruments (continued)

The Bank	Fair value £m	Valuation hierarchy Level 1 £m	Level 2 £m	Level 3 £m
At 31 December 2014				
Loans and advances to customers	**163,950**	**–**	**–**	**163,950**
Loans and advances to banks	**4,533**	**–**	**–**	**4,533**
Debt securities	**–**	**–**	**–**	**–**
Due from fellow Lloyds Banking Group undertakings	**130,636**	**–**	**–**	**130,636**
Reverse repos included in above amounts				
Loans and advances to customers	**5,148**	**–**	**–**	**5,148**
Loans and advances to banks	**1,899**	**–**	**–**	**1,899**
At 31 December 2013[1]				
Loans and advances to customers	162,673	–	–	162,673
Loans and advances to banks	3,073	–	–	3,073
Debt securities	150	150	–	–
Due from fellow Lloyds Banking Group undertakings	262,977	–	–	262,977
Reverse repos included in above amounts				
Loans and advances to customers	120	–	–	120
Loans and advances to banks	183	–	–	183

[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

50 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 111)

The Group	Fair value £m	Valuation hierarchy Level 1 £m	Level 2 £m	Level 3 £m
At 31 December 2014				
Deposits from banks	**10,902**	–	**10,902**	–
Customer deposits	**450,038**	–	**435,073**	**14,965**
Due to fellow Lloyds Banking Group undertakings	**5,288**	–	**5,288**	–
Debt securities in issue	**79,664**	–	**79,664**	–
Subordinated liabilities	**34,780**	–	**34,780**	–
Repos included in above amounts				
Deposits from banks	**1,075**	–	**1,075**	–
Customer deposits	–	–	–	–
At 31 December 2013[1]				
Deposits from banks	14,101	–	13,957	144
Customer deposits	440,011	–	421,278	18,733
Due to fellow Lloyds Banking Group undertakings	8,797	–	8,797	–
Debt securities in issue	90,268	–	90,093	175
Subordinated liabilities	33,976	–	33,976	–
Repos included in above amounts				
Deposits from banks	2,112	–	2,112	–
Customer deposits	3,114	–	3,114	–

The Bank	Fair value £m	Valuation hierarchy Level 1 £m	Level 2 £m	Level 3 £m
At 31 December 2014				
Deposits from banks	**8,213**	–	**8,213**	–
Customer deposits	**196,958**	–	**196,958**	–
Due to fellow Lloyds Banking Group undertakings	**91,979**	–	**91,979**	–
Debt securities in issue	**71,617**	–	**71,617**	–
Subordinated liabilities	**23,314**	–	**23,314**	–
Repos included in above amounts				
Deposits from banks	**480**	–	**480**	–
Customer deposits	–	–	–	–
At 31 December 2013[1]				
Deposits from banks	10,536	–	10,392	144
Customer deposits	185,890	–	185,890	–
Due to fellow Lloyds Banking Group undertakings	244,025	–	244,025	–
Debt securities in issue	52,666	–	52,666	–
Subordinated liabilities	24,442	–	24,442	–
Repos included in above amounts				
Deposits from banks	1,251	–	1,251	–
Customer deposits	3,114	–	3,114	–

[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

50 Financial instruments (continued)

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) Reclassification of financial assets
No financial assets have been reclassified in 2013 or 2014

During 2012 the Group and the Bank reviewed the holding of government securities classified as held-to-maturity and, in view of the fact that it was no longer the intention to hold these to maturity, securities with a carrying amount of £10,811 million and a fair value of £11,979 million were reclassified as available-for-sale financial assets in December 2012 At 31 December 2014, the securities reclassified that were still retained by the Group were carried at their fair value of £1,284 million (2013 £1,117 million)

51 Transfers of financial assets

(1) Transferred financial assets that continue to be recognised in full
The Group and the Bank enter into repurchase and securities lending transactions in the normal course of business that do not result in derecognition of the financial assets covered as substantially all of the risks and rewards, including credit, interest rate, prepayment and other price risks are retained by the Group In all cases, the transferee has the right to sell or repledge the assets concerned

As set out in note 18, included within loans and receivables are loans transferred under the Group's securitisation and covered bond programmes As the Group retains all of a majority of the risks and rewards associated with these loans, including credit, interest rate, prepayment and liquidity risk, they remain on the Group's balance sheet Assets transferred into the Group's securitisation and covered bond programmes are not available to be used by the Group whilst the assets are within the programmes However, the Group retains the right to remove loans from the covered bond programmes where they are in excess of the programme's requirements In addition, where the Group has retained some of the notes issued by securitisation and covered bond programmes, the Group has the ability to sell or pledge these retained notes

The table below sets out the carrying values of the transferred assets and the associated liabilities For repurchase and securities lending transactions, the associated liabilities represent the Group's obligation to repurchase the transferred assets For securitisation programmes, the associated liabilities represent the external notes in issue (note 35) Except as otherwise noted below, none of the liabilities shown in the table below have recourse only to the transferred assets

	The Group		The Bank	
	Carrying value of transferred assets £m	Carrying value of associated liabilities £m	Carrying value of transferred assets £m	Carrying value of associated liabilities £m
At 31 December 2014				
Repurchase and securities lending transactions				
Trading and other financial assets at fair value through profit or loss	**16,803**	**6,673**	**9,076**	**6,625**
Available-for-sale financial assets	**18,835**	**10,301**	**17,916**	**10,287**
Loans and receivables				
Loans and advances to customers	**2,353**	**908**	**1,683**	**324**
Debt securities classified as loans and receivables	**88**	**-**	**88**	**-**
Securitisation programmes				
Loans and receivables				
Loans and advances to customers	**75,970**	**11,908**	**13,048**	**12,209**

	The Group		The Bank	
	Carrying value of transferred assets £m	Carrying value of associated liabilities £m	Carrying value of transferred assets £m	Carrying value of associated liabilities £m
At 31 December 2013				
Repurchase and securities lending transactions				
Trading and other financial assets at fair value through profit or loss	10,832	927	6,922	6,664
Available-for-sale financial assets	6,093	3,726	18,001	8,733
Loans and receivables				
Loans and advances to customers	19,074	3,936	826	789
Debt securities classified as loans and receivables	88	-	78	-
Securitisation programmes				
Loans and receivables				
Loans and advances to customers	80,878	18,613[1]	10,407	10,735

[1]Excludes securitisation notes held by the Group (£38,149 million, 31 December 2013 £38 288 million)

(2) Transferred financial assets derecognised in their entirety with ongoing exposure
Transferred financial assets which were derecognised in their entirety, but with ongoing exposure, consisted of £33 million of debt securities (2013 £78 million) with a fair value of £33 million (2013 £76 million) and a maximum exposure to loss of £33 million (2013 £78 million)

52 Offsetting of financial assets and liabilities

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

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

52 Offsetting of financial assets and liabilities (continued)

At 31 December 2013	Gross amounts of assets and liabilities[1] £m	Amounts offset in the balance sheet[2] £m	Net amounts presented in the balance sheet £m	Related amounts where set off in the balance sheet not permitted[3] Cash collateral received/ pledged £m	Non-cash collateral received/ pledged £m	Potential net amounts if offset of related amounts permitted £m
Financial assets						
Trading and other financial assets at fair value through profit or loss						
Excluding reverse repos	113,919	-	113,919	-	(903)	113,016
Reverse repos	33,725	(4,437)	29,288	-	(29,288)	-
	147,644	(4,437)	143,207	-	(30,191)	113,016
Derivative financial instruments	49,073	(19,481)	29,592	(2,702)	(19,703)	7,187
Loans and advances to banks						
Excluding reverse repos	25,182	-	25,182	(2,180)	-	23,002
Reverse repos	183	-	183	-	(183)	-
	25,365	-	25,365	(2,180)	(183)	23,002
Loans and advances to customers						
Excluding reverse repos	495,161	(2,329)	492,832	(782)	(10,698)	481,352
Reverse repos	120	-	120	-	(120)	-
	495,281	(2,329)	492,952	(782)	(10,818)	481,352
Debt securities	1,355	-	1,355	-	-	1,355
Available-for-sale financial assets	43,976	-	43,976	-	(3,725)	40,251
Financial liabilities						
Deposits from banks						
Excluding repos	12,108	-	12,108	(2,280)	-	9,828
Repos	1,874	-	1,874	-	(1,874)	-
	13,982	-	13,982	(2,280)	(1,874)	9,828
Customer deposits						
Excluding repos	438,333	(1,844)	436,489	(422)	(6,811)	429,256
Repos	2,978	-	2,978	-	(2,978)	-
	441,311	(1,844)	439 467	(422)	(9,789)	429,256
Trading and other financial liabilities at fair value through profit or loss						
Excluding repos	14,723	-	14,723	-	-	14,723
Repos	33,339	(4,437)	28,902	-	(28,902)	-
	48,062	(4,437)	43,625	-	(28,902)	14,723
Derivative financial instruments	47,864	(19,966)	27,898	(2,962)	(21,159)	3,777

[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

53 Financial risk management

Financial instruments are fundamental to the Group's activities and, as a consequence, the risks associated with financial instruments represent a significant component of the risks faced by the Group

The primary risks affecting the Group through its use of financial instruments are credit risk, market risk, which includes interest rate risk and currency risk, liquidity risk and insurance risk Information about the Group's management of these risks is given below

(1) Credit risk

The Group's credit risk exposure arises in respect of the instruments below and predominantly in the United Kingdom Credit risk appetite is set at Board level and is described and reported through a suite of metrics devised from a combination of accounting and credit portfolio performance measures, which include the use of various credit risk rating systems as inputs and measure the credit risk of loans and advances to customers and banks at a counterparty level using three components (i) the probability of default by the counterparty on its contractual obligations, (ii) the current exposures to the counterparty and their likely future development, from which the Group derives the exposure at default, and (iii) the likely loss ratio on the defaulted obligations, the loss given default The Group uses a range of approaches to mitigate credit risk, including internal control policies, obtaining collateral, using master netting agreements and other credit risk transfers, such as asset sales and credit derivative based transactions

A Maximum credit exposure

The maximum credit risk exposure of the Group and the Bank in the event of other parties failing to perform their obligations is detailed below No account is taken of any collateral held and the maximum exposure to loss, which includes amounts held to cover unit-linked and With-Profit funds liabilities, is considered to be the balance sheet carrying amount or, for non-derivative off-balance sheet transactions and financial guarantees, their contractual nominal amounts

	At 31 December 2014			At 31 December 2013		
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]	**26,155**	**–**	**26,155**	25,365	–	25,365
Loans and advances to customers, net[1]	**482,704**	**(4,094)**	**478,610**	492,952	(6,811)	486,141
Debt securities, net[1]	**1,213**	**–**	**1,213**	1,355	–	1,355
	510,072	**(4,094)**	**505,978**	519,672	(6,811)	512,861
Available-for-sale financial assets[2]	**55,451**	**–**	**55,451**	43,406	–	43,406
Trading and other financial assets at fair value through profit or loss[3,4]						
Loans and advances	**36,725**	**–**	**36,725**	29,443	–	29,443
Debt securities, treasury and other bills	**53,641**	**–**	**53,641**	46,883	–	46,883
	90,366	**–**	**90,366**	76,326	–	76,326
Derivative assets	**35,483**	**(21,929)**	**13,554**	29,592	(19,479)	10,113
Assets arising from reinsurance contracts held	**682**	**–**	**682**	732	–	732
Financial guarantees	**7,161**	**–**	**7,161**	8,591	–	8,591
Off-balance sheet items						
Acceptances and endorsements	**59**	**–**	**59**	204	–	204
Other items serving as direct credit substitutes	**330**	**–**	**330**	710	–	710
Performance bonds and other transaction-related contingencies	**2,293**	**–**	**2,293**	1,966	–	1,966
Irrevocable commitments	**55,029**	**–**	**55,029**	56,292	–	56,292
	57,711	**–**	**57,711**	59,172	–	59,172
	756,926	**(26,023)**	**730,903**	737,491	(26,290)	711,201

53 Financial risk management (continued)

	At 31 December 2014			At 31 December 2013		
	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]	**4,591**	**–**	**4,591**	3,095	–	3,095
Loans and advances to customers, net[1]	**165,967**	**(2,932)**	**163,035**	165,574	(4,959)	160,615
Debt securities, net[1]	**–**	**–**	**–**	150	–	150
	170,558	**(2,932)**	**167,626**	168,819	(4,959)	163,860
Available-for-sale financial assets[3]	**50,686**	**–**	**50,686**	41,999	–	41,999
Trading and other financial assets at fair value through profit or loss[3]						
Loans and advances	**47,813**	**–**	**47,813**	29,682	–	29,682
Debt securities, treasury and other bills	**18,508**	**–**	**18,508**	10,485	–	10,485
	66,321	**–**	**66,321**	40,167	–	40,167
Derivative assets	**40,150**	**(16,999)**	**23,151**	28,071	(12,192)	15,879
Financial guarantees	**6,598**	**–**	**6,598**	7,903	–	7,903
Off-balance sheet items						
Acceptances and endorsements	**58**	**–**	**58**	124	–	124
Other items serving as direct credit substitutes	**322**	**–**	**322**	686	–	686
Performance bonds and other transaction-related contingencies	**2,015**	**–**	**2,015**	1,647	–	1,647
Irrevocable commitments	**39,755**	**–**	**39,755**	40,341	–	40,341
	42,150	**–**	**42,150**	42,798	–	42,798
	376,463	**(19,931)**	**356,532**	329,757	(17,151)	312,606

[1]Amounts shown net of related impairment allowances

[2]Offset items comprise deposit amounts available for offset and amounts available for offset under master netting arrangements that do not meet the criteria under IAS 32 to enable loans and advances and derivative assets respectively to be presented net of these balances in the financial statements

[3]Excluding equity shares

[4]Includes assets within the Group's unit-linked funds for which credit risk is borne by the policyholders and assets within the Group's with profits funds for which credit risk is largely borne by the policyholders Consequently the Group has no significant exposure to credit risk for such assets which back related contract liabilities

B Concentrations of exposure

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

At 31 December 2014 the most significant concentrations of exposure were in mortgages (comprising 68 per cent of total loans and advances to customers) and to financial, business and other services (comprising 9 per cent of the total) For further information on concentrations of the Group's loans, refer to note 17

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

53 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 business combination such as the transfer of HBOS in 2010, this underlying basis, which includes the allowance for loan losses in place at the date of the acquisition of HBOS by the Lloyds Banking Group on a gross basis, more fairly reflects the underlying provisioning status of the loans The remaining acquisition-related fair value adjustments in respect of this lending are therefore identified separately in this table

The analysis of lending between retail and commercial has been prepared based upon the type of exposure and not the business segment in which the exposure is recorded Included within retail are exposures to personal customers and small businesses, whilst included within commercial are exposures to corporate customers and other large institutions

Loans and advances – The Group

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

	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 2013[1]						
Neither past due nor impaired	25,219	318,668	36,789	107,764	463,221	29,443
Past due but not impaired	146	12,329	580	786	13,695	–
Impaired – no provision required	–	637	1,284	1,824	3,745	–
– provision held	–	6,229	1,456	20,829	28,514	–
Gross	25,365	337,863	40,109	131,203	509,175	29,443
Allowance for impairment losses	–	(2,194)	(1,044)	(12,469)	(15,707)	–
Fair value adjustments	–				(516)	–
Net balance sheet carrying value	25,365				492,952	29,443

[1]See note 1

The criteria that the Group uses to determine that there is objective evidence of an impairment loss are disclosed in note 2(h) All impaired loans which exceed certain thresholds, principally within the Group's commercial business, are individually assessed for impairment by reviewing expected future cash flows including those that could arise from the realisation of security Included in loans and receivables are advances individually determined to be impaired with a gross amount before impairment allowances of £8,522 million (2013 £22,390 million)

53 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 2014						
Good quality	25,654	318,967	30,993	65,106		36,482
Satisfactory quality	263	1,159	5,675	28,800		238
Lower quality	49	72	623	11,204		5
Below standard, but not impaired	37	126	595	1,658		–
Total loans and advances which are neither past due nor impaired	**26,003**	**320,324**	**37,886**	**106,768**	**464,978**	**36,725**
31 December 2013[1]						
Good quality	25,044	314,749	29 129	66,345		29,432
Satisfactory quality	171	2,948	6,414	29,038		7
Lower quality	2	308	501	9,991		3
Below standard, but not impaired	2	663	745	2,390		1
Total loans and advances which are neither past due nor impaired	25,219	318,668	36,789	107,764	463,221	29,443

[1]See note 1

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 2014						
0-30 days	152	4,854	453	198	5,505	–
30-60 days	–	2,309	110	51	2,470	–
60-90 days	–	1,427	90	139	1,656	–
90-180 days	–	1,721	5	38	1,764	–
Over 180 days	–	–	16	62	78	–
Total loans and advances which are past due but not impaired	**152**	**10,311**	**674**	**488**	**11,473**	**–**
31 December 2013						
0-30 days	146	5,596	489	347	6,432	–
30-60 days	–	2,639	87	102	2,828	–
60-90 days	–	1,734	4	57	1,795	–
90-180 days	–	2,360	–	41	2,401	–
Over 180 days	–	–	–	239	239	–
Total loans and advances which are past due but not impaired	146	12,329	580	786	13,695	–

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

53 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 2014						
Neither past due nor impaired	**4,591**	**65,827**	**24,523**	**71,214**	**161,564**	**35,586**
Past due but not impaired	**–**	**1,487**	**455**	**294**	**2,236**	**–**
Impaired – no provision required	**–**	**232**	**646**	**498**	**1,376**	**–**
– provision held	**–**	**288**	**709**	**1,425**	**2,422**	**–**
Gross	**4,591**	**67,834**	**26,333**	**73,431**	**167,598**	**35,586**
Allowance for impairment losses (note 20)	**–**	**(185)**	**(205)**	**(1,241)**	**(1,631)**	**–**
Net balance sheet carrying value	**4,591**	**67,649**	**26,128**	**72,190**	**165,967**	**35,586**

	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 2013[2]						
Neither past due nor impaired	3,092	70,200	23,173	65,879	159,252	19,685
Past due but not impaired	3	1,987	267	109	2,363	–
Impaired – no provision required	–	246	846	708	1,800	–
– provision held	–	539	770	3,149	4,458	–
Gross	3,095	72,972	25,056	69,845	167,873	19,685
Allowance for impairment losses (note 20)	–	(171)	(454)	(1,674)	(2,299)	–
Net balance sheet carrying value	3,095	72,801	24,602	68,171	165,574	19,685

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

[2] See note 1

Included in loans and receivables are advances individually determined to be impaired with a gross amount before impairment allowances of £2,415 million (2013 £4,814 million)

53 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				Loans and advances designated at fair value through profit or loss £m
		Retail – mortgages £m	Retail – other £m	Wholesale £m	Total £m	
31 December 2014						
Good quality	**4,363**	**65,770**	**20,339**	**46,030**		**35,343**
Satisfactory quality	**210**	**53**	**3,405**	**20,693**		**238**
Lower quality	**1**	**1**	**394**	**4,148**		**5**
Below standard, but not impaired	**17**	**3**	**385**	**343**		**–**
Total loans and advances which are neither past due nor impaired	**4,591**	**65,827**	**24,523**	**71,214**	**161,564**	**35,586**
31 December 2013[1]						
Good quality	2,936	69,939	19,590	41,823		19,680
Satisfactory quality	151	251	3,089	20,344		2
Lower quality	2	6	172	2,769		2
Below standard, but not impaired	3	4	322	943		1
Total loans and advances which are neither past due nor impaired	3,092	70,200	23,173	65,879	159,252	19,685

[1]See note 1

Loans and advances which are past due but not impaired – The Bank

	Loans and advances to banks £m	Loans and advances to customers				Loans and advances designated at fair value through profit or loss £m
		Retail – mortgages £m	Retail – other £m	Wholesale £m	Total £m	
31 December 2014						
0-30 days	**–**	**738**	**301**	**79**	**1,118**	**–**
30-60 days	**–**	**331**	**58**	**32**	**421**	**–**
60-90 days	**–**	**193**	**83**	**98**	**374**	**–**
90-180 days	**–**	**225**	**2**	**31**	**258**	**–**
Over 180 days	**–**	**–**	**11**	**54**	**65**	**–**
Total loans and advances which are past due but not impaired	**–**	**1,487**	**455**	**294**	**2,236**	**–**
31 December 2013						
0-30 days	3	877	215	54	1,146	–
30-60 days	–	390	51	39	480	–
60-90 days	–	242	1	10	253	–
90-180 days	–	478	–	1	479	–
Over 180 days	–	–	–	5	5	–
Total loans and advances which are past due but not impaired	3	1,987	267	109	2,363	–

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

53 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

	Investment grade[1] £m	Sub investment grade £m	Not rated £m	Total £m
The Group				
At 31 December 2014				
Asset-backed securities				
Mortgage-backed securities	**190**	–	–	**190**
Other asset-backed securities	**780**	**198**	**7**	**985**
	970	**198**	**7**	**1,175**
Corporate and other debt securities	–	–	**164**	**164**
Total debt securities classified as loans and receivables	**970**	**198**	**171**	**1,339**
At 31 December 2013				
Asset-backed securities				
Mortgage-backed securities	333	–	–	333
Other asset-backed securities	605	117	18	740
	938	117	18	1,073
Corporate and other debt securities	175	–	232	407
Total debt securities classified as loans and receivables	1,113	117	250	1,480
The Bank				
At 31 December 2014				
Asset-backed securities				
Mortgage-backed securities	–	–	–	–
Other asset-backed securities	–	–	–	–
	–	–	–	–
Corporate and other debt securities	–	–	–	–
Total debt securities classified as loans and receivables	–	–	–	–
At 31 December 2013				
Asset-backed securities				
Mortgage-backed securities	–	–	–	–
Other asset-backed securities	–	–	–	–
	–	–	–	–
Corporate and other debt securities	150	–	–	150
Total debt securities classified as loans and receivables	150	–	–	150

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

53 Financial risk management (continued)

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

	Investment grade[1] £m	Sub-Investment grade £m	Not rated £m	Total £m
The Group				
At 31 December 2014				
Debt securities				
Government securities	47,402	–	–	47,402
Bank and building society certificates of deposit	298	–	–	298
Asset-backed securities				
Mortgage-backed securities	674	–	–	674
Other asset-backed securities	681	4	–	685
	1,355	4	–	1,359
Corporate and other debt securities	5,490	16	23	5,529
Total debt securities	54,545	20	23	54,588
Treasury bills and other bills	863	–	–	863
Total held as available for-sale financial assets	55,408	20	23	55,451
At 31 December 2013				
Debt securities				
Government securities	38,290	–	–	38,290
Bank and building society certificates of deposit	208	–	–	208
Asset-backed securities				
Mortgage-backed securities	1,181	82	–	1,263
Other asset-backed securities	890	25	–	915
	2,071	107	–	2,178
Corporate and other debt securities	1,799	37	19	1,855
Total debt securities	42,368	144	19	42,531
Treasury bills and other bills	875	–	–	875
Total held as available-for-sale financial assets	43,243	144	19	43,406

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

53 Financial risk management (continued)

	Investment grade[1] £m	Sub investment grade £m	Not rated £m	Total £m
The Bank				
At 31 December 2014				
Debt securities				
Government securities	46,911	–	–	46,911
Bank and building society certificates of deposit	186	–	–	186
Asset-backed securities				
Mortgage-backed securities	147	–	–	147
Other asset-backed securities	116	4	–	120
	263	4	–	267
Corporate and other debt securities	1,220	16	23	1,259
Total debt securities	48,580	20	23	48,623
Treasury bills and other bills	11	–	–	11
	48,591	20	23	48,634
Due from fellow Group undertakings				
Corporate and other debt securities				2,052
Total held as available-for-sale financial assets				**50,686**
At 31 December 2013				
Debt securities				
Government securities	38,159	–	–	38,159
Bank and building society certificates of deposit	196	–	–	196
Asset-backed securities				
Mortgage-backed securities	315	51	–	366
Other asset-backed securities	154	25	–	179
	469	76	–	545
Corporate and other debt securities	400	–	1	401
Total debt securities	39,224	76	1	39,301
Treasury bills and other bills	23	–	–	23
	39,247	76	1	39,324
Due from fellow Group undertakings				
Corporate and other debt securities				1,875
Total held as available-for-sale financial assets				41,199

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

53 Financial risk management (continued)

Debt securities, treasury and other bills held at fair value through profit or loss

An analysis of trading and other financial assets at fair value through profit or loss is included in note 14 The credit quality of debt securities, treasury and other bills held at fair value through profit or loss is set out below

The Group	Investment grade[1] £m	Sub investment grade £m	Not rated £m	Total £m
At 31 December 2014				
Trading assets				
Government securities	7,976	–	–	7,976
Bank and building society certificates of deposit	554	–	–	554
Asset-backed securities				
Mortgage-backed securities	187	–	–	187
Other asset-backed securities	117	3	9	129
	304	3	9	316
Corporate and other debt securities	1,288	43	155	1,486
Total debt securities held as trading assets	10,122	46	164	10,332
Treasury bills and other bills	1,437	–	–	1,437
Total held as trading assets	11,559	46	164	11,769
Other assets held at fair value through profit or loss				
Government securities	17,496	1	–	17,497
Other public sector securities	2,170	–	–	2,170
Bank and building society certificates of deposit	–	–	–	–
Asset-backed securities				
Mortgage-backed securities	845	–	2	847
Other asset-backed securities	699	3	19	721
	1,544	3	21	1,568
Corporate and other debt securities	18,119	579	1,906	20,604
Total debt securities held at fair value through profit or loss	39,329	583	1,927	41,839
Treasury bills and other bills	22	–	–	22
Total other assets held at fair value through profit or loss	39,351	583	1,927	41,861
	50,910	629	2,091	53,630
Due from fellow Group undertakings				
Corporate and other debt securities				11
Total held at fair value through profit or loss				53,641
At 31 December 2013				
Trading assets				
Government securities	4,259	–	–	4,259
Other public sector securities	14	–	–	14
Bank and building society certificates of deposit	1,491	–	–	1,491
Asset backed securities				
Mortgage-backed securities	–	5	–	5
Other asset-backed securities	158	13	–	171
	158	18	–	176
Corporate and other debt securities	1,885	29	14	1,928
Total debt securities held as trading assets	7,807	47	14	7,868
Treasury bills and other bills	61	–	–	61
Total held as trading assets	7,868	47	14	7,929
Other assets held at fair value through profit or loss				
Government securities	16,415	1	14	16,430
Other public sector securities	2,183	–	–	2,183
Bank and building society certificates of deposit	–	–	–	–
Asset-backed securities				
Mortgage-backed securities	793	–	–	793
Other asset-backed securities	755	1	–	756
	1,548	1	–	1,549
Corporate and other debt securities	16,351	617	1,724	18,692
Total debt securities held at fair value through profit or loss	36,497	619	1,738	38,854
Treasury bills and other bills	54	–	–	54
Total other assets held at fair value through profit or loss	36,551	619	1,738	38,908
	44 419	666	1,752	46,837
Due from fellow Group undertakings				
Corporate and other debt securities				46
Total held at fair value through profit or loss				46,883

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

53 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

	Investment grade[1] £m	Sub investment grade £m	Not rated £m	Total £m
The Bank				
At 31 December 2014				
Trading assets				
Government securities	**7,931**	**–**	**–**	**7,931**
Bank and building society certificate of deposits	**554**	**–**	**–**	**554**
Asset-backed securities				
Mortgage backed securities	**187**	**–**	**–**	**187**
Other asset backed securities	**117**	**3**	**9**	**129**
	304	**3**	**9**	**316**
Corporate and other debt securities	**1,259**	**43**	**155**	**1,457**
Total debt securities	**10,048**	**46**	**164**	**10,258**
Treasury bills and other bills	**1,437**	**–**	**–**	**1,437**
Total held as trading assets	**11,485**	**46**	**164**	**11,695**
Other assets held at fair value through profit or loss				
Government securities	**6,662**	**–**	**–**	**6,662**
Corporate and other debt securities	**–**	**–**	**79**	**79**
Total other assets held at fair value through profit or loss	**6,662**	**–**	**79**	**6,741**
	18,147	**46**	**243**	**18,436**
Due from fellow Group undertakings				
Corporate and other debt securities				**72**
Total held at fair value through profit or loss				**18,508**
At 31 December 2013				
Trading assets				
Government securities	4,144	–	–	4,144
Bank and building society certificate of deposits	32	–	–	32
Asset-backed securities				
Mortgage backed securities	–	–	–	–
Other asset backed securities	158	13	–	171
	158	13	–	171
Corporate and other debt securities	1,368	29	14	1,411
Total debt securities	5,702	42	14	5,758
Treasury bills and other bills	54	–	–	54
Total held as trading assets	5,756	42	14	5,812
Other assets held at fair value through profit or loss				
Government securities	4,520	–	–	4,520
Corporate and other debt securities	52	9	–	61
Total other assets held at fair value through profit or loss	4,572	9	–	4,581
	10,328	51	14	10,393
Due from fellow Group undertakings				
Mortgage-backed securities				7
Corporate and other debt securities				85
Total held at fair value through profit or loss				10,485

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

53 Financial risk management (continued)

Derivative assets

An analysis of derivative assets is given in note 15 The Group reduces exposure to credit risk by using master netting agreements and by obtaining collateral in the form of cash or highly liquid securities In respect of the Group's maximum credit risk relating to derivative assets of £13,554 million for the Group and £23,151 million for the Bank (2013 £10,113 million for the Group and £15,879 million for the Bank), cash collateral of £3,651 million for the Group and £1,938 million for the Bank (2013 £2,702 million for the Group and £1,378 million for the Bank) was held and a further £2,043 million for the Group and £282 million for the Bank (2013 £2,372 million for the Group and £2,111 million for the Bank) was due from OECD banks

	Investment grade[1] £m	Sub-investment grade £m	Not rated £m	Total £m
The Group				
At 31 December 2014				
Trading and other	**26,509**	**1,849**	**2,826**	**31,184**
Hedging	**4,251**	**47**	**1**	**4,299**
Total derivative financial instruments	**30,760**	**1,896**	**2,827**	**35,483**
At 31 December 2013[2]				
Trading and other	22,250	2,554	46	24,850
Hedging	4,705	32	5	4,742
Total derivative financial instruments	26,955	2,586	51	29,592
The Bank				
At 31 December 2014				
Trading and other	**19,718**	**935**	**3,109**	**23,762**
Hedging	**918**	**6**	**–**	**924**
	20,636	**941**	**3,109**	**24,686**
Due from fellow Group undertakings				**15,464**
Total derivative financial instruments				**40,150**
At 31 December 2013[2]				
Trading and other	15,551	848	32	16,431
Hedging	864	24	–	888
	16,415	872	32	17,319
Due from fellow Group undertakings				10,752
Total derivative financial instruments				28,071

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

[2]See note 1

Assets arising from reinsurance contracts held

Of the assets arising from reinsurance contracts held at 31 December 2014 of £682 million (2013 £732 million), £363 million (2013 £383 million) were due from insurers with a credit rating of AA or above

Financial guarantees and irrevocable loan commitments

Financial guarantees represent undertakings that the Group will meet a customer's obligation to third parties if the customer fails to do so Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit The Group is theoretically exposed to loss in an amount equal to the total guarantees or unused commitments, however, the likely amount of loss is expected to be significantly less, most commitments to extend credit are contingent upon customers maintaining specific credit standards

53 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

The Group may require collateral before entering into a credit commitment with another bank, depending on the type of financial product and the counterparty involved, and netting arrangements are obtained whenever possible and to the extent that such agreements are legally enforceable Collateral is held as part of reverse repurchase or securities borrowing transactions

There were reverse repurchase agreements which are accounted for as collateralised loans within loans and advances to banks with a carrying value of £1,899 million for the Group and £1,899 million for the Bank (2013 £183 million for the Group and Bank), against which the Group held collateral with a fair value of £1,886 million for the Group and £1,886 million for the Bank (2013 £183 million for the Group and Bank), all of which the Group is able to repledge

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

Loans and advances to customers

The Group holds collateral against loans and advances to customers in the form of mortgages over residential and commercial real estate, charges over business assets such as premises, inventory and accounts receivable, charges over financial instruments such as debt securities and equities, and guarantees received from third parties

Retail lending

Mortgages

An analysis by loan-to-value ratio of the Group's residential mortgage lending is provided below The value of collateral used in determining the loan-to-value ratios has been estimated based upon the last actual valuation, adjusted to take into account subsequent movements in house prices, after making allowance for indexation error and dilapidations

The Group

	Neither past due nor impaired £m	Past due but not impaired £m	Impaired £m	Gross £m
31 December 2014				
Less than 70 per cent	**202,789**	**4,895**	**1,601**	**209,285**
70 per cent to 80 per cent	**58,837**	**1,998**	**726**	**61,561**
80 per cent to 90 per cent	**32,771**	**1,526**	**702**	**34,999**
90 per cent to 100 per cent	**15,858**	**1,005**	**486**	**17,349**
Greater than 100 per cent	**10,069**	**887**	**829**	**11,785**
Total	**320,324**	**10,311**	**4,344**	**334,979**

	Neither past due nor impaired £m	Past due but not impaired £m	Impaired £m	Gross £m
31 December 2013				
Less than 70 per cent	161,105	4,294	1,743	167,142
70 per cent to 80 per cent	64,954	2,296	970	68,220
80 per cent to 90 per cent	46,581	2,224	1,080	49,885
90 per cent to 100 per cent	24,592	1,720	1,027	27,339
Greater than 100 per cent	21,436	1,795	2,046	25,277
Total	318,668	12,329	6,866	337,863

53 **Financial risk management** (continued)

The Bank

	Neither past due nor impaired £m	Past due but not impaired £m	Impaired £m	Gross £m
31 December 2014				
Less than 70 per cent	46,258	783	215	47,256
70 per cent to 80 per cent	10,026	266	86	10,378
80 per cent to 90 per cent	5,598	214	87	5,899
90 per cent to 100 per cent	2,808	138	58	3,004
Greater than 100 per cent	1,137	86	74	1,297
Total	**65,827**	**1,487**	**520**	**67,834**

	Neither past due nor impaired £m	Past due but not impaired £m	Impaired £m	Gross £m
31 December 2013				
Less than 70 per cent	41,434	893	243	42,570
70 per cent to 80 per cent	11,957	309	112	12,378
80 per cent to 90 per cent	8,872	330	121	9,323
90 per cent to 100 per cent	5,037	257	133	5,427
Greater than 100 per cent	2,900	198	176	3,274
Total	70,200	1,987	785	72,972

Other

No collateral is held in respect of retail credit cards, or overdrafts, or unsecured personal loans For non-mortgage retail lending to small businesses, collateral will often include second charges over residential property and the assignment of life cover

The majority of non-mortgage retail lending is unsecured At 31 December 2014, impaired non-mortgage lending amounted to £1,470 million, net of an impairment allowance of £577 million (2013 £1,696 million, net of an impairment allowance of £1,044 million) The fair value of the collateral held in respect of this lending was £110 million (2013 £144 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 £38,560 million (2013 £36,081 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

Commercial lending

Reverse repurchase transactions

There were reverse repurchase agreements which are accounted for as collateralised loans with a carrying value of £5,148 million for the Group and £5,148 million for the Bank (2013 £120 million for the Group and the Bank), against which the Group held collateral with a fair value of £5,155 million for the Group and £5,155 million for the Bank (2013 £112 million for the Group and the Bank), all of which the Group is able to repledge Included in these amounts are collateral balances in the form of cash provided in respect of reverse repurchase agreements amounting to £35 million for the Group and £nil for the Bank (2013 £49 million for the Group and £nil for the Bank) These transactions were generally conducted under terms that are usual and customary for standard secured lending activities

Impaired secured lending

The value of collateral is re-evaluated and its legal soundness re-assessed if there is observable evidence of distress of the borrower, this evaluation is used to determine potential loss allowances and management's strategy to try to either repair the business or recover the debt

53 Financial risk management (continued)

At 31 December 2014, impaired secured commercial lending amounted to £2,613 million, net of an impairment allowance of £3,724 million (2013 £9,845 million, net of an impairment allowance of £11,063 million) The fair value of the collateral held in respect of impaired secured commercial lending was £2,517 million (2013 £6,915 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 £57,647 million (2013 £69,108 million) Commercial lending decisions are predominantly based on an obligor's ability to repay from normal business operations rather than reliance on the disposal of any security provided Collateral values are rigorously assessed at the time of loan origination The types of collateral taken and the frequency with which collateral is required at origination is dependent upon the size and structure of the borrower For exposures to corporate customers and other large institutions, the Group will often require the collateral to include a first charge over land and buildings owned and occupied by the business, a mortgage debenture over the company's undertaking and one or more of its assets, and keyman insurance The Group maintains policies setting out acceptable collateral, maximum loan-to-value ratios and other criteria to be considered when reviewing a loan application The decision as to whether or not collateral is required will be based upon the nature of the transaction and the credit worthiness of the customer Other than for project finance, object finance and income producing real estate where charges over the subject assets are a basic requirement, the provision of collateral will not determine the outcome of a credit application The fundamental business proposition must evidence the ability of the business to generate funds from normal business sources to repay debt

The extent to which collateral values are actively managed will depend on the credit quality and other circumstances of the obligor Although lending decisions are predominantly based on expected cash flows, any collateral provided may impact the pricing and other terms of a loan or facility granted, this will have a financial impact on the amount of net interest income recognised and on internal loss-given-default estimates that contribute to the determination of asset quality

For unimpaired secured 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 repurchase agreements treated as collateralised loans with a carrying value of £36,725 million for the Group and £47,726 million for the Bank (2013 £29,288 million for the Group and £29,588 million for the Bank) Collateral is held with a fair value of £42,858 million for the Group and £53,221 million for the Bank (2013 £32,434 million for the Group and £28,509 million for the Bank), all of which the Group is able to repledge At 31 December 2014, £10,319 million for the Group and £22 872 million for the Bank had been repledged (2013 £8,195 million for the Group and £17,030 million for the Bank)

In addition, securities held as collateral in the form of stock borrowed amounted to £33,721 million for the Group and £44,318 million for the Bank (2013 £46,552 million for the Group and £29,853 million for the Bank) Of this amount, £32,686 million for the Group and £43,338 million for the Bank (2013 £45,277 million for the Group and £1,325 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 £13,554 million for the Group and £23,151 million for the Bank (2013 £10,113 million for the Group and £15,879 million for the Bank), cash collateral of £3,651 million for the Group and £1,938 million for the Bank (2013 £2,702 million for the Group and £1,378 million for the Bank) was held

Irrevocable loan commitments and other credit-related contingencies

At 31 December 2014, there were irrevocable loan commitments and other credit-related contingencies of £57,711 million for the Group and £42,150 million for the Bank (2013 £59,172 million for the Group and £42,798 million for the Bank) Collateral is held as security, in the event that lending is drawn down, on £8,673 million for the Group and £247 million for the Bank (2013 £19,123 million for the Group and £16,929 million for the Bank) of these balances

Lending decisions in respect of irrevocable loan commitments are based on the obligor's ability to repay from normal business operations rather than reliance on the disposal of any security provided For commercial commitments, it is the Group's practice to request collateral whose value is commensurate with the nature of the commitments For retail mortgage commitments, the majority are for mortgages with a loan-to-value ratio of less than 100 per cent Aggregated collateral information covering the entire balance of irrevocable loan commitments over which security will be taken is not provided to key management personnel

Collateral repossessed

During the year, £828 million of collateral was repossessed (2013 £902 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

53 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 £1,075 million for the Group and £480 million for the Bank (2013 £1,874 million for the Group and £1,251 million for the Bank) and a fair value of £1,075 million for the Group and £480 million for the Bank (2013 £1,874 million for the Group and £1,251 million for the Bank)

Customer deposits

Included in customer deposits in 2013 were deposits held as collateral for facilities granted, with a carrying value of £2,978 million for the Group and £2,978 million for the Bank and a fair value of £2,978 million for the Group and £2,978 million for the Bank In addition, collateral balances in the form of cash provided in respect of repurchase agreements amounted to £6 million for the Group and £nil for the Bank (2013 £416 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 secure borrowing, where the secured party is permitted by contract or custom to repledge was £57,844 million for the Group and £67,016 million for the Bank (2013 £37,999 million for the Group and £35,907 million for the Bank)

Securities lending transactions

The following financial assets on the balance sheet have been pledged as collateral as part of securities lending transactions

	The Group		The Bank	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Trading and other financial assets at fair value through profit or loss	**9,955**	10,388	**2,040**	665
Loans and advances to customers	**1,393**	14,927	**–**	–
Debt securities classified as loans and receivables	**88**	89	**88**	78
Available-for-sale financial assets	**8,363**	2,311	**7,706**	9,564
	19,799	27,715	**9,834**	10,307

Securitisations and covered bonds

In addition to the assets detailed above, the Group also holds assets that are encumbered through the Group's asset-backed conduits and its securitisation and covered bond programmes Further details of these assets are provided in notes 18 and 19

(2) Market risk

Interest rate risk

In the Group's retail banking business interest rate risk arises from the different repricing characteristics of the assets and liabilities Liabilities are either insensitive to interest rate movements, for example interest free or very low interest customer deposits, or are sensitive to interest rate changes but bear rates which may be varied at the Group's discretion and that for competitive reasons generally reflect changes in the Bank of England's base rate There is a relatively small volume of deposits whose rate is contractually fixed for their term to maturity

Many banking assets are sensitive to interest rate movements, there is a large volume of managed rate assets such as variable rate mortgages which may be considered as a natural offset to the interest rate risk arising from the managed rate liabilities However a significant proportion of the Group's lending assets, for example many personal loans and mortgages, bear interest rates which are contractually fixed for periods of up to five years or longer

The Group and the Bank establish two types of hedge accounting relationships for interest rate risk fair value hedges and cash flow hedges The Group and the Bank are exposed to fair value interest rate risk on its fixed rate customer loans, its fixed rate customer deposits and the majority of its subordinated debt, and to cash flow interest rate risk on its variable rate loans and deposits together with its floating rate subordinated debt

At 31 December 2014 the aggregate notional principal of interest rate swaps designated as fair value hedges was £115,905 million (2013 £154,657 million) for the Group and £119,951 million (2013 £152,177 million) for the Bank with a net fair value asset of £1,481 million (2013 asset of £1,551 million) for the Group and a net fair value liability of £1,787 million (2013 liability of £1,295 million) for the Bank (note 15) The losses recognised on the hedging instruments were £2,791 million (2013 £933 million) for the Group and £3,669 million (2013 gain of £625 million) for the Bank The gains on the hedged items attributable to the hedged risk were £2,652 million (2013 £872 million) for the Group and gain of £3,596 million (2013 losses of £647 million) for the Bank

In addition the Group has cash flow hedges which are primarily used to hedge the variability in the cost of funding within the commercial business Note 15 shows when the hedged cash flows are expected to occur and when they will affect income for the designated cash flow hedges The notional principal of the interest rate swaps designated as cash flow hedges at 31 December 2014 was £518,746 million (2013 £559,690 million) for the Group and £52,396 million (2013 £nil) for the Bank with a net fair value liability of £931 million (2013 liability of £1,361 million) for the Group and a net fair value liability of £29 million (2013 £nil) for the Bank (note 15) In 2014, ineffectiveness recognised in the income statement that arises from cash flow hedges was a gain of £56 million (2013 loss of £83 million) for the Group and a gain of £26 million (2013 gain of £nil) for the Bank

53 Financial risk management (continued)

Currency risk

Foreign exchange exposures comprise those originating in treasury trading activities and structural foreign exchange exposures, which arise from investment in the Group's overseas operations

The corporate and retail businesses incur foreign exchange risk in the course of providing services to their customers All non structural foreign exchange exposures in the non-trading book are transferred to the trading area where they are monitored and controlled These risks reside in the authorised trading centres who are allocated exposure limits The limits are monitored daily by the local centres and reported to the central market 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 2014 the aggregate principal of the Group's currency borrowings was £587 million (2013 £1,695 million) In 2014, an ineffectiveness loss of £1 million before and after tax (2013 ineffectiveness gain of £16 million before tax and £12 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

	The Group		The Bank	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Functional currency of Group operations				
Euro				
Gross exposure	**286**	567	**7**	7
Net investment hedge	**(218)**	(464)	**-**	-
	68	103	**7**	7
US dollar				
Gross exposure	**392**	379	**43**	41
Net investment hedge	**(342)**	(341)	**-**	-
	50	38	**43**	41
Swiss franc				
Gross exposure	**(17)**	(7)	**(17)**	(7)
Net investment hedge	**-**	-	**-**	-
	(17)	(7)	**(17)**	(7)
Australian dollar				
Gross exposure	**-**	853	**-**	(42)
Net investment hedge	**-**	(866)	**-**	-
	-	(13)	**-**	(42)
Japanese yen				
Gross exposure	**-**	(1)	**-**	(1)
Net investment hedge	**-**	(1)	**-**	-
	-	(2)	**-**	(1)
Other non-sterling	**90**	106	**111**	118
Total structural foreign currency exposures, after net investment hedges	**191**	225	**144**	116

53 Financial risk management (continued)

(3) Liquidity risk

Liquidity risk is defined as the risk that the Group has insufficient financial resources to meet its commitments as they fall due, or can only secure them at excessive cost 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

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 2014						
Deposits from banks	4,238	1,734	1,427	2,895	1,003	11,297
Customer deposits	365,331	14,003	38,521	31,614	470	449,939
Trading and other financial liabilities at fair value through profit or loss	32,209	15,145	1,316	3,657	7,508	59,835
Debt securities in issue	11,059	6,163	15,155	33,864	29,306	95,547
Liabilities arising from non-participating investment contracts	5	10	140	241	16,741	17,137
Subordinated liabilities	670	1,386	2,358	9,820	12,940	27,174
Total non-derivative financial liabilities	**413,512**	**38,441**	**58,917**	**82,091**	**67,968**	**660,929**
Derivative financial liabilities						
Gross settled derivatives – outflows	39,616	32,166	34,932	42,415	41,128	190,257
Gross settled derivatives – inflows	(37,928)	(30,408)	(32,999)	(39,883)	(35,858)	(177,076)
Gross settled derivatives – net flows	1,688	1,758	1,933	2,532	5,270	13,181
Net settled derivative liabilities	21,959	114	340	1,150	3,650	27,213
Total derivative financial liabilities	**23,647**	**1,872**	**2,273**	**3,682**	**8,920**	**40,394**
At 31 December 2013						
Deposits from banks	9,944	636	1,254	1,710	3,371	16,915
Customer deposits	323,338	15,576	38,689	42,611	34,510	454,724
Trading and other financial liabilities at fair value through profit or loss	18,811	9,906	4,416	7,382	3,616	44,131
Debt securities in issue	7,417	5,069	15,775	40,366	24,514	93,141
Liabilities arising from non-participating investment contracts	25,870	–	–	–	–	25,870
Subordinated liabilities	618	290	3,441	12,307	19,539	36,195
Total non-derivative financial liabilities	385,998	31,477	63,575	104,376	85,550	670,976
Derivative financial liabilities						
Gross settled derivatives – outflows	4,880	81,612	35,369	56,857	33,767	212,485
Gross settled derivatives – inflows	(4,115)	(79,256)	(34,321)	(55,396)	(32,625)	(205,713)
Gross settled derivatives – net flows	765	2,356	1,048	1,461	1,142	6,772
Net settled derivative liabilities	21,730	179	438	1,202	541	24,090
Total derivative financial liabilities	22,495	2,535	1,486	2,663	1,683	30,862

The Group s financial guarantee contracts are accounted for as financial instruments and measured at fair value on the balance sheet The majority of the Group's financial guarantee contracts are callable on demand, were the guaranteed party to fail to meet its obligations It is, however, expected that most guarantees will expire unused The contractual nominal amounts of these guarantees totalled £7,161 million at 31 December 2014 (2013 £8,591 million) with £4,133 million expiring within one year, £1,823 million between one and three years, £674 million between three and five years, and £531 million over five years (2013 £4,233 million expiring within one year, £837 million between one and three years, £2,039 million between three and five years, and £1,482 million over five years)

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

53 Financial risk management (continued)

The principal amount for undated subordinated liabilities with no redemption option is included within the over 5 years column, interest of approximately £79 million (2013 £85 million) per annum for the Group and £22 million (2013 £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 2014						
Deposits from banks	4,173	1,136	1,169	1,561	288	8,327
Customer deposits	175,031	8,223	7,065	4,511	348	195,178
Trading and other financial liabilities at fair value through profit or loss	31,056	14,731	1,451	3,354	7,504	58,096
Debt securities in issue	7,547	4,614	9,255	19,715	22,541	63,672
Subordinated liabilities	371	509	1,386	4,801	9,492	16,559
Total non-derivative financial liabilities	**218,178**	**29,213**	**20,326**	**33,942**	**40,173**	**341,832**
Derivative financial liabilities						
Gross settled derivatives – outflows	36,964	28,245	31,639	34,609	23,375	154,832
Gross settled derivatives – inflows	(35,481)	(26,665)	(29,881)	(32,716)	(21,481)	(146,224)
Gross settled derivatives – net flows	1,483	1,580	1,758	1,893	1,894	8,608
Net settled derivative liabilities	18,253	27	88	303	516	19,187
Total derivative financial liabilities	**19,736**	**1,607**	**1,846**	**2,196**	**2,410**	**27,795**

	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 2013						
Deposits from banks	7,732	612	1,121	783	399	10 647
Customer deposits	171,719	7,944	9,896	7,609	495	197,663
Trading and other financial liabilities at fair value through profit or loss	18,076	3,907	8,612	8,764	3,747	43,106
Debt securities in issue	1,893	2,808	9,362	23,243	16,818	54,124
Subordinated liabilities	43	163	2,474	7,803	19,909	30,392
Total non-derivative financial liabilities	199,463	15,434	31,465	48,202	41,368	335,932
Derivative financial liabilities						
Gross settled derivatives – outflows	1,234	80,325	26,239	40,169	19,236	167,203
Gross settled derivatives – inflows	(835)	(78,238)	(25,161)	(38,974)	(18,884)	(162,092)
Gross settled derivatives – net flows	399	2,087	1,078	1,195	352	5,111
Net settled derivative liabilities	15,133	90	147	511	321	16,202
Total derivative financial liabilities	15,532	2,177	1,225	1,706	673	21,313

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 2014	**1,037**	**1,276**	**5,101**	**20,914**	**58,916**	**87,244**
At 31 December 2013	1,088	1,391	5,231	21,468	53,623	82,801

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

53 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 2014					
Acceptances and endorsements	58	–	–	1	59
Other contingent liabilities	1,306	504	130	683	2,623
Total contingent liabilities	1,364	504	130	684	2,682
Lending commitments	72,693	13,750	15,733	5,103	107,279
Other commitments	101	162	–	–	263
Total commitments	72,794	13,912	15,733	5,103	107,542
Total contingents and commitments	**74,158**	**14,416**	**15,863**	**5,787**	**110,224**
31 December 2013					
Acceptances and endorsements	134	15	13	42	204
Other contingent liabilities	1,573	377	118	608	2,676
Total contingent liabilities	1,707	392	131	650	2,880
Lending commitments	70,378	14,886	17,064	2,849	105,177
Other commitments	494	–	–	–	494
Total commitments	70,872	14,886	17,064	2,849	105,671
Total contingents and commitments	72,579	15,278	17,195	3,499	108,551

	Within 1 year £m	1-3 years £m	3-5 years £m	Over 5 years £m	Total £m
The Bank					
31 December 2014					
Acceptances and endorsements	58	–	–	–	58
Other contingent liabilities	1,089	502	124	622	2,337
Total contingent liabilities	1,147	502	124	622	2,395
Lending commitments	38,751	11,710	15,194	2,570	68,225
Other commitments	100	162	–	–	262
Total commitments	38,851	11,872	15,194	2,570	68,487
Total contingents and commitments	**39,998**	**12,374**	**15,318**	**3,192**	**70,882**
31 December 2013					
Acceptances and endorsements	124	–	–	–	124
Other contingent liabilities	1,278	362	90	603	2,333
Total contingent liabilities	1,402	362	90	603	2,457
Lending commitments	37,014	13,553	15,553	1,308	67,428
Other commitments	491	–	–	–	491
Total commitments	37,505	13,553	15,553	1,308	67,919
Total contingents and commitments	38,907	13,915	15,643	1,911	70,376

(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

54 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 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 per cent of risk-weighted assets were required to be covered by Common Equity Tier 1 (CET1) capital in 2014, increasing to 4 5 per cent from 1 January 2015

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, though these do not currently apply to the Group as they are either subject to phase in periods (commencing 2016), are time-varying in nature 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, at a European level mainly through the issuance of CRD IV technical standards and guidelines and within the UK by the PRA and through directions from the Financial Policy Committee (FPC) The Group continues to monitor these developments very closely, analysing potential capital impacts to ensure the Group and individual regulated entities continue to maintain a strong capital position that exceeds the minimum regulatory requirements and the Group's risk appetite and is consistent with market expectations

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

- Common equity tier 1 capital represents the strongest form of capital consisting of shareholders' equity after a number of regulatory adjustments and deductions are applied These include deductions for the Group's 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 10 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 Group's insurance business that is not deducted from AT1 capital

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

	2014 £m	2013 £m
Common equity tier 1/core tier 1 capital	**36,464**	42,171
Additional tier 1 capital	**4,583**	2,608
Tier 2 capital	**15,201**	17,156
Supervisory deductions	**-**	(3,275)
Total capital	**56,248**	58,660

55 Cash flow statements

a Change in operating assets

	The Group		The Bank	
	2014 £m	2013[1] £m	**2014 £m**	2013[1] £m
Change in loans and receivables	**12,846**	29,909	**(1,365)**	16,625
Changes in amounts due from fellow Lloyds Banking Group undertakings	**3,204**	3,429	**132,341**	(18,348)
Change in derivative financial instruments, trading and other financial assets at fair value through profit or loss	**(11,446)**	(5,457)	**(41,022)**	(29,190)
Change in other operating assets	**(1,965)**	(4,477)	**(737)**	70
Change in operating assets	**2,639**	23,404	**89,217**	(30,843)

b Change in operating liabilities

	The Group		The Bank	
	2014 £m	2013[1] £m	**2014 £m**	2013[1] £m
Change in deposits from banks	**(3,029)**	(25,529)	**(2,176)**	(20,275)
Change in customer deposits	**7,745**	15,599	**9,422**	511
Changes in amounts due to fellow Lloyds Banking Group undertakings	**(3,629)**	(1,153)	**(152,046)**	14,822
Change in debt securities in issue	**(11,114)**	(29,016)	**12,894**	(7,523)
Change in derivative financial instruments, trading and other financial liabilities at fair value through profit or loss	**23,886**	(8,408)	**43,134**	30,728
Change in investment contract liabilities	**(342)**	3,171	**-**	-
Change in other operating liabilities	**(5,148)**	(3,664)	**147**	(482)
Change in operating liabilities	**8,369**	(49,000)	**(88,625)**	17,781

[1]See note 1

55 Cash flow statements (continued)

c Non-cash and other items

	The Group		The Bank	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Depreciation and amortisation	**1,935**	1,940	**536**	439
Provisions for impairment of disposal groups	**–**	382	**–**	–
Permanent diminution in value of investment in subsidiaries	**–**	–	**149**	–
Revaluation of investment properties	**(513)**	(143)	**–**	–
Allowance for loan losses	**737**	2,726	**443**	649
Write-off of allowance for loan losses	**(5,761)**	(5,858)	**(1,003)**	(1,427)
Impairment of available-for-sale financial assets	**2**	18	**–**	–
Change in insurance contract liabilities	**4,069**	5,309	**–**	–
Payment protection insurance provision	**2,200**	3,050	**1,394**	2,169
Other regulatory provisions	**925**	405	**561**	270
Other provision movements	**222**	153	**633**	18
Net (credit) charge in respect of defined benefit schemes	**(478)**	503	**(182)**	197
Impact of consolidation and deconsolidation of OEICs[1]	**(5,277)**	6,303	**–**	–
Unwind of discount on impairment allowances	**(126)**	(351)	**(96)**	(130)
Foreign exchange element on balance sheet[2]	**1,057**	614	**(542)**	440
Liability management (gains) losses within other income[3]	**–**	80	**–**	–
Interest expense on subordinated liabilities	**2,752**	2,463	**1,848**	1,376
(Profit) loss on disposal of businesses	**(208)**	(209)	**(210)**	296
Other non-cash items	**(97)**	(1,656)	**(212)**	(553)
Total non-cash items	**1,439**	15,729	**3,319**	3,744
Contributions to defined benefit schemes	**(538)**	(811)	**(157)**	(505)
Payments in respect of payment protection insurance provision	**(2,458)**	(2,674)	**(1,650)**	(2,037)
Payments in respect of other regulatory provisions	**(1,104)**	(360)	**(667)**	(174)
Other	**29**	26	**–**	–
Total other items	**(4,071)**	(3,819)	**(2,474)**	(2,716)
Non-cash and other items	**(2,632)**	11,910	**845**	1,028

[1] These OEICs (Open-ended investment companies) are mutual funds which are consolidated if the Group manages the funds and also has a majority beneficial interest The population of OEICs to be consolidated varies at each reporting date as external investors acquire and divest holdings in the various funds The consolidation of these funds is effected by the inclusion of the fund investments and a matching liability to the unit holders, and changes in funds consolidated represent a non-cash movement on the balance sheet

[2] When considering the movement on each line of the balance sheet the impact of foreign exchange rate movements is removed in order to show the underlying cash impact

[3] A number of capital transactions entered into by the Group in 2014 and 2013 involved the exchange of existing securities for new issues and as a result there was no related cash flow

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

	The Group		The Bank	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Cash and balances with central banks	**50,492**	49,915	**40,965**	42,283
Less mandatory reserve deposits[1]	**(980)**	(937)	**(478)**	(498)
	49,512	48,978	**40,487**	41,785
Loans and advances to banks	**26,155**	25,365	**4,591**	3,095
Less amounts with a maturity of three months or more	**(10,520)**	(7,546)	**(2,106)**	(389)
	15,635	17,819	**2,485**	2,706
Total cash and cash equivalents	**65,147**	66,797	**42,972**	44,491

[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 2014 is £12,855 million (2013 £14,058 million) held within the Group's life funds, which is not immediately available for use in the business

55 Cash flow statements (continued)

e Acquisition of group undertakings and businesses

	The Group		The Bank	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Additional capital injections to subsidiaries	–	–	**(750)**	(621)
Acquisition of subsidiaries	–	–	–	(773)
Acquisition of and additional investment in associates and joint ventures	**(1)**	(6)	–	–
Net cash outflow	**(1)**	(6)	**(750)**	(1,394)

f Disposal of group undertakings and businesses

	The Group		The Bank	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Trading and other financial assets at fair value through profit or loss	**11**	35,159	–	–
Loans and advances to banks	**55**	1,701	–	926
Loans and advances to customers	**256**	2,612	**256**	434
Investment properties	–	582	–	–
Value of in-force business	–	831	–	–
Other intangible assets	–	251	–	–
Tangible fixed assets	–	67	–	–
	322	41,203	**256**	1,360
Customer deposits	**(266)**	(1,923)	**(266)**	(1,443)
Debt securities in issue	–	(264)	–	–
Liabilities arising from insurance contracts and participating investment contracts	–	(451)	–	–
Liabilities arising from non-participating investment contracts	–	(29,953)	–	–
Minority interests	–	(357)	–	–
Other net assets (liabilities)	**802**	(6,160)	–	52
	536	(39,108)	**(266)**	(1,391)
Net assets (liabilities) disposed of	**858**	2,095	**(10)**	(31)
Investment in subsidiary disposed of	–	–	**910**	423
Non-cash consideration received	**(518)**	(59)	**(518)**	(59)
Profit (loss) on sale of businesses	**208**	362	**351**	(296)
Cash and cash equivalents disposed of	**(5)**	(1,702)	**(5)**	(46)
Net cash inflow from disposals	**543**	696	**728**	(9)

56 Disposal of a non-controlling interest in TSB Banking Group plc

During the year ended 31 December 2014, the Group disposed of three tranches of TSB Banking Group plc (TSB) shares

(i) in June 2014, the Group disposed of a 35 per cent interest in TSB for a consideration of £430 million, after directly attributable costs of £25 million, through an initial public offering (IPO),

(ii) in July 2014, the Group sold 3 5 per cent of TSB for £44 million, after directly attributable costs of £1 million, through an over-allotment option which was exercised by the underwriters of the IPO, and

(iii) in September 2014, the Group disposed of a further 11 5 per cent for a consideration of £160 million, after directly attributable costs of £1 million

At 31 December 2014, the Group retained an interest of approximately 50 per cent in TSB, which continues to be consolidated by the Group

As none of these transactions resulted in the Group ceding control of TSB, no gain or loss has been recognised in the Group's income statement The shortfall of £171 million between the net proceeds of the three sales and the share of TSB's net assets (at book value) disposed of has been deducted from the Group's retained earnings

57 Future accounting developments

The following pronouncements may have a significant effect on the Group's financial statements but are not applicable for the year ending 31 December 2014 and have not been applied in preparing these financial statements Save as disclosed below, the full impact of these accounting changes is being assessed by the Group

Pronouncement	Nature of change	IASB effective date
IFRS 9 *Financial Instruments*[1]	Replaces IAS 39 *Financial Instruments Recognition and Measurement* IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments The requirements for derecognition are broadly unchanged from IAS 39 The standard retains most of the existing requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value change attributable to the entity's own credit risk is recorded in other comprehensive income These changes are not expected to have a significant impact on the Group IFRS 9 also replaces the existing 'incurred loss' impairment approach with an expected credit loss approach This change is likely to result in an increase in the Group's balance sheet provisions for credit losses although the extent of any increase will depend upon, amongst other things, the composition of the Group's lending portfolios and prevailing and forecast economic conditions at the date of implementation 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 revised requirements are not expected to have a significant impact on the Group	Annual periods beginning on or after 1 January 2018
IFRS 15 *Revenue from Contracts with Customers*[1]	Replaces IAS 18 Revenue and IAS 11 *Construction Contracts* IFRS 15 establishes principles for reporting useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers Revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods and services Financial instruments, leases and insurance contracts are out of scope and so this standard is not expected to have a significant impact on the Group	Annual periods beginning on or after 1 January 2017

[1]As at 11 March 2015 these pronouncements are awaiting EU endorsement

58 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