DB Group Services (UK) Limited
Company number: 3077349

REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2016

STRATEGIC REPORT
For the year ended 31 December 2016

These financial statements have been prepared in accordance with FRS 101, *Reduced Disclosure Framework* ("FRS 101"). In so doing, the Company has applied the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the E.U. ("Adopted IFRSs"), but has made amendments, where necessary, in order to comply with the requirements of Companies Act 2006.

OBJECTIVES

The Company is one of the indirect subsidiaries of Deutsche Bank AG. Deutsche Bank AG and its other subsidiaries are collectively referred to as "the Group" in these financial statements.

The principal business is that of an employing company for the Group in the UK and its activities are driven by the staffing requirements of the operating subsidiaries of the Group to whom all costs and liabilities are recharged. In addition the Company acts as the Group-wide administrator of equity based compensation schemes.

PRINCIPLE RISKS AND UNCERTAINTIES

The Company is a wholly owned subsidiary of Deutsche Bank AG and therefore the risks it is subject to are managed within the risk and control functions of the Group. The Directors acknowledge their responsibility for the overall management of the risks faced by the Company.

The Group maintains a Pension Risk committee to oversee its pension and related risk on a global basis, thus covering the Company's pension schemes.

Market risk refers to the volatility of returns from movements in market prices (for example interest rates, share prices and exchange rates) before the related positions can be closed or hedged. At present, market risk arising from the Company's obligation to deliver Deutsche Bank shares through various share based payment awards is partly mitigated by purchasing call options for a significant proportion of the equity exposure, the cost of which is recharged to the operating subsidiaries.

Legal risk arises due to the Company's activities as an employing company and responsibilities around the conduct of its employees. This is managed by the existing Group policies and procedures, implemented by Compliance and Legal divisions.

As an employing company for the Group, the Company's Liquidity and cash flow risks, resulting primarily from staff compensation obligations, are managed within the Group's Liquidity risk management framework.

KEY PERFORMANCE INDICATORS

Key business drivers for the Company which are regularly monitored by the Board include:.

	2016	**2015**
Average staff numbers	7,585	7,046
Administrative expenses	£1,728m	£1,915m
Net surplus in retirement benefits schemes	£735m	£802m

Average full time employee numbers increased by 7.6% in 2016 due to increased hiring in Infrastructure functions such as Risk and Regulatory Management as well as the internalisation of IT staff in Group Technology and Operations. The decrease of 9.8% in administrative expenses is mainly due to a reduction in bonus - cash awards. The reduction in net surplus of retirement benefit schemes is, predominantly, driven by movements in actuarial assumptions applied in determining the defined benefit obligations and, in particular, a 130bp decrease in the discount rate used at measurement date (Note 10).

CURRENT PERIOD PERFORMANCE

As the costs of the Company are recharged to the Group, the profit for the year ended December 2016 is £nil (2015: £nil).

STRATEGIC REPORT
For the year ended 31 December 2016

EVENTS AFTER THE BALANCE SHEET DATE

IBOR settlement

On April 23, 2015, the Group entered into separate settlements with the U.S. Department of Justice (DOJ), the U.S. Commodity Futures Trading Commission (CFTC), the U.K. Financial Conduct Authority (FCA), and the New York State Department of Financial Services (NYSDFS) to resolve investigations into misconduct concerning the setting of LIBOR, EURIBOR, and TIBOR. Under the terms of these agreements, the Group agreed to pay penalties of U.S. $2.175 billion to the DOJ, CFTC and NYSDFS and GBP 226.8 million to the FCA.

As part of the resolution with the DOJ, the Group entered into a Deferred Prosecution Agreement with a three-year term pursuant to which it agreed (among other things) to the filing of a two-count criminal Information in the United States District Court for the District of Connecticut charging the Group with one count of wire fraud and one count of price-fixing, in violation of the Sherman Act. In addition, the Company entered into a Plea Agreement with the DOJ, pursuant to which the company pled guilty to a one-count criminal Information filed in the same court and charging the Company with wire fraud. In the Plea Agreement, the Company agreed to pay a fine of U.S. $150 million, which is included in the U.S. $2.175 billion total amount above. The DOJ and the Company further agreed that all or a portion of that fine may be paid by the Group on behalf of the Company, consistent with Group policy and practice. The Company was sentenced in the District of Connecticut on March 28, 2017, and the Judge imposed the agreed-upon fine of $150 million. The fine was paid by the Group on the Company's behalf on April 7, 2017.

IBOR civil actions

The Group is also a defendant in a large number of IBOR-related civil actions in the United States. The Company has been named as a defendant in three of these actions, each of which is a putative class action based on the alleged manipulation of a different benchmark interest rate: Sullivan v. Barclays plc, No. 13-cv-2811 (S.D.N.Y.) (Euribor); Sonterra Capital Master Fund Ltd. v. Credit Suisse Group AG, No. 15-cv-0871 (S.D.N.Y.) (CHF LIBOR); and Sonterra Capital Master Fund, Ltd., v. UBS AG, No. 15-cv-5844 (S.D.N.Y.) (Yen LIBOR and Euroyen TIBOR). The Company is also among the defendants listed in a proposed Third Amended Complaint filed by the plaintiffs in Metzler Investment GmbH v. Credit Suisse Group AG, No. 11-cv-2613 (S.D.N.Y.) (USD LIBOR Exchange-Based Action), an action filed on behalf of a putative class of persons who engaged in exchange-based trading of certain Eurodollar financial instruments and were allegedly harmed by manipulation of USD LIBOR. The court has now granted plaintiffs in Metzler leave to file a Third Amended Complaint including both the Group and the Company, although that complaint has not yet been officially filed.

On January 10, 2017, the Group entered into a preliminary agreement with plaintiffs to settle the Metzler putative class action (USD LIBOR Exchange-Based Action). The settlement agreement was executed on July 13, 2017. The settlement amount is already fully reflected in existing litigation reserves of the Group and no additional provisions have been taken for this settlement. The settlement agreement is subject to further documentation and approval by the court.

On January 24, 2017, the Group entered into a preliminary agreement with plaintiffs to settle the Yen LIBOR and Euroyen TIBOR putative class actions (Laydon v. Mizuho Bank, Ltd. and Sonterra Capital Master Fund Ltd. v. UBS AG). On July 21, 2017, the Group and plaintiffs executed a settlement agreement in the amount of U.S.$ 77 million and submitted the agreement to the court for preliminary approval. The court granted preliminary approval on August 3, 2017. The settlement agreement is subject to further review and final approval by the court. Under the terms of the settlement, the Group has paid U.S.$77 million, and is no longer reflecting that amount in its litigation reserves.

On January 24, 2017, the Group entered into a preliminary agreement with plaintiffs to settle the EURIBOR putative class action(Sullivan v. Barclays PLC). On May 10, 2017, Deutsche Bank and plaintiffs executed a settlement agreement in the amount of U.S.$ 170 million, which was submitted to the court for preliminary approval on June 12, 2017. The court granted preliminary approval on July 7, 2017. The settlement agreement is subject to further review and final approval by the court. Under the terms of the settlement, the Group has paid U.S.$170 million, and is no longer reflecting that amount in its litigation reserves.

The Directors of DBGS are of the view that, on the basis of intragroup arrangements between the Company and the Group and the fact that the Group is a co-defendant to these actions with the Company, the Group should ultimately bear any liability arising out of DBGS being named as a defendant in these civil actions.

FUTURE OUTLOOK

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

JBagshaw

By order of the Board of Directors

J. Bagshaw
Company Secretary

26 SEPTEMBER 2017

DIRECTORS' REPORT
For the year ended 31 December 2016

DIRECTORS

The Directors of the Company who held office as at 31 December 2016 were as follows:

T. Lee
D. Hards
S. Ward
R. Tandon

A.W. Bartlett and J.L Bagshaw were Joint Company Secretaries as at 31 December 2016.

CHANGES IN DIRECTORSHIP

Resignation

D. Hards resigned on 3rd April 2017

Appointments

D. Hards was appointed as a Non-Executive Director on 4th May 2017

There have been no further changes during the year or subsequent to the year-end.

EMPLOYEES

The Company is committed to ensuring that employees share in the success of the Group and are kept informed of matters of concern to them in a variety of ways, including a regular corporate news magazine, numerous intranet sites and also regular email communications. The Company established a UK Employee Consultation Forum in 2005 to communicate and share information with employees and this forum meets regularly and includes elected employee representatives. Employees of the Company together with employees of the Group globally were encouraged to participate in a Corporate Identity Survey with a view to identifying and addressing issues of importance to employees.

All employees of the Company have the opportunity to purchase shares in Deutsche Bank AG through participation in the UK Employee Share Ownership Plan. The Group also has an active and comprehensive Corporate Social Responsibility programme which encompasses employee volunteering, charitable giving and community partnerships.

The Company seeks to recruit and appoint the best available person for a job and to encourage the development of all employees to their full potential. The Company promotes equality of opportunity. The Company is committed to providing support to employees with disabilities and carries out a personal assessment for each disabled employee to assess their needs. The Company operates a workstation assessment programme for all employees which examines the working environment and implements adjustments where necessary.

ACTIVITIES AND REVIEW OF BUSINESS

The principal business is that of an employing company for the Group in the UK and its activities are driven by the staffing requirements of the operating subsidiaries of the Group to whom all costs and liabilities are recharged.

As a result of a letter of comfort from Deutsche Holdings No. 2 Limited the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts. The Directors do not envisage that there will be any substantial change for the foreseeable future in the operations of the Company.

The position of the Company as at 31 December 2016 is reflected in the audited balance sheet set out on page 10.

REPORT OF THE DIRECTORS (continued)
For the year ended 31 December 2016

DIVIDENDS

The Directors do not recommend the payment of a dividend for the year ended 31 December 2016 (2015: £nil).

QUALIFYING THIRD PARTY INDEMNITY PROVISION

As at the date of approval of the financial statements, and during the year, a qualifying third party indemnity provision was in force for the benefit of the Company's directors.

STATEMENT OF DIRECTOR'S RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, DIRECTOR'S REPORT, AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Strategic Report, the Directors' 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. Accordingly, they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) including FRS 101 *Reduced Disclosure Framework*.

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 Company and of the profit or loss of the Company 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 estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities. The Directors have confirmed that they spent time appropriate to their responsibilities on the affairs of the Company during the year.

The Directors have chosen, in accordance with section 414C(11) of the Companies Act 2006, to set out in its Strategic Report information that is otherwise required to be contained in the Directors' Report:

- an indication of financial risk management objectives and policies;
- details of important events affecting the Company since the year-end; and
- an indication of likely future developments in the business of the Company.

REPORT OF THE DIRECTORS (continued)
For the year ended 31 December 2016

DISCLOSURE OF INFORMATION TO AUDITOR

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

AUDITOR

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP with therefore continue in office.

J Bagshaw

By order of the Board of Directors

J. Bagshaw
Company Secretary

Registered office

23 Great Winchester Street
London
EC2P 2AX

Dated: 26 SEPTEMBER 2017

Company number: 3077349

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DB Group Services (UK) Limited

We have audited the financial statements of DB Group Services (UK) Limited (the Company) for the year ended 31 December 2016 set out on pages 8 to 27. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 6, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements
In our opinion the financial statements:
- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its result for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion 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.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports and:
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Mike Heath

Mike Heath (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
Dated: 29 September 2017

PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2016

	Note	2016 £m	2015 £m
Turnover		1,729	1,916
Administrative expenses	2	(1,728)	(1,915)
Other operating income		62	21
Other operating expense		(62)	(21)
Interest payable and similar expenses to Group undertakings		(1)	(1)
PROFIT BEFORE TAXATION		-	-
Tax on profit		-	-
PROFIT FOR THE FINANCIAL YEAR		-	-

The notes on pages 12 to 27 form part of these Financial Statements.

STATEMENT OF TOTAL COMPREHENSIVE INCOME
For the year ended 31 December 2016

	2016 £m	2015 £m
Profit for the financial year	-	-
Remeasurement (losses)/gains related to defined benefit post-retirement schemes	(76)	113
Re-charge of remeasurement losses/(gains) to group undertakings	76	(113)
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR	-	-

The notes on pages 12 to 27 form part of these Financial Statements.

BALANCE SHEET
As at 31 December 2016

	Note	2016 £m	2015 £m
NON CURRENT ASSETS			
Pension Asset	4	746	812
CURRENT ASSETS			
Trade Debtors		2	2
Amounts owed by group undertakings		952	1,110
Other Debtors	5	78	25
Investments	6	53	52
Cash at bank and in hand	7	96	80
		1,181	**1,269**
CREDITORS: amounts falling due within one year			
Amounts owed to group undertakings		(1,067)	(1,083)
Other creditors including taxation and social security		(87)	(79)
Accruals and deferred income		(640)	(808)
		(1,794)	**(1,970)**
NET CURRENT ASSETS / (LIABILITIES)		**(613)**	**(701)**
TOTAL ASSETS LESS CURRENT LIABILITIES		**133**	**111**
PROVISIONS FOR LIABILITIES	8		
Pensions and similar obligations		(11)	(10)
Other provisions		(122)	(101)
		(133)	**(111)**
NET ASSETS		-	-
CAPITAL AND RESERVES			
Called up share capital	9	-	-
Profit and loss account		-	-
Share based payment reserve		-	-
		-	-
SHAREHOLDER'S FUNDS		-	-

The notes on pages 12 to 27 form part of these Financial Statements.

These financial statements were approved by the Board of Directors on 26 SEPTEMBER 2017

Signed by R. TANDON
For and on behalf of the Board of Directors
Company number: 3077349

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016

	Profit & Loss Account £m	Share based Payment reserve £m	Called Up Share Capital £m	Total £m
Balance at 1 January 2016	-	-	-	-
Credit in relation to share based payments (Note 2)	-	(147)	-	(147)
Re-charge in relation to share based payments	-	147	-	147
Balance at 31 December 2016	-	-	-	-

For the year ended 31 December 2015

	Profit & Loss Account £m	Share based Payment reserve £m	Called Up Share Capital £m	Total £m
Balance at 1 January 2015	-	-	-	-
Credit in relation to share based payments (Note 2)	-	(176)	-	(176)
Re-charge in relation to share based payments	-	176	-	176
Balance at 31 December 2015	-	-	-	-

The notes on pages 12 to 27 form part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

1 ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of preparation
These financial statements were prepared in accordance with FRS 101 *Reduced Disclosure Framework*.

In so doing, the Company has applied the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU but has made amendments where necessary in order to comply with the requirements of Companies Act 2006.

Accordingly, the relevant IFRSs have been referenced in the following notes where relevant.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

• A Cash Flow Statement and related notes;
• Disclosures in respect of transactions with wholly owned subsidiaries;
• Disclosures in respect of transactions with related parties; and
• The effects of new but not yet effective IFRSs.

As the Company is not a 'Financial Institution', as defined by the Financial Reporting Council, it has applied the exemptions available for disclosures required by IFRS 7, IFRS 13 and IAS 1.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

The Company is incorporated, registered and domiciled in England and Wales (UK) as a private limited company, limited by shares.

DB UK Holdings Limited, a company registered in England and Wales (UK), is the Company's immediate controlling entity.

Deutsche Bank AG, a company incorporated in Germany, is the parent company, the ultimate controlling entity and the parent undertaking of the largest and smallest group of undertakings for which group financial statement are prepared, in accordance with International Financial Reporting Standards. Deutsche Bank AG includes the Company in its consolidated financial statements. Copies of the Group financial statements of this company are available to the public and may be obtained from Winchester House, 1 Great Winchester Street, London, EC2N 2DB.

(a) **BASIS OF MEASUREMENT**
These financial statements have been prepared on the historical cost basis, except where differing basis of measurements are stipulated below.

(b) **TURNOVER**
Turnover represents the recharge of Administrative Expenses to other Group companies.

(c) **SHARE BASED COMPENSATION**
The costs of awards to employees that take the form of shares are recognised over the period of the employees' related performance. The schemes are classified as being equity settled. Share based compensation is accounted for in equity based on the fair value on the grant date with a corresponding charge in profit and loss spread evenly over the vesting period of the award. A corresponding liability to the Group to settle the charge each year is charged to equity, and is also based on the fair value on grant date, spread evenly over the vesting period. The share awards may be forfeited fully or partly if the recipient voluntarily terminates employment before the end of the relevant vesting period. Vesting usually continues after termination of employment in cases such as redundancy or retirement. Vesting is accelerated if the recipient's termination of employment is due to death or disability.

(d) **OTHER OPERATING INCOME/ EXPENSE**
The Company enters into derivatives to economically hedge exposure to share based payment awards. The Company accounts for these contracts at fair value with movements in fair value reflected within the profit and loss account (other income / other expenses).The profit or loss impact of fair value movements on derivatives is recharged to Group companies via the offsetting Other operating income/expense category.

(e) **INTEREST RECEIVABLE AND SIMILAR INCOME AND INTEREST PAYABLE AND SIMILAR EXPENSES FROM / TO GROUP UNDERTAKINGS**
Interest receivable and payable are recognised in the profit and loss account as they accrue using the effective interest method.

The effective interest rate is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or expense over the relevant period using the estimated future cash flows. The estimated future cash flows used in this calculation include those determined by the contractual terms of the asset or liability, all fees that are considered to be integral to the effective interest rate, direct and incremental transaction costs, and all other premiums or discounts.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

1 ACCOUNTING POLICIES (continued)

(f) RETIREMENT BENEFITS

Throughout 2016 the Company operated three defined benefit post-retirement schemes in the UK - two defined benefit pension schemes (DB (UK) Pension Scheme also referred to as Staff Scheme and the DB (UK) Senior Group Pension Scheme also referred to as Senior Scheme) and a smaller post-retirement medical benefit plan. The assets of the pension schemes are held separately from those of the Company.

All retirement benefit plans accounted for as defined benefit plans are valued using the projected unit-credit method to determine the present value of the defined benefit obligation and the related service costs. Under this method, the determination is based on actuarial calculations which include assumptions about demographics, salary increases and interest and inflation rates. Actuarial gains and losses are recognized in other comprehensive income and presented in equity in the period in which they occur. The majority of the Company's benefit plans is funded.

As the principal business of the Company is that of an employing company for the Group in the UK, all employee related costs including net defined benefit costs that are recognised by the Company are recovered fully from the Group through re-charges based on contractual arrangements ("reimbursement right asset"). Under those arrangements, any net defined benefit surplus is passed on to Group entities, in which case the reimbursement right asset is reported in the balance sheet as creditors. Pension costs that are charged to the Profit and Loss account are offset by an equal amount receivable, shown within "Turnover". Remeasurement gains and losses that are recorded within Other Comprehensive Income are offset by an equal amount payable or receivable, due to or from Group Companies.

The Company also operates a defined contribution pension arrangement, as a section within the DB (UK) Pension Scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged to the Profit and Loss Account represents the contributions payable to the scheme in respect of the accounting period.

(g) TAXATION

The Company is a "total recharge entity" where all costs incurred by the Company are fully recovered through recharge to the Group to whom employees of the Company have been provided. Accordingly, and as agreed with HMRC, the Company will have no taxable profit or loss for any reporting period for tax purposes and hence does not account for either current or deferred taxation.

(h) FOREIGN EXCHANGE

Transactions in foreign currencies are translated into Pounds Sterling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

(i) GOING CONCERN

As a result of a letter of comfort from Deutsche Holdings No. 2 Limited the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts. The Directors do not envisage that there will be any substantial change for the foreseeable future in the operations of the Company.

(j) CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of these financial statements requires the Directors to make estimates and assumptions for certain categories of assets and liabilities. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from management's estimates.

The significant accounting policy of the Company that involves critical accounting estimates relates to the Retirement benefits.

Retirement benefits are long-term liabilities whose value can only be estimated using assumptions about developments over a long period. The economic and demographic assumptions used for the purpose of compliance with IAS 19 are selected by the Company by applying the best estimate and ongoing plan principles. The Company has employed actuarial advice in arriving at the figures presented in note 4 of the financial statements. Any assumptions that are affected by economic conditions (financial assumptions) are based on market expectations, at the balance sheet date, for the period over which the obligations are settled.

NOTES TO THE ACCOUNTS
For the year ended 31 December 2016

2 ADMINISTRATIVE EXPENSES

	2016 £m	2015 £m
Wages and benefits	(1,270)	(1,416)
Social security costs	(177)	(194)
Other pension costs (Note 10)	(100)	(93)
Compensation expense for share-based payments (Note 11)	(147)	(176)
Restructuring activities	(34)	(36)
	(1,728)	(1,915)

Auditor's Remuneration

	2016 £	2015 £
Audit of these financial statements	65,000	50,341

Auditor's remuneration for services to the Company has been borne by another group undertaking.

3 DIRECTORS' EMOLUMENTS, TRANSACTIONS AND INTERESTS

a) Emoluments

	2016 £	2015 £
Directors' Emoluments	179,240	141,949
Amounts Receivable under long term schemes	113,212	90,355
	292,452	232,304
	£	£
Company contributions to money purchase pension schemes	1,384	2,348

During the year, 3 directors received shares or payments under long term incentive schemes totalling £113,212 (2015: 3 directors received shares or payments under long term incentive schemes totalling £90,355).

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £214,878 and the pension contributions were nil (2015: The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £144,546 and the pension contributions were nil).

	Number of Directors 2016	Number of Directors 2015
Retirement benefits are accruing to the following number of Directors under:		
Money purchase schemes	1	1
Defined benefit schemes	2	2

No Directors exercised any share options under long term incentive schemes.

b) Transactions

There were no amounts outstanding to the Directors of the Company as at 31 December 2016 (2015: £nil) or at any point during the year ended 31 December 2016. In this instance, the term Directors also covers individuals connected to directors as defined by s.252 of the Companies Act, 2006.

c) Interests

None of the Directors had any other disclosable interest in the shares or debentures of any UK group undertaking at the end of the year, or were granted or exercised any right to subscribe for shares in, or debentures of, any UK group undertaking during the year.

NOTES TO THE ACCOUNTS
For the year ended 31 December 2016

4 PENSION ASSETS

in £ m.	Staff Plan	Senior Plan	Total	Staff Plan	Senior Plan	Total
			31 Dec 16			31 Dec 15
Defined benefit obligation	3,242	604	3,846	2,401	492	2,893
Fair value of plan assets	3,895	697	4,592	3,120	585	3,705
Surplus			**746**			**812**

Please also refer to Note 10 "Post-Employment Benefit Plans".

5 OTHER DEBTORS

	2016 £m	2015 £m
Call Options	78	25
	78	**25**

Other debtors represents call options to hedge future share liability under the Share based payment schemes. As at 31 December 2016 the Company had 48,117,472 call options (2015: 27,443,238 call options) in place with one share per option and an average strike price of €21.4 (2015 €31.19). The fair value of the options was £78.2m (2015: £24.7m). Gains/ (Losses) in the fair value of the call options are offset by amounts payable to/ receivable from group undertakings.

Interest receivable from group undertakings was £0.3m in 2016 (2015:£0.1m)

6 INVESTMENTS (held as current assets)

	2016 £m	2015 £m
Shares in group undertakings	3	2
Other Investments	50	50
	53	**52**

Shares in group undertakings represent Group shares held to be delivered to participants of share-based compensation plans at future vesting dates. Other investments reflect assets held as hedges to employee investment and retirement plans. The hedges will be realised at future vesting dates to offset liabilities within the related employing entities.

7 CASH AT BANK AND IN HAND

	2016 £m	2015 £m
Cash at bank held with Group undertakings	96	80
	96	**80**

8 PROVISIONS FOR LIABILITIES

	2016 £m	2015 £m
Pensions and similar obligations	(11)	(10)
Other provisions	(122)	(101)
	(133)	**(111)**

Other provisions represent amounts set aside in relation to IBOR setting misconduct. It has an offsetting balance to Amounts Owed by Group Undertakings. As part of the resolution with the U.S. Department of Justice (DOJ) to resolve investigations into misconduct concerning the setting of LIBOR, EURIBOR, and TIBOR, the Company entered into a Plea Agreement and agreed to pay a fine of U.S. $150 million (£121.8 million).The fine was paid by the Group on the Company's behalf on April 7, 2017 (Note 12).

NOTES TO THE ACCOUNTS
For the year ended 31 December 2016

9 SHARE CAPITAL

	2016 Number	2015 Number
Authorised:		
Ordinary shares of £1 each	1,000	1,000
	1,000	**1,000**
Alloted, called up and fully paid:		
Ordinary shares of £1 each	2	2
	2	**2**

	2016 £	2015 £
Authorised:		
Ordinary shares of £1 each	1,000	1,000
	1,000	**1,000**
Alloted, called up and fully paid:		
Ordinary shares of £1 each	2	2
	2	**2**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and entitled to one vote per share.

NOTES TO THE ACCOUNTS
For the year ended 31 December 2016

10 POST-EMPLOYMENT BENEFIT PLANS

Nature of Plans

The Company sponsors a number of post-employment benefit plans on behalf of its employees, both defined contribution plans and defined benefit plans. The plans are accounted for based on the nature and substance of the plan.

In the past the Company offered pension plans based on a formula applied to final pensionable salary prior to retirement under the rules of the Staff scheme and the Senior scheme. Both plans still form a significant part of the pension obligations for participants in deferred and payment status. However the pension plans were redesigned in 2011 for active employees still eligible to the plan. Benefits accrued in these plans after 2010 are still calculated based on the defined benefit basis linked to a final pensionable salary but on terms that serve to reduce the overall long-term risk exposure to the Company relative to the pre 2011 basis. Generally, for defined benefit plans the value of a participant's accrued benefit is based on each employee's remuneration and length of service; contributions to defined contribution plans are typically based on a percentage of each employee's remuneration.

In line with IAS 19 disclosure requirements, the rest of this note focuses predominantly on the Company's defined benefit plans.

In addition the Company also sponsors post-retirement medical benefits (PRM) for a number of retired employees under BUPA. This unfunded

Defined Benefit Obligation by Participating Status

				31 Dec 16				31 Dec 15
in £ m.	Staff Plan	Senior Plan	PRM plan	Total	Staff Plan	Senior Plan	PRM plan	Total
Defined benefit obligation related to:								
Active plan participants	661	18	-	679	557	17	-	574
Participants in deferred status	1,992	204	-	2,196	1,402	177	-	1,579
Participants in payment status	589	382	11	982	442	298	10	750
Total defined benefit obligation	3,242	604	11	3,857	2,401	492	10	2,903
Fair value of plan assets	3,895	697	-	4,592	3,120	585	-	3,705
Funding ratio	120%	115%		119%	130%	119%		128%

Net Defined Benefit Asset / (Liability) as of the Period End Date

in £ m.	Staff Plan	Senior Plan	PRM plan	Total	Staff Plan	Senior Plan	PRM plan	Total
Defined benefit obligation	3,242	604	11	3,857	2,401	492	10	2,903
Fair value of plan assets	3,895	697	-	4,592	3,120	585	-	3,705
Surplus / (Deficit)	653	93	(11)	735	719	93	(10)	802

The Directors are not required to recognise an asset ceiling as, provided the Company remains a going concern, the trustees of the defined benefit plans do not have the power to unilaterally wind up the scheme or unilaterally augment benefits.

Split of Defined Benefit Asset / (Liability) Between Plans Showing an Asset and Plans Showing a Liability

in £ m.	Staff Plan	Senior Plan	PRM plan	Total	Staff Plan	Senior Plan	PRM plan	Total
Defined Benefit Asset	653	93	-	746	719	93	-	812
Defined Benefit (Liability)	-	-	(11)	(11)	-	-	(10)	(10)

The following amounts of expected benefit payments from the Company's defined benefit plans include benefits attributable to employees' past and estimated future service.

in £ m.	Staff Plan	Senior Plan	PRM	Total
Actual benefit payments 2016	70	24	1	95
Benefits expected to be paid 2017	41	18	1	60
Benefits expected to be paid 2018	43	18	1	62
Benefits expected to be paid 2019	47	19	1	67
Benefits expected to be paid 2020	54	20	1	75
Benefits expected to be paid 2021	59	21	1	81
Benefits expected to be paid 2022 – 2026	396	117	3	516
Weighted average duration of defined benefit obligation (in years)	24	17	12	

10 POST-EMPLOYMENT BENEFIT PLANS (continued)

Governance and Risk

The Group maintains a Pensions Risk Committee to oversee its pension and related risks on a global basis. This Committee meets quarterly, reports directly to the Senior Executive Compensation Committee and is supported by the Pensions Operating Committee.

Within this context, the Group develops and maintains guidelines for governance and risk management, including funding, asset allocation and actuarial assumption setting. In this regard, risk management means the management and control of risks for the Company related to market developments (e.g., interest rate, credit spread, price inflation), asset investment, regulatory or legislative requirements, as well as monitoring demographic changes (e.g., longevity). Any plan changes follow a process requiring approval by Group Human Resources. To the extent that pension plans are funded, the assets held mitigate some of the liability risks, but introduce investment risk. The Company's largest post-employment benefit plan risk exposures relate to potential changes in credit spreads, price inflation and longevity, although these have been partially mitigated through the investment strategy adopted. Overall, the Group seeks to minimize the impact of pensions on the Company's financial position from market movements, subject to balancing the trade-offs involved in financing post-employment benefits, regulatory capital and constraints from local funding or accounting requirements. The Group measures its pension risk exposures on a regular basis using specific metrics developed by the Group for this purpose.

Funding

The Company maintains an external trustee to advise on the funding of the retirement benefit plan obligations. The trustee and the Company jointly agree contribution levels based on a separate funding valuation every third year. Generally the Company expects to receive an economic benefit from any surplus, typically by way of reduced future contributions. So in 2015 and 2016 there were no regular employer contributions paid into the Staff and Senior scheme plan assets, based on the Schedule of Contributions which came into effect on 1 December 2013. For 2017 no regular contributions are expected. There were no deficit contributions paid or required to the Staff scheme or Senior scheme during 2016, 2015 and 2014.

The post-retirement medical plan remains unfunded, its obligation is accrued on the balance sheet. The Company accrues for obligations over the period of employment and pays the benefits from Group assets when the benefits become due.

Actuarial Methodology and Assumptions

31 December is the measurement date for all plans. All plans are valued by independent qualified actuaries using the projected unit credit method.

The key actuarial assumptions applied in determining the defined benefit obligations at 31 December are presented below in the form of weighted averages.

	31-Dec-16	31-Dec-15
Discount rate	2.6%	3.9%
Rate of price inflation – RPI	3.6%	3.4%
Rate of price inflation – CPI	2.5%	2.3%
Rate of nominal increase in future compensation levels.	4.6%	4.4%
Rate of nominal increase for pensions in payment	3.5%	3.3%
Rate of nominal increase for pensions in deferment	2.5%	2.3%
Rate of nominal increase for medical expenses	5.1%	5.1%

	Staff Plan	Senior Plan	Staff Plan	Senior Plan
Assumed life expectancy in years at age 65				
For a male aged 65 at measurement date	23	24	23	24
For a female aged 65 at measurement date	25	26	25	25
For a male aged 45 at measurement date	25	26	25	26
For a female aged 45 at measurement date	27	28	27	27

NOTES TO THE ACCOUNTS
For the year ended 31 December 2016

10 POST-EMPLOYMENT BENEFIT PLANS (continued)

The discount rate used at each measurement date is set based on a high quality corporate bond yield curve – derived based on bond universe information sourced from reputable third-party index providers and rating agencies – reflecting the timing, amount and currency of the future expected benefit payments for the respective plan. For longer durations where limited bond information is available, reasonable yield curve extrapolation methods are applied using respective actual swap rates and credit spread assumptions. Consistent discount rates are used across all plans in each currency zone.

Inflation assumption for the entity is based on RPI, with no allowance for an inflation risk premium. CPI assumption is RPI less 110bps a year.

The assumptions for the increases in future compensation levels and for increases to pensions in payment are developed separately for each plan, where relevant. Each is set based on the price inflation assumption and reflecting the Company's reward structure or policies, as well as relevant local statutory and plan-specific requirements.

Mortality assumptions have been set in accordance with current best practice in the United Kingdom. Future potential improvements in longevity have been considered and included. The post-retirement mortality assumption for males is 105% and 100% in respect of the Staff scheme and the Senior scheme, respectively, and for females it is 100 % in respect of both schemes of the SAPS Light tables with an allowance for future improvements in line with the CMI 2015 core projections assuming a long-term annual rate of improvement in mortality rates of 1.25% for men and women.

Reconciliation in Movement of Liabilities and Assets – Impact on Financial Statements

				2016
in £ m.	Staff Plan	Senior Plan	PRM	Total
Change in the present value of the defined benefit obligation:				
Balance, beginning of year	**2,401**	**492**	**10**	**2,903**
Defined benefit cost recognized in Profit & Loss				
Current service cost	18	-	-	18
Interest cost	93	19	-	112
Past service cost and gain or loss arising from settlements	4	-	-	4
Defined benefit cost recognized in Other Comprehensive Income				
Actuarial (gain) or loss arising from changes in financial assumptions	846	117	1	964
Actuarial (gain) or loss arising from changes in demographic assumptions	(9)	12	1	4
Actuarial (gain) or loss arising from experience	(41)	(11)	(1)	(53)
Cash flow and other changes				
Benefits paid	(70)	(24)	(1)	(95)
Balance, end of year	**3,242**	**604**	**11**	**3,857**
Change in fair value of plan assets:				
Balance, beginning of year	**3,120**	**585**		**3,705**
Defined benefit cost recognized in Profit & Loss				-
Interest income	121	22		143
Defined benefit cost recognized in Other Comprehensive Income				-
Return from plan assets less interest income	725	114		839
Cash flow and other changes				-
Benefits paid	(70)	(24)		(94)
Plan administration costs	(1)	-		(1)
Balance, end of year	**3,895**	**697**		**4,592**
Funded status, end of year = Net asset (liability) recognized	653	93	(11)	735

NOTES TO THE ACCOUNTS
For the year ended 31 December 2016

10 POST-EMPLOYMENT BENEFIT PLANS (continued)

Reconciliation in Movement of Liabilities and Assets – Impact on Financial Statements (continued)

in £ m.	Staff Plan	Senior Plan	PRM	2015 Total
Change in the present value of the defined benefit obligation:				
Balance, beginning of year	**2,518**	**522**	**11**	**3,051**
Defined benefit cost recognized in Profit & Loss				
Current service cost	20	-		20
Interest cost	93	19	-	112
Past service cost and gain or loss arising from settlements	3	-		3
Defined benefit cost recognized in Other Comprehensive Income				
Actuarial (gain) or loss arising from changes in financial assumptions	(84)	(11)	(1)	(96)
Actuarial (gain) or loss arising from changes in demographic assumptions	(37)	(7)		(44)
Actuarial (gain) or loss arising from experience	(56)	(11)	-	(67)
Cash flow and other changes				
Benefits paid	(56)	(20)		(76)
Balance, end of year	**2,401**	**492**	**10**	**2,903**
Change in fair value of plan assets:				
Balance, beginning of year	**3,142**	**599**		**3,741**
Defined benefit cost recognized in Profit & Loss				
Interest income	116	22		138
Defined benefit cost recognized in Other Comprehensive Income				
Return from plan assets less interest income	(79)	(15)		(94)
Cash flow and other changes				
Benefits paid	(56)	(20)		(76)
Plan administration costs	(3)	(1)		(4)
Balance, end of year	**3,120**	**585**		**3,705**
Funded status, end of year = Net asset (liability) recognized	719	93		802

Expense of post-employment benefits

in £ m.	2016	2015
Expenses for defined benefit plans:		
Service cost	22	24
Net interest cost (income)	(31)	(25)
Total expenses defined benefit plans	(9)	(1)
Total expenses for defined contribution plans	109	94
Total expenses for post-employment benefit plans	**100**	**93**

NOTES TO THE ACCOUNTS
For the year ended 31 December 2016

10 POST-EMPLOYMENT BENEFIT PLANS (continued)

Investment Strategy

The Company's investment objective is to protect the Company from adverse impacts of changes in the funding position of its defined benefit pension plans on key financial metrics, with a primary focus on immunizing the plans' IFRS funded status, while taking into account the plans' impact on other metrics, such as the Group's regulatory capital and local profit & loss accounts. Investment mandates allow for risk-taking through duration mismatches and asset class diversification with respect to the relevant investment benchmark.

To achieve the primary objective of immunizing the IFRS funded status of key defined benefit plans, the Company applies a liability driven investment (LDI) approach. Risks from mismatches between fluctuations in the present value of the defined benefit obligations and plan assets due to capital market movements are minimized, subject to balancing relevant trade-offs. This is achieved by allocating plan assets closely to the market risk factor exposures of the pension liability to interest rates, credit spreads and inflation. Thereby, plan assets broadly reflect the underlying risk profile and currency of the pension obligations.

Where the desired hedging level for these risks cannot be achieved with physical instruments (i.e. corporate and government bonds), derivatives are employed. Derivative overlays mainly include interest rate and inflation swaps. Other instruments are also used, such as credit default swaps and interest rate futures. In practice, a completely hedged approach is impractical, for instance because of insufficient market depth for ultra-long-term corporate bonds, as well as liquidity and cost considerations. Therefore, plan assets contain further asset categories to create long-term return enhancement and diversification benefits such as equity, real estate, high yield bonds or emerging markets bonds.

Plan asset allocation to key asset classes

The following table shows the asset allocation of the Company's funded defined benefit plans to key asset classes, i.e. exposures include physical securities in discretely managed portfolios and underlying asset allocations of any commingled funds used to invest plan assets.

Asset amounts in the following table include both "quoted" (i.e. Level 1 assets in accordance with IFRS 13 –amounts invested in markets where the fair value can be determined directly from prices which are quoted in active, liquid markets) only and in combination with "other" (i.e. Level 2 and 3 assets in accordance with IFRS 13) assets. The majority of the "other" assets are invested in Level 2 assets in accordance with IFRS 13, being primarily investment-grade corporate bonds. A relatively small element overall is in Level 3 assets in accordance with IFRS 13, being primarily real estate, insurance policies and derivative contracts.

						Quoted and other assets
			Dec 31, 2016			Dec 31, 2015
in £ m.	**Staff**	**Senior**	**Total**	**Staff**	**Senior**	**Total**
Cash and cash equivalents	71	27	98	79	17	96
Equity instruments [1]	465	80	545	391	65	456
Investment-grade bonds [2]						
Government	1,416	212	1,628	1,167	170	1,337
Non-government bonds	1,623	327	1,950	1,401	279	1,680
Non-investment-grade bonds						
Non-government bonds	52	8	60	38	11	49
Structured products	170	33	203	153	31	184
Alternatives						
Real estate	79	21	100	80	21	101
Commodities	10	2	12	4	1	5
Other	25	4	29	25	4	29
Derivatives (Market Value)						
Interest rate	116	(2)	114	(57)	11	(46)
Credit	(1)	-	(1)	-	-	-
Inflation	(150)	(19)	(169)	(158)	(22)	(180)
Foreign exchange	2	-	2	(3)	(1)	(4)
Other	17	4	21	-	(2)	(2)
Total fair value of plan assets	**3,895**	**697**	**4,592**	**3,120**	**585**	**3,705**

NOTES TO THE ACCOUNTS
For the year ended 31 December 2016

10 POST-EMPLOYMENT BENEFIT PLANS (continued)

Quoted assets only

in £ m.	Dec 31, 2016 Staff	Senior	Total	Dec 31, 2015 Staff	Senior	Total
Cash and cash equivalents	71	27	98	79	17	96
Equity instruments [1]	465	80	545	391	65	456
Investment-grade bonds [2]			-			-
Government	1,413	212	1,625	1,167	170	1,337
Structured products	-	-	-	153	31	184
Derivatives (Market Value)			-			-
Credit	(1)	-	(1)	-	-	-
Foreign exchange	2	-	2	(3)	(1)	(4)
Total fair value of plan assets	**1,950**	**319**	**2,269**	**1,787**	**282**	**2,069**

1 Allocation of equity exposure is broadly in line with the typical index in the respective market, e.g. the equity portfolio's benchmark of the UK retirement benefit plans is the MSCI All Countries World Index.
2 Investment-grade means BBB and above. Average credit rating exposure for the Company's main plans is A.

The following tables show the asset allocation of the "quoted" and other defined benefit plan assets by key geography in which they are invested.

31 Dec 2016

in £ m.	Germany	United Kingdom	United States	Other Eurozone	Other Developed Countries	Emerging markets	Total
Cash and cash equivalents	-	96	2	-	-	-	98
Equity instruments	12	40	297	77	40	79	545
Government bonds(investment-grade and above)	7	1,555	1	30	30	5	1,628
Non-government bonds(investment-grade and above)	25	1,133	172	218	372	30	1,950
Non-government bonds(non-investment-grade)	3	34	5	11	5	2	60
Structured products	-	170	-	2	-	31	203
Subtotal	47	3,028	477	338	447	147	4,484
Share	1%	68%	11%	8%	10%	3%	100%
Other asset categories							108
Fair value of plan assets							**4,592**

31 Dec 2015

in £ m.	Germany	United Kingdom	United States	Other Eurozone	Other Developed Countries	Emerging markets	Total
Cash and cash equivalents	-	94	2	-	-	-	96
Equity instruments	12	33	214	61	76	60	456
Government bonds(investment-grade and above)	4	1,280	1	32	20	-	1,337
Non-government bonds(investment-grade and above)	18	952	140	222	329	19	1,680
Non-government bonds(non-investment-grade)	3	22	-	18	3	3	49
Structured products	-	148	-	27	9	-	184
Subtotal	37	2,529	357	360	437	82	3,802
Share	1%	56%	8%	8%	10%	2%	85%
Other asset categories							(97)
Fair value of plan assets							**3,705**

Plan assets at December 31, 2016 include derivative transactions with the Group with a positive market value of £ 103 million (2015: £26m). The plan assets do not hold any shares of the Group nor include any real estate which is used by the Group.

NOTES TO THE ACCOUNTS
For the year ended 31 December 2016

10 POST-EMPLOYMENT BENEFIT PLANS (continued)

Key Risk Sensitivities

The Company's defined benefit obligations are sensitive to changes in capital market conditions and actuarial assumptions. Sensitivities to capital market movements and key assumption changes are presented in the following table. Each market risk factor or assumption is changed in isolation. Sensitivities of the defined benefit obligations are approximated using geometric extrapolation methods based on plan durations for the respective assumption. Duration is a risk measure that indicates the broad sensitivity of the obligations to a change in an underlying assumption and provides a reasonable approximation for small to moderate changes in those assumptions.

For example, the discount rate duration is derived from the change in the defined benefit obligation to a change in the discount rate based on information provided by the local actuaries of the respective plans. The resulting duration is used to estimate the remeasurement liability loss or gain from changes in the discount rate. For other assumptions, a similar approach is used to derive the respective sensitivity results.

For the pension plans changes in capital market conditions will impact the plan obligations via actuarial assumptions – mainly discount rate and price inflation rate – as well as the plan assets. Consequently, to aid understanding of the Company's risk exposures related to key capital market movements, the net impact of the change in the defined benefit obligations and plan assets due to a change of the related market risk factor or underlying actuarial assumption is shown; for sensitivities to changes in actuarial assumptions that do not impact the plan assets, only the impact on the defined benefit obligations is shown.

Asset-related sensitivities are derived by using risk sensitivity factors determined by the Group's Market Risk Management function. These sensitivities are calculated based on information provided by the plans' investment managers and extrapolated linearly to reflect the approximate change of the plan assets' market value in case of a change in the underlying risk factor.

	31-Dec-16		31-Dec-15	
in £ m.	Staff	Senior	Staff	Senior
Discount rate (–50 bp):				
(Increase) in DBO	(380)	(50)	(260)	(40)
Expected increase in plan assets	420	60	315	50
Expected net impact on funded status (de-) increase	40	10	55	10
Discount rate (+50 bp):				
Decrease in DBO	340	45	235	35
Expected (decrease) in plan assets	(420)	(60)	(315)	(50)
Expected net impact on funded status (de-) increase	(80)	(15)	(80)	(15)
Credit spread (–50 bp):				
(Increase) in DBO	(380)	(50)	(260)	(40)
Expected increase in plan assets	80	20	70	15
Expected net impact on funded status (de-) increase	(300)	(30)	(190)	(25)
Credit spread (+50 bp):				
Decrease in DBO	340	45	235	35
Expected (decrease) in plan assets	(80)	(20)	(70)	(15)
Expected net impact on funded status (de-) increase	260	25	165	20
Rate of price inflation (–50 bp): [1]				
Decrease in DBO	295	40	215	35
Expected (decrease) in plan assets	(270)	(35)	(210)	(30)
Expected net impact on funded status (de-) increase	25	5	5	5
Rate of price inflation (+50 bp): [1]				
(Increase) in DBO	(330)	(45)	(220)	(35)
Expected increase in plan assets	270	35	210	30
Expected net impact on funded status (de-) increase	(60)	(10)	(10)	(5)
Rate of real increase in future compensationlevels (–50 bp):				
Decrease in DBO, net impact on funded status	20	-	10	-
Rate of real increase in future compensationlevels (+50 bp):				
(Increase) in DBO, net impact on funded status	(20)	-	(10)	-
Longevity improvements by 10 %: [2]				
(Increase) in DBO, net impact on funded status	(95)	(20)	(60)	(15)

1 Incorporates sensitivity to changes in nominal increase for pensions in payment and deferment to the extent linked to the price inflation assumption.

2 Estimated to be equivalent to an increase of around 1 year in overall life expectancy.

3 DBO refers to Defined Benefit Obligation

10 POST-EMPLOYMENT BENEFIT PLANS (continued)

The sensitivities illustrate plausible variations over time in capital market movements and key actuarial assumptions. The Company is not in a position to provide a view on the likelihood of these capital market or assumption changes. While these sensitivities illustrate the overall impact on the funded status of the changes shown, the significance of the impact and the range of reasonable possible alternative assumptions may differ between the different plans that comprise the aggregated results. Even though plan assets and plan obligations are sensitive to similar risk factors, actual changes in plan assets and obligations may not fully offset each other due to imperfect correlations between market risk factors and actuarial assumptions. Caution should be used when extrapolating these sensitivities due to non-linear effects that changes in capital market conditions and key actuarial assumptions may have on the overall funded status. Any management actions that may be taken to mitigate the inherent risks in the post-employment defined benefit plans are not reflected in these sensitivities.

11 SHARE BASED COMPENSATION AND SHARE OWNERSHIP

The company made grants of share-based compensation under the Group Equity Plan and the broad-based employee share ownership plan entitled UK Employee Share Ownership Plan. The shares held are scheduled to be delivered to participants of share-based compensation plans at future vesting dates.

Grant year(s)	The Group Equity Plan	Vesting Schedule	Early Retirement	Eligibility
2016	Annual Award	1/4: 12 months 1/4: 24 months 1/4: 36 months 1/4: 48 months	Yes	Select employees as annual retention
		Or cliff vesting after 54 months	Yes	Members of Management Board or of Senior Management Group
	Retention/ New Hire	Individual Specification	Yes	Select employees to attract or retain best talent
	Annual Award – Upfront	Vesting immediately at grant	No	Regulated employees
	Key Position Award (KPA)	Cliff-vesting after 4 years	Yes	Select employees as annual retention
2015 2014 2013	Annual Award	1/3: 12 months 1/3: 24 months 1/3: 36 months	Yes	Select employees as annual retention
		Or cliff vesting after 54 months	Yes	Members of management Board or of senior management group
	Retention/ New Hire	Individual Specification	Yes	Select employees to attract or retain key staff
	Annual Award - upfront	Vesting immediately at grant	No	Regulated employees

NOTES TO THE ACCOUNTS
For the year ended 31 December 2016

11 SHARE BASED COMPENSATION AND SHARE OWNERSHIP (continued)

The Group Equity Plan

Awards granted under the terms and conditions of the Group Equity Plan represent a contingent right to receive the Group common shares after a specified period of time. The award recipient is not entitled to receive dividends during the vesting period of the award.

An award, or portion of it, may be forfeited if the recipient voluntarily terminates employment before the end of the relevant vesting period. Early retirement provisions, however, allow continued vesting after voluntary termination of employment when certain conditions regarding age or tenure are fulfilled. Vesting usually continues after termination of employment in certain cases, such as redundancy or retirement. Vesting is accelerated if the recipient's termination of employment is due to death or disability.

UK Employee Share Ownership Plan

The UK ESOP Plan is a UK Revenue and Customs approved scheme whereby employees voluntarily elect to purchase the Group shares. The Company makes a matching contribution which is recognized as an expense on an accruals basis.

Compensation Expense

Compensation expense for awards classified as equity instruments is measured at the grant date based on the fair value of the share-based award. For share awards, the fair value is the quoted market price of the share reduced by the present value of the expected dividends that will not be received by the employee and adjusted for the effect, if any, of restrictions beyond the vesting date.

Compensation expense is recorded on a straight-line basis over the period in which employees perform services to which the awards relate or over the period of the tranches for those awards delivered in tranches. Estimates of expected forfeitures are periodically adjusted in the event of actual forfeitures or for changes in expectations. The timing of expense recognition relating to grants which, due to early retirement provisions, include a nominal but non substantive service period are accelerated by shortening the amortization period of the expense from the grant date to the date when the employee meets the eligibility criteria for the award, and not the vesting date. For awards that are delivered in tranches, each tranche is considered a separate award and amortized separately.

The Company recognised expenses in relation to share-based compensation and employee share ownership plans, as follows:

	2016 £m	2015 £m
The Group Equity Plan	(147)	(175)
UK ESOP	-	(1)
Total	**(147)**	**(176)**

As of 31 December 2016, unrecognised compensation costs related to non-vested share-based compensation was £137.7 million (2015: £105.6 million), which is expected to be recognised over an average period of approximately 2.65 years (2015: 2.07 years).

Recognised Amortisation expense for Unvested Stock Compensation Awards

As at 31st December 2016, the Company's life to date recognised amortisation expense in respect of unvested share based compensation awards totalled £167.0 million (31st December 2015: £218.8 million). This balance is based on the grant date value and is therefore at fixed values and represents that part of the ultimate commitment to its employee that has already been amortised.

11 SHARE BASED COMPENSATION AND SHARE OWNERSHIP (continued)

Award Related Activities

The following table summarises the activity in plans involving share awards, which are those plans granting a contingent right to receive Group common shares after a specified period of time. It also includes the grants under the cash plan variant of the Group Equity Plan.

	share units ("000s")	Weighted-average grant date fair value per unit €
Balance at 31 December 2014	**15,239**	**28.35**
Granted	9,699	24.94
Issued	(8,597)	30.76
Transferred/Forfeited	(52)	32.81
Balance at 31 December 2015	**16,289**	
Granted	17,561	12.52
Issued	(5,516)	30.29
Transferred/Forfeited	-	-
Balance at 31 December 2016	**28,334**	**18.15**

In addition to the amounts shown in the table above, in April 2017 the Company granted awards of approximately 769 thousand units under the Group Equity Plan with an average grant date fair value of € 17.80 per unit.

NOTES TO THE ACCOUNTS
For the year ended 31 December 2016

12 EVENTS AFTER THE BALANCE SHEET DATE

IBOR settlement

On April 23, 2015, the Group entered into separate settlements with the U.S. Department of Justice (DOJ), the U.S. Commodity Futures Trading Commission (CFTC), the U.K. Financial Conduct Authority (FCA), and the New York State Department of Financial Services (NYSDFS) to resolve investigations into misconduct concerning the setting of LIBOR, EURIBOR, and TIBOR. Under the terms of these agreements, the Group agreed to pay penalties of U.S. $2.175 billion to the DOJ, CFTC and NYSDFS and GBP 226.8 million to the FCA.

As part of the resolution with the DOJ, the Group entered into a Deferred Prosecution Agreement with a three-year term pursuant to which it agreed (among other things) to the filing of a two-count criminal Information in the United States District Court for the District of Connecticut charging the Group with one count of wire fraud and one count of price-fixing, in violation of the Sherman Act. In addition, the Company entered into a Plea Agreement with the DOJ, pursuant to which the company pled guilty to a one-count criminal Information filed in the same court and charging the Company with wire fraud. In the Plea Agreement, the Company agreed to pay a fine of U.S. $150 million, which is included in the U.S. $2.175 billion total amount above. The DOJ and the Company further agreed that all or a portion of that fine may be paid by the Group on behalf of the Company, consistent with Group policy and practice. The Company was sentenced in the District of Connecticut on March 28, 2017, and the Judge imposed the agreed-upon fine of $150 million. The fine was paid by the Group on the Company's behalf on April 7, 2017.

IBOR civil actions

The Group is also a defendant in a large number of IBOR-related civil actions in the United States. The Company has been named as a defendant in three of these actions, each of which is a putative class action based on the alleged manipulation of a different benchmark interest rate: Sullivan v. Barclays plc, No. 13-cv-2811 (S.D.N.Y.) (Euribor); Sonterra Capital Master Fund Ltd. v. Credit Suisse Group AG, No. 15-cv-0871 (S.D.N.Y.) (CHF LIBOR); and Sonterra Capital Master Fund, Ltd., v. UBS AG, No. 15-cv-5844 (S.D.N.Y.) (Yen LIBOR and Euroyen TIBOR). The Company is also among the defendants listed in a proposed Third Amended Complaint filed by the plaintiffs in Metzler Investment GmbH v. Credit Suisse Group AG, No. 11-cv-2613 (S.D.N.Y.) (USD LIBOR Exchange-Based Action), an action filed on behalf of a putative class of persons who engaged in exchange-based trading of certain Eurodollar financial instruments and were allegedly harmed by manipulation of USD LIBOR. The court has now granted plaintiffs in Metzler leave to file a Third Amended Complaint including both the Group and the Company, although that complaint has not yet been officially filed.

On January 10, 2017, the Group entered into a preliminary agreement with plaintiffs to settle the Metzler putative class action (USD LIBOR Exchange-Based Action). The settlement agreement was executed on July 13, 2017. The settlement amount is already fully reflected in existing litigation reserves of the Group and no additional provisions have been taken for this settlement. The settlement agreement is subject to further documentation and approval by the court.

On January 24, 2017, the Group entered into a preliminary agreement with plaintiffs to settle the Yen LIBOR and Euroyen TIBOR putative class actions (Laydon v. Mizuho Bank, Ltd. and Sonterra Capital Master Fund Ltd. v. UBS AG). On July 21, 2017, the Group and plaintiffs executed a settlement agreement in the amount of U.S.$ 77 million and submitted the agreement to the court for preliminary approval. The court granted preliminary approval on August 3, 2017. The settlement agreement is subject to further review and final approval by the court. Under the terms of the settlement, the Group has paid U.S.$77 million, and is no longer reflecting that amount in its litigation reserves.

On January 24, 2017, the Group entered into a preliminary agreement with plaintiffs to settle the EURIBOR putative class action(Sullivan v. Barclays PLC). On May 10, 2017, Deutsche Bank and plaintiffs executed a settlement agreement in the amount of U.S.$ 170 million, which was submitted to the court for preliminary approval on June 12, 2017. The court granted preliminary approval on July 7, 2017. The settlement agreement is subject to further review and final approval by the court. Under the terms of the settlement, the Group has paid U.S.$170 million, and is no longer reflecting that amount in its litigation reserves.

The Directors of DBGS are of the view that, on the basis of intragroup arrangements between the Company and the Group and the fact that the Group is a co-defendant to these actions with the Company, the Group should ultimately bear any liability arising out of DBGS being named as a defendant in these civil actions.