STAGGS THOMAS O
Form 4
December 01, 2004

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

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(Print or Type Responses)

1. Name and Address of Reporting Person *
STAGGS THOMAS O

(Last) (First) (Middle)

500 SOUTH BUENA VISTA STREET

(Street)

BURBANK, CA 91521

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
WALT DISNEY CO/ [DIS]

3. Date of Earliest Transaction (Month/Day/Year)
11/29/2004

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Sr. EVP & Chief Finan. Officer

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Disney Common Stock	11/29/2004		A		127,556 (1)	A	$ 0	136,728	D	
Disney Common Stock	11/30/2004		F		45,602	D	$ 27.06	91,126	D	
Disney Common Stock								900 (2)	I	As Trustee
Disney Common								5,749.01 (3)	I	By 401(k)

Stock

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
STAGGS THOMAS O 500 SOUTH BUENA VISTA STREET BURBANK, CA 91521			Sr. EVP & Chief Finan. Officer	

Signatures

By: Joseph M. Santaniello (POA on file)	12/01/2004
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Awarded upon achievment of performance criteria for long-term incentive awards made during the Company's 2002 fiscal year as set forth in the table entitled 'Long-Term Incentive Awards--Awards in Last Fiscal Year' in the Company's proxy statement for its 2003 annual meeting of shareholders. Performance-based restricted stock units vested on November 30, 2004 and are payable in shares of Disney Common Stock within 30 days of such date. Includes dividend equivalents credited with respect to the award, pursuant to the terms thereof.

(2)

The reporting person is trustee of a Charitable Remainder Unitrust in which members of his family are beneficiaries. This report shall not be deemed an admission that the reporting person is the beneficial owner of such securities for purposes of Section 16 or for any other purpose.

(3) Shares held in The Walt Disney Company Stock Fund as of November 26, 2004. The fund is one investment option in the 401(k) Plan and contains Company matching contributions.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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> – 3,536 1,038 2,056 6,630 – Gross **26,902 307,963 41,294 112,414 461,671 33,079** Allowance for impairment losses **– (1,696) (458) (1,378) (3,532) –** Fair value adjustments **– (181) – Net balance sheet carrying value 26,902 457,958 33,079** At 31 December 2015 Neither past due nor impaired 25,006 302,063 38,886 100,001 440,950 33,174 Past due but not impaired 111 8,233 393 463 9,089 – Impaired – no provision required – 732 690 1,092 2,514 – – provision held – 3,269 911 2,896 7,076 – Gross 25,117 314,297 40,880 104,452 459,629 33,174 Allowance for impairment losses – (1,617) (448) (2,107) (4,172) – Fair value adjustments – (282) – Net balance sheet carrying value 25,117 455,175 33,174

The criteria that the Group uses to determine that there is objective evidence of an impairment loss are disclosed in note 2(H). Included in loans and receivables are advances which are individually determined to be impaired with a gross amount before impairment allowances of £2,870 million (31 December 2015: £4,406 million).

The table below sets out the reconciliation of the allowance for impairment losses of £2,412 million (2015: £3,033 million) shown in note 21 to the allowance for impairment losses on an underlying basis of £3,532 million (2015: £4,172 million) shown above:

	2016	2015
	£m	£m
Allowance for impairment losses on loans and advances to customers	**2,412**	3,033
HBOS allowance at 16 January 2009[1]	**11,147**	11,147
HBOS charge covered by fair value adjustments[2]	**12,236**	12,166
Amounts subsequently written off	**(22,699)**	(22,623)
	684	690
Foreign exchange and other movements	**436**	449
Allowance for impairment losses on loans and advances to customers on an underlying basis	**3,532**	4,172

1 Comprises an allowance held at 31 December 2008 of £10,693 million and a charge for the period from 1 January 2009 to 16 January 2009 of £454 million.

2 This represents the element of the charge on loans and advances to customers in HBOS's results that was included within the Group's fair value adjustments in respect of the acquisition of HBOS on 16 January 2009.)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 52: FINANCIAL RISK MANAGEMENT continued

LOANS AND ADVANCES WHICH ARE NEITHER PAST DUE NOR IMPAIRED

		Loans and advances to customers				
	Loans and advances to banks	**Retail – mortgages**	**Retail – other**	**Commercial**	**Total**	**Loans and advances designated at fair value through profit or loss**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
At 31 December 2016						
Good quality	**26,745**	**295,286**	**34,195**	**72,083**		**33,049**
Satisfactory quality	**87**	**814**	**4,479**	**30,433**		**30**
Lower quality	**3**	**39**	**387**	**6,433**		**–**
Below standard, but not impaired	**53**	**164**	**417**	**415**		**–**
Total loans and advances which are neither past due nor impaired	**26,888**	**296,303**	**39,478**	**109,364**	**445,145**	33,079
At 31 December 2015						
Good quality	24,670	301,403	33,589	63,453		33,156
Satisfactory quality	311	527	4,448	28,899		15
Lower quality	4	27	476	7,210		3
Below standard, but not impaired	21	106	373	439		–
Total loans and advances which are neither past due nor impaired	25,006	302,063	38,886	100,001	440,950	33,174

The definitions of good quality, satisfactory quality, lower quality and below standard, but not impaired applying to retail and commercial are not the same, reflecting the different characteristics of these exposures and the way they are managed internally, and consequently totals are not provided. Commercial lending has been classified using internal probability of default rating models mapped so that they are comparable to external credit ratings. Good quality lending comprises the lower assessed default probabilities, with other classifications reflecting progressively higher default risk. Classifications of retail lending incorporate expected recovery levels for mortgages, as well as probabilities of default assessed using internal rating models. Further information about the Group's internal probabilities of default rating models can be found on page 53.

LOANS AND ADVANCES WHICH ARE PAST DUE BUT NOT IMPAIRED

	Loans and advances to customers	Loans and

	Loans and advances to banks £m	Retail – mortgages £m	Retail – other £m	Commercial £m	Total £m	advances designated at fair value through profit or loss £m
At 31 December 2016						
0-30 days	14	3,547	285	157	3,989	–
30-60 days	–	1,573	75	37	1,685	–
60-90 days	–	985	2	74	1,061	–
90-180 days	–	1,235	6	14	1,255	–
Over 180 days	–	–	18	23	41	–
Total loans and advances which are past due but not impaired	14	7,340	386	305	8,031	–
At 31 December 2015						
0-30 days	111	4,066	276	248	4,590	–
30-60 days	–	1,732	81	100	1,913	–
60-90 days	–	1,065	9	52	1,126	–
90-180 days	–	1,370	8	19	1,397	–
Over 180 days	–	–	19	44	63	–
Total loans and advances which are past due but not impaired	111	8,233	393	463	9,089	–

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 52: FINANCIAL RISK MANAGEMENT continued

DEBT SECURITIES CLASSIFIED AS LOANS AND RECEIVABLES

An analysis by credit rating of the Group's debt securities classified as loans and receivables is provided below:

	2016			2015		
	Investment grade[1] £m	**Other[2] £m**	**Total £m**	Investment grade[1] £m	Other[2] £m	Total £m
Asset-backed securities:						
Mortgage-backed securities	**2,089**	**–**	**2,089**	2,528	–	2,528
Other asset-backed securities	**1,192**	**98**	**1,290**	1,140	94	1,234
	3,281	**98**	**3,379**	3,668	94	3,762
Corporate and other debt securities	**29**	**65**	**94**	417	109	526
Gross exposure	**3,310**	**163**	**3,473**	4,085	203	4,288
Allowance for impairment losses			**(76)**			(97)
Total debt securities classified as loans and receivables			**3,397**			4,191

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

2 Other comprises sub-investment grade (2016: £91 million; 2015: £87 million) and not rated (2016: £72 million; 2015: £116 million).

AVAILABLE-FOR-SALE FINANCIAL ASSETS (EXCLUDING EQUITY SHARES)

An analysis of the Group's available-for-sale financial assets is included in note 22. The credit quality of the Group's available-for-sale financial assets (excluding equity shares) is set out below:

	2016			2015		
	Investment grade[1] £m	**Other[2] £m**	**Total £m**	Investment grade[1] £m	Other[2] £m	Total £m

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

1 Credit ratings equal to or better than ‘BBB’.

2 Other comprises sub-investment grade (2016: £5 million; 2015: £4 million) and not rated (2016: £nil; 2015: £nil).
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 52: FINANCIAL RISK MANAGEMENT continued

DEBT SECURITIES, TREASURY AND OTHER BILLS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

An analysis of the Group's trading and other financial assets at fair value through profit or loss is included in note 15. The credit quality of the Group's debt securities, treasury and other bills held at fair value through profit or loss is set out below:

	2016 Investment grade[1] **£m**	**Other**[2] **£m**	**Total £m**	2015 Investment grade[1] £m	Other[2] £m	Total £m
Debt securities, treasury and other bills held at fair value through profit or loss						
Trading assets:						
Government securities	**11,828**	**–**	**11,828**	8,269	–	8,269
Asset-backed securities:						
Mortgage-backed securities	**47**	**–**	**47**	516	–	516
Other asset-backed securities	**69**	**–**	**69**	85	–	85
	116	**–**	**116**	601	–	601
Corporate and other debt securities	**221**	**3**	**224**	582	30	612
Total held as trading assets	**12,165**	**3**	**12,168**	9,452	30	9,482
Other assets held at fair value through profit or loss:						
Government securities	**14,904**	**–**	**14,904**	13,848	–	13,848
Other public sector securities	**1,318**	**7**	**1,325**	2,023	16	2,039
Bank and building society certificates of deposit	**244**	**–**	**244**	135	–	135
Asset-backed securities:						
Mortgage-backed securities	**633**	**27**	**660**	801	41	842
Other asset-backed securities	**1,178**	**291**	**1,469**	762	–	762
	1,811	**318**	**2,129**	1,563	41	1,604
Corporate and other debt securities	**17,445**	**2,163**	**19,608**	17,371	2,333	19,704
Total debt securities held at fair value through profit or loss	**35,722**	**2,488**	**38,210**	34,940	2,390	37,330
Treasury bills and other bills	**20**	**–**	**20**	74	–	74
Total other assets held at fair value through profit or loss	**35,742**	**2,488**	**38,230**	35,014	2,390	37,404
Total held at fair value through profit or loss	**47,907**	**2,491**	**50,398**	44,466	2,420	46,886

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

2 Other comprises sub-investment grade (2016: £485 million; 2015: £544 million) and not rated (2016: £2,006 million; 2015: £1,876 million).

Credit risk in respect of trading and other financial assets at fair value through profit or loss held 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 52: FINANCIAL RISK MANAGEMENT continued

DERIVATIVE ASSETS

An analysis of derivative assets is given in note 16. The Group reduces exposure to credit risk by using master netting agreements and by obtaining collateral in the form of cash or highly liquid securities. In respect of the Group's net credit risk relating to derivative assets of £17,599 million (2015: £10,001 million), cash collateral of £6,472 million (2015: £3,228 million) was held and a further £613 million was due from OECD banks (2015: £94 million).

	2016			2015		
	Investment grade[1] £m	**Other[2] £m**	**Total £m**	Investment grade[1] £m	Other[2] £m	Total £m
Trading and other	**31,373**	**2,053**	**33,426**	24,764	2,017	26,781
Hedging	**2,664**	**48**	**2,712**	2,653	33	2,686
Total derivative financial instruments	**34,037**	**2,101**	**36,138**	27,417	2,050	29,467

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

2 Other comprises sub-investment grade (2016: £1,830 million; 2015: £1,418 million) and not rated (2016: £271 million; 2015: £632 million).

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.

D. COLLATERAL HELD AS SECURITY FOR FINANCIAL ASSETS

A general description of collateral held as security in respect of financial instruments is provided on page 55. 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 disclosures below are produced under the underlying basis used for the Group's segmental reporting. The Group believes that, for reporting periods following a significant acquisition, such as the acquisition of HBOS in 2009, this underlying basis, which includes the allowance for loan losses at the acquisition on a gross basis, more fairly reflects the underlying provisioning status of the loans.

The Group holds collateral in respect of loans and advances to banks and customers as set out below. The Group does not hold collateral against debt securities, comprising asset-backed securities and corporate and other debt securities, which are classified as loans and receivables.

LOANS AND ADVANCES TO BANKS

There were reverse repurchase agreements which are accounted for as collateralised loans within loans and advances to banks with a carrying value of £902 million (2015: £963 million), against which the Group held collateral with a fair value of £785 million (2015: £1,009 million).

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

LOANS AND ADVANCES TO CUSTOMERS

RETAIL LENDING

MORTGAGES

An analysis by loan-to-value ratio of the Group's residential mortgage lending is provided below. The value of collateral used in determining the loan-to-value ratios has been estimated based upon the last actual valuation, adjusted to take into account subsequent movements in house prices, after making allowance for indexation error and dilapidations.

	2016				2015			
	Neither past due nor impaired £m	**Past due but not impaired £m**	**Impaired £m**	**Gross £m**	Neither past due nor impaired £m	Past due but not impaired £m	Impaired £m	Gross £m
Less than 70 per cent	**220,497**	**5,288**	**2,334**	**228,119**	211,631	4,907	1,965	218,503
70 per cent to 80 per cent	**39,789**	**1,004**	**648**	**41,441**	45,764	1,350	671	47,785
80 per cent to 90 per cent	**23,589**	**621**	**495**	**24,705**	27,529	935	528	28,992
90 per cent to 100 per cent	**7,983**	**223**	**355**	**8,561**	10,908	610	247	11,765
Greater than 100 per cent	**4,445**	**204**	**488**	**5,137**	6,231	431	590	7,252
Total	**296,303**	**7,340**	**4,320**	**307,963**	302,063	8,233	4,001	314,297

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 52: FINANCIAL RISK MANAGEMENT continued

OTHER

The majority of non-mortgage retail lending is unsecured. At 31 December 2016, impaired non-mortgage lending amounted to £972 million, net of an impairment allowance of £458 million (2015: £1,153 million, net of an impairment allowance of £448 million). The fair value of the collateral held in respect of this lending was £139 million (2015: £107 million). In determining the fair value of collateral, no specific amounts have been attributed to the costs of realisation and the value of collateral for each loan has been limited to the principal amount of the outstanding advance in order to eliminate the effects of any over-collateralisation and to provide a clearer representation of the Group's exposure.

Unimpaired non-mortgage retail lending amounted to £39,864 million (2015: £39,279 million). Lending decisions are predominantly based on an obligor's ability to repay from normal business operations rather than reliance on the disposal of any security provided. Collateral values are rigorously assessed at the time of loan origination and are thereafter monitored in accordance with business unit credit policy.

The Group credit risk disclosures for unimpaired non-mortgage retail lending report assets gross of collateral and therefore disclose the maximum loss exposure. The Group believes that this approach is appropriate. The value of collateral is reassessed if there is observable evidence of distress of the borrower. Unimpaired non-mortgage retail lending, including any associated collateral, is managed on a customer-by-customer basis rather than a portfolio basis. No aggregated collateral information for the entire unimpaired non-mortgage retail lending portfolio is provided to key management personnel.

COMMERCIAL LENDING

REVERSE REPURCHASE TRANSACTIONS

At 31 December 2016 there were reverse repurchase agreements which were accounted for as collateralised loans with a carrying value of £8,304 million (2015: £nil), against which the Group held collateral with a fair value of £7,490 million (2015: £nil), all of which the Group was able to repledge. Included in these amounts were collateral balances in the form of cash provided in respect of reverse repurchase agreements of £8 million (2015: £nil). 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.

At 31 December 2016, impaired secured commercial lending amounted to £204 million, net of an impairment allowance of £401 million (2015: £1,245 million, net of an impairment allowance of £577 million). The fair value of the collateral held in respect of impaired secured commercial lending was £1,160 million (2015: £1,367 million). In determining the fair value of collateral, no specific amounts have been attributed to the costs of realisation. For the purposes of determining the total collateral held by the Group in respect of impaired secured commercial lending, the value of collateral for each loan has been limited to the principal amount of the outstanding advance in order to eliminate the effects of any over-collateralisation and to provide a clearer representation of the Group’s exposure.

Impaired secured commercial lending and associated collateral relates to lending to property companies and to customers in the financial, business and other services; transport, distribution and hotels; and construction industries.

UNIMPAIRED SECURED LENDING

Unimpaired secured commercial lending amounted to £36,275 million (2015: £51,298 million).

For unimpaired secured commercial lending, the Group reports assets gross of collateral and therefore discloses the maximum loss exposure. The Group believes that this approach is appropriate as collateral values at origination and during a period of good performance may not be representative of the value of collateral if the obligor enters a distressed state.

Unimpaired secured commercial lending is predominantly managed on a cash flow basis. On occasion, it may include an assessment of underlying collateral, although, for impaired lending, this will not always involve assessing it on a fair value basis. No aggregated collateral information for the entire unimpaired secured commercial lending portfolio is provided to key management personnel.

TRADING AND OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (EXCLUDING EQUITY SHARES)

Included in trading and other financial assets at fair value through profit or loss are reverse repurchase agreements treated as collateralised loans with a carrying value of £33,079 million (2015: £33,174 million). Collateral is held with a fair value of £30,850 million (2015: £36,493 million), all of which the Group is able to repledge. At 31 December 2016, £27,303 million had been repledged (2015: £15,438 million).

In addition, securities held as collateral in the form of stock borrowed amounted to £47,816 million (2015: £58,621 million). Of this amount, £16,204 million (2015: £29,859 million) had been resold or repledged as collateral for the Group’s own transactions.

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

DERIVATIVE ASSETS, AFTER OFFSETTING OF AMOUNTS UNDER MASTER NETTING ARRANGEMENTS

The Group reduces exposure to credit risk by using master netting agreements and by obtaining collateral in the form of cash or highly liquid securities. In respect of the net derivative assets after offsetting of amounts under master netting arrangements of £17,599 million (2015: £10,001 million), cash collateral of £6,472 million (2015: £3,228 million) was held.

IRREVOCABLE LOAN COMMITMENTS AND OTHER CREDIT-RELATED CONTINGENCIES

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 52: FINANCIAL RISK MANAGEMENT continued

COLLATERAL REPOSSESSED

During the year, £241 million of collateral was repossessed (2015: £203 million), consisting primarily of residential property.

In respect of retail portfolios, the Group does not take physical possession of properties or other assets held as collateral and uses external agents to realise the value as soon as practicable, generally at auction, to settle indebtedness. Any surplus funds are returned to the borrower or are otherwise dealt with in accordance with appropriate insolvency regulations. In certain circumstances the Group takes physical possession of assets held as collateral against commercial lending. In such cases, the assets are carried on the Group’s balance sheet and are classified according to the Group’s accounting policies.

E. Collateral pledged as security

The Group pledges assets primarily for repurchase agreements and securities lending transactions which are generally conducted under terms that are usual and customary for standard securitised borrowing contracts.

REPURCHASE TRANSACTIONS

DEPOSITS FROM BANKS

Included in deposits from banks are deposits held as collateral for facilities granted, with a carrying value of £7,279 million (2015: £7,061 million) and a fair value of £8,395 million (2015: £6,707 million).

CUSTOMER DEPOSITS

Customer deposits included deposits held as collateral for facilities granted with a carrying value of £2,462 million (2015: £nil) and a fair value of £2,277 million (2015: £nil). No collateral balances in the form of cash were provided in respect of repurchase agreements (2015: £5 million).

TRADING AND OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The fair value of collateral pledged in respect of repurchase transactions, accounted for as secured borrowing, where the secured party is permitted by contract or custom to repledge was £45,702 million (2015: £44,655 million).

SECURITIES LENDING TRANSACTIONS

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

	2016	2015
	£m	£m
Trading and other financial assets at fair value through profit or loss	**6,991**	6,478
Loans and advances to customers	**583**	1,491
Available-for-sale financial assets	**3,206**	4,247
	10,780	12,216

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 19 and 20.

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 52: FINANCIAL RISK MANAGEMENT continued

The table below analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining contractual 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.

MATURITIES OF ASSETS AND LIABILITIES

	Up to 1 month £m	**1-3 months £m**	**3-6 months £m**	**6-9 months £m**	**9-12 months £m**	**1-2 years £m**	**2-5 years £m**	**Over 5 years £m**	**Total £m**
At 31 December 2016									
Assets									
Cash and balances at central banks	**47,446**	**2**	**4**	**–**	**–**	**–**	**–**	**–**	**47,452**
Trading and other financial assets at fair value through profit or loss	**20,168**	**14,903**	**7,387**	**2,914**	**817**	**1,680**	**6,011**	**97,294**	**151,174**
Derivative financial instruments	**956**	**1,700**	**1,393**	**786**	**651**	**2,230**	**4,165**	**24,257**	**36,138**
Loans and advances to banks	**9,801**	**6,049**	**3,894**	**1,201**	**867**	**1,281**	**3,692**	**117**	**26,902**
Loans and advances to customers	**20,179**	**10,651**	**14,235**	**12,400**	**10,773**	**26,007**	**69,300**	**294,413**	**457,958**
Debt securities held as loans and receivables	**8**	**–**	**–**	**242**	**–**	**–**	**34**	**3,113**	**3,397**
Available-for-sale financial assets	**127**	**259**	**73**	**637**	**222**	**1,887**	**16,080**	**37,239**	**56,524**
Other assets	**5,025**	**583**	**584**	**1,560**	**1,059**	**1,846**	**4,808**	**22,783**	**38,248**
Total assets	**103,710**	**34,147**	**27,570**	**19,740**	**14,389**	**34,931**	**104,090**	**479,216**	**817,793**
Liabilities									
Deposits from banks	**3,772**	**2,779**	**1,062**	**503**	**13**	**43**	**7,859**	**353**	**16,384**
Customer deposits	**347,753**	**18,936**	**8,961**	**10,482**	**8,477**	**13,859**	**6,430**	**562**	**415,460**
Derivative financial instruments, trading and other financial liabilities at fair value through profit or loss	**18,381**	**19,640**	**8,779**	**1,696**	**1,179**	**3,843**	**5,575**	**30,335**	**89,428**
Debt securities in issue	**4,065**	**8,328**	**6,433**	**4,158**	**1,224**	**6,939**	**25,020**	**20,147**	**76,314**
Liabilities arising from insurance and investment contracts	**1,583**	**2,190**	**2,737**	**2,463**	**2,377**	**8,588**	**19,971**	**74,593**	**114,502**

Other liabilities	**3,282**	**2,266**	**1,213**	**2,164**	**1,440**	**413**	**3,087**	**23,544**	**37,409**
Subordinated liabilities	**–**	**390**	**161**	**393**	**–**	**1,750**	**4,527**	**12,610**	**19,831**
Total liabilities	**378,836**	**54,529**	**29,346**	**21,859**	**14,710**	**35,435**	**72,469**	**162,144**	**769,328**
At 31 December 2015									
Assets									
Cash and balances at central banks	58,411	2	4	–	–	–	–	–	58,417
Trading and other financial assets at fair value through profit or loss	25,696	12,877	6,526	3,008	680	1,495	6,411	83,843	140,536
Derivative financial instruments	1,226	1,257	841	585	607	1,480	3,889	19,582	29,467
Loans and advances to banks	9,802	4,676	4,157	915	1,095	1,784	2,076	612	25,117
Loans and advances to customers	19,392	6,351	11,864	8,318	11,426	28,061	68,685	301,078	455,175
Debt securities held as loans and receivables	9	–	–	1	98	208	28	3,847	4,191
Available-for-sale financial assets	109	269	56	535	120	1,000	7,178	23,765	33,032
Held-to-maturity investments	–	–	–	–	–	297	3,357	16,154	19,808
Other assets	4,620	1,068	884	1,589	1,421	2,204	9,561	19,598	40,945
Total assets	119,265	26,500	24,332	14,951	15,447	36,529	101,185	468,479	806,688
Liabilities									
Deposits from banks	6,586	1,076	5,958	42	132	22	2,543	566	16,925
Customer deposits	340,445	20,365	13,758	10,584	9,277	15,927	6,742	1,228	418,326
Derivative financial instruments, trading and other financial liabilities at fair value through profit or loss	24,326	14,191	5,070	1,625	806	4,020	5,135	22,991	78,164
Debt securities in issue	5,822	7,273	5,556	4,757	1,661	11,697	21,984	23,306	82,056
Liabilities arising from insurance and investment contracts	1,580	1,558	2,279	2,066	2,269	7,817	20,674	64,828	103,071
Other liabilities	4,240	2,800	449	2,326	1,906	634	5,079	20,420	37,854
Subordinated liabilities	269	307	329	466	2,083	648	9,321	9,889	23,312
Total liabilities	383,268	47,570	33,399	21,866	18,134	40,765	71,478	143,228	759,708

The above tables are provided on a contractual basis. The Group’s assets and liabilities may be repaid or otherwise mature earlier or later than implied by their contractual terms and readers are, therefore, advised to use caution when using this data to evaluate the Group’s liquidity position. In particular, amounts in respect of customer deposits are usually contractually payable on demand or at short notice. However, in practice, these deposits are not usually withdrawn on their contractual maturity.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 52: FINANCIAL RISK MANAGEMENT continued

The table below analyses financial instrument liabilities of the Group, 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.

	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 2016						
Deposits from banks	3,686	4,154	1,541	5,883	1,203	16,467
Customer deposits	347,573	19,151	28,248	20,789	1,294	417,055
Trading and other financial liabilities at fair value through profit or loss	14,390	19,718	11,845	1,938	13,513	61,404
Debt securities in issue	7,590	8,721	12,533	36,386	17,635	82,865
Liabilities arising from non-participating investment contracts	20,112	–	–	–	–	20,112
Subordinated liabilities	41	674	1,289	9,279	18,542	29,825
Total non-derivative financial liabilities	393,392	52,418	55,456	74,275	52,187	627,728
Derivative financial liabilities:						
Gross settled derivatives – outflows	33,128	24,088	25,366	52,925	36,462	171,969
Gross settled derivatives – inflows	(31,359)	(22,401)	(23,510)	(49,239)	(32,382)	(158,891)
Gross settled derivatives – net flows	1,769	1,687	1,856	3,686	4,080	13,078
Net settled derivatives liabilities	21,669	117	620	1,167	3,020	26,593
Total derivative financial liabilities	23,438	1,804	2,476	4,853	7,100	39,671
At 31 December 2015						
Deposits from banks	6,673	1,143	6,156	2,785	400	17,157
Customer deposits	339,387	21,234	34,012	23,932	312	418,877
Trading and other financial liabilities at fair value through profit or loss	15,055	15,465	5,365	5,897	10,662	52,444
Debt securities in issue	7,526	9,131	18,467	34,515	24,540	94,179
Liabilities arising from non-participating investment contracts	22,777	–	–	–	–	22,777
Subordinated liabilities	522	366	4,132	13,238	20,476	38,734
Total non-derivative financial liabilities	391,940	47,339	68,132	80,367	56,390	644,168
Derivative financial liabilities:						
Gross settled derivatives – outflows	31,932	28,059	27,510	29,962	28,508	145,971
Gross settled derivatives – inflows	(30,432)	(26,967)	(26,337)	(27,883)	(26,521)	(138,140)
Gross settled derivatives – net flows	1,500	1,092	1,173	2,079	1,987	7,831
Net settled derivatives liabilities	16,600	115	321	953	2,587	20,576
Total derivative financial liabilities	18,100	1,207	1,494	3,032	4,574	28,407

The Group’s financial guarantee contracts are accounted for as financial instruments and measured at fair value, upon initial recognition, on the balance sheet. The majority of the Group’s financial guarantee contracts are callable on demand, were the guaranteed party to fail to meet its obligations. It is, however, expected that most guarantees will expire unused. The contractual nominal amounts of these guarantees totalled £6,883 million at 31 December 2016 (2015: £7,165 million) with £3,815 million expiring within one year; £667 million between one and three years; £1,334 million between three and five years; and £1,067 million over five years (2015: £4,014 million expiring within one year; £942 million between one and three years; £1,182 million between three and five years; and £1,027 million over five years).

The majority of the Group’s non-participating investment contract liabilities are unit-linked. These unit-linked products are invested in accordance with unit fund mandates. Clauses are included in policyholder contracts to permit the deferral of sales, where necessary, so that linked assets can be realised without being a forced seller.

The principal amount for undated subordinated liabilities with no redemption option is included within the over five years column; interest of approximately £23 million (2015: £39 million) per annum which is payable in respect of those instruments for as long as they remain in issue is not included beyond five years.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 52: FINANCIAL RISK MANAGEMENT continued

Further information on the Group's liquidity exposures is provided on pages 95 to 98.

Liabilities 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	1-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
At 31 December 2016	1,283	1,836	6,266	23,425	61,580	94,390
At 31 December 2015	1,477	1,081	4,745	10,444	62,547	80,294

For insurance and participating investment contracts which are neither unit-linked nor in the Group's with-profit funds, in particular annuity liabilities, the aim is to invest in assets such that the cash flows on investments match those on the projected future liabilities.

The following tables set out the amounts and residual maturities of the Group's off balance sheet contingent liabilities and commitments.

	Up to 1 month £m	1-3 months £m	3-6 months £m	6-9 months £m	9-12 months £m	1-3 years £m	3-5 years £m	Over 5 years £m	Total £m
At 31 December 2016									
Acceptances and endorsements	13	6	–	–	1	1	–	–	21
Other contingent liabilities	427	782	163	153	122	466	280	623	3,016
Total contingent liabilities	440	788	163	153	123	467	280	623	3,037
Lending commitments	48,210	3,546	5,276	4,783	11,628	17,212	18,775	4,090	113,520
Other commitments	–	3	–	41	1	79	122	402	648
Total commitments	48,210	3,549	5,276	4,824	11,629	17,291	18,897	4,492	114,168

	Up to 1 month £m	1-3 months £m	3-6 months £m	6-9 months £m	9-12 months £m	1-3 years £m	3-5 years £m	Over 5 years £m	Total £m
Total contingents and commitments	48,650	4,337	5,439	4,977	11,752	17,758	19,177	5,115	117,205
At 31 December 2015									
Acceptances and endorsements	16	34	–	–	–	1	1	–	52
Other contingent liabilities	331	441	433	116	142	365	107	646	2,581
Total contingent liabilities	347	475	433	116	142	366	108	646	2,633
Lending commitments	46,443	1,989	4,444	3,276	11,575	18,803	19,234	6,731	112,495
Other commitments	–	–	2	31	5	4	83	296	421
Total commitments	46,443	1,989	4,446	3,307	11,580	18,807	19,317	7,027	112,916
Total contingents and commitments	46,790	2,464	4,879	3,423	11,722	19,173	19,425	7,673	115,549

NOTE 53: CONSOLIDATED CASH FLOW STATEMENT

(A) Change in operating assets

	2016 £m	2015 £m	2014 £m
Change in loans and receivables	710	6,081	12,852
Change in derivative financial instruments, trading and other financial assets at fair value through profit or loss	(13,889)	20,689	(11,767)
Change in other operating assets	961	7,930	(1,957)
Change in operating assets	(12,218)	34,700	(872)

(B) Change in operating liabilities

	2016 £m	2015 £m	2014 £m
Change in deposits from banks	(654)	6,107	(3,029)
Change in customer deposits	(3,690)	(4,252)	7,745
Change in debt securities in issue	(6,552)	5,657	(11,089)
Change in derivative financial instruments, trading and other liabilities at fair value through profit or loss	11,265	(16,924)	24,020
Change in investment contract liabilities	(2,665)	(3,922)	(342)
Change in other operating liabilities	(363)	1,349	(5,313)
Change in operating liabilities	(2,659)	(11,985)	11,992

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 53: CONSOLIDATED CASH FLOW STATEMENT continued

(C) Non-cash and other items

	2016	2015	2014
	£m	£m	£m
Depreciation and amortisation	2,380	2,112	1,935
Revaluation of investment properties	83	(416)	(513)
Allowance for loan losses	592	441	737
Write-off of allowance for loan losses, net of recoveries	(1,272)	(3,467)	(5,761)
Impairment of available-for-sale financial assets	173	4	2
Change in insurance contract liabilities	14,084	(2,856)	4,070
Payment protection insurance provision	1,350	4,000	2,200
Other regulatory provisions	1,085	837	925
Other provision movements	(40)	337	222
Net charge (credit) in respect of defined benefit schemes	287	315	(478)
Impact of consolidation and deconsolidation of OEICs[1]	(3,157)	(5,978)	(5,277)
Unwind of discount on impairment allowances	(32)	(56)	(126)
Foreign exchange impact on balance sheet[2]	(155)	507	770
Loss on ECN transactions	721	–	1,336
Interest expense on subordinated liabilities	1,864	1,970	2,374
Loss (profit) on disposal of businesses	–	46	(208)
Net gain on sale of available-for-sale financial assets	(575)	(51)	(131)
Hedging valuation adjustments on subordinated debt	153	(162)	559
Value of employee services	309	279	340
Transactions in own shares	(175)	(816)	(286)
Accretion of discounts and amortisation of premiums and issue costs	465	339	122
Share of post-tax results of associates and joint ventures	1	3	(32)
Transfers to income statement from reserves	(557)	(956)	(1,153)
Profit on disposal of tangible fixed assets	(93)	(51)	(44)
Other non-cash items	(17)	(11)	(8)
Total non-cash items	17,474	(3,630)	1,575
Contributions to defined benefit schemes	(630)	(433)	(538)
Payments in respect of payment protection insurance provision	(2,200)	(3,091)	(2,458)
Payments in respect of other regulatory provisions	(761)	(661)	(1,104)
Other	2	7	29
Total other items	(3,589)	(4,178)	(4,071)
Non-cash and other items	13,885	(7,808)	(2,496)

1 These OEICs (Open-ended investment companies) are mutual funds which are consolidated if the Group manages the funds and also has a sufficient beneficial interest. The population of OEICs to be consolidated varies at each reporting date as external investors acquire and divest holdings in the various funds. The consolidation of these funds is effected by the inclusion of the fund investments and a matching liability to the unitholders; 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 involved the exchange of existing securities for new issues and as a result there was no related cash flow.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 53: CONSOLIDATED CASH FLOW STATEMENT continued

(D) Analysis of cash and cash equivalents as shown in the balance sheet

	2016 £m	2015 £m	2014 £m
Cash and balances at central banks	47,452	58,417	50,492
Less: mandatory reserve deposits[1]	(914)	(941)	(980)
	46,538	57,476	49,512
Loans and advances to banks	26,902	25,117	26,155
Less: amounts with a maturity of three months or more	(11,052)	(10,640)	(10,520)
	15,850	14,477	15,635
Total cash and cash equivalents	62,388	71,953	65,147

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 at 31 December 2016 is £14,475 million (2015: £13,545 million; 2014: £12,855 million) held within the Group's long-term insurance and investments businesses, which is not immediately available for use in the business.

(E) Disposal and closure of group undertakings and businesses

	2016 £m	2015 £m	2014 £m
Trading and other assets at fair value through profit or loss	–	3,420	11
Loans and advances to customers	–	21,333	256
Loans and advances to banks	–	5,539	55
Available-for-sale financial assets	–	654	–
Value of in-force business	–	60	–
Property, plant and equipment	–	150	–
	–	31,156	322
Customer deposits	–	(24,613)	(266)
Debt securities in issue	–	(9)	–
Liabilities arising from insurance contracts and participating investment contracts	–	(3,828)	–
Liabilities arising from non-participating investment contracts	–	(549)	–

Non-controlling interests	–	(825)	–
Other net assets (liabilities)	5	(314)	802
	5	(30,138)	536
Net assets	5	1,018	858
Non-cash consideration received	–	–	(518)
(Loss) profit on sale	–	(46)	208
Cash consideration received on losing control of group undertakings and businesses	5	972	548
Cash and cash equivalents disposed	–	(5,043)	(5)
Net cash inflow (outflow)	5	(4,071)	543

NOTE 54: ACQUISITION OF MBNA LIMITED

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

NOTE 55: EVENTS SINCE THE BALANCE SHEET DATE

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 56: FUTURE ACCOUNTING DEVELOPMENTS

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

IFRS 9 FINANCIAL INSTRUMENTS

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

CLASSIFICATION AND MEASUREMENT

IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income or amortised cost. Financial assets will be measured at amortised cost if they are held within a business model the objective of which is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest. Financial assets will be measured at fair value through other comprehensive income if they are held within a business model the objective of which is achieved by both collecting contractual cash flows and selling financial assets and their contractual cash flows represent solely payments of principal and interest. Financial assets not meeting either of these two business models; and all equity instruments (unless designated at inception to fair value through other comprehensive income); and all derivatives are measured at fair value through profit or loss. An entity may, at initial recognition, designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

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

IFRS 9 retains most of the existing requirements for financial liabilities. However, for financial liabilities designated at fair value through profit or loss, gains or losses attributable to changes in own credit risk may be presented in other comprehensive income. It is expected that the Group will elect to early adopt this presentation of gains and losses on financial liabilities from 1 January 2017. These gains and losses are currently recognised in profit or loss and are disclosed in note 30 to the financial statements.

IMPAIRMENT OVERVIEW

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

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

The ECL model has three stages. Entities are required to recognise a 12 month expected loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk since initial recognition (stage 2). Stage 3 requires objective evidence that an asset is credit-impaired, which is similar to the guidance on incurred losses in IAS 39.

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

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

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

IFRS 9 IMPAIRMENT MODELS

For all material portfolios, IFRS 9 ECL calculation will leverage the systems, data and methodology used to calculate regulatory 'expected losses'. The Group anticipates the definition of default for IFRS 9 purposes will be aligned to the Basel definition of default to ensure consistency across the Group. However, the IFRS 9 ECL models differ from the regulatory models in a number of ways, for example stage 2 assets under IFRS 9 carry a lifetime expected loss amount whereas regulatory models generate 12 month expected losses for non-defaulted loans.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 56: FUTURE ACCOUNTING DEVELOPMENTS continued

Component	Regulatory capital	IFRS 9
EAD	– Anticipates additional drawings made by customers who are yet to default – Downturn EAD, appropriate to a severe but plausible economic downturn	– Maximum exposure is the contractual amount except for certain revolving facilities (as defined by the standard) – Forward looking EAD
PD	–I2 month PD – Through-the-cycle using long run average economic and risk data to reduce sensitivity to changes in the economic cycle – Default defined as 90 days past due, except 180 days past due definition for certain mortgage portfolios secured by UK residential real estate, plus unlikeliness to pay factors	– Forward-looking 12 month PD or lifetime PD, considering a range of possible outcomes – Point-in-time, sensitive to changes in the economic cycle – No explicit definition of default – Rebuttable presumption that default does not occur later than when a financial asset is 90 days past due
LGD	– Downturn LGD, appropriate to a severe by plausible economic downturn – Subject to floors, to mitigate the risk of underestimating credit losses due to a lack of historical data – Discount cash flows to take account of the uncertainties associated with the receipt of recoveries with respect to a defaulted exposure	– Forward looking LGD – No floors prescribed – Discount rate is effective interest rate as defined by IFRS 9

IMPACT OF IFRS 9 ON THE GROUP

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

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

HEDGE ACCOUNTING

The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle-based approach than IAS 39. The standard does not address macro hedge accounting, which is being considered in a separate IASB project. There is an option to maintain the existing IAS 39 hedge accounting rules until the IASB completes its project on macro hedging. The Group currently expects to continue applying IAS 39 hedge accounting in accordance with this accounting policy choice.

IFRS 9 IMPLEMENTATION PROGRAMME

The Group has an established IFRS 9 programme to ensure a high quality implementation in compliance with the standard and additional regulatory guidance that has been issued. The programme involves Finance and Risk functions across the Group with Divisional and Group steering committees providing oversight. The key responsibilities of the programme include defining IFRS 9 methodology and accounting policy, development of ECL models, identifying data and system requirements, and establishing an appropriate operating model and governance framework. The programme is progressing in line with current delivery plans.

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

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

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts. Financial instruments, leases and insurance contracts are out of scope however, fee recognition associated with credit cards and packaged products, for example, will need to be reviewed. The standard is not currently expected to have a significant impact on the Group's profitability. Limited, or no systems or process impacts are expected as a result of adopting IFRS 15. IFRS 15 is effective for annual periods beginning on or after 1 January 2018.

IFRS 16 LEASES

IFRS 16 replaces IAS 17 Leases and requires lessees to recognise a right of use asset and a liability for future payments arising from a lease contract. Lessees will recognise a finance charge on the liability and a depreciation charge on the asset which could affect the timing of the recognition of expenses on leased assets. This change will mainly impact the properties that the Group currently accounts for as operating leases. Finance systems will need to be changed to reflect the new accounting rules and disclosures. Lessor accounting requirements remain aligned to the current approach under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019.

MINOR AMENDMENTS TO OTHER ACCOUNTING STANDARDS

During 2016, the IASB has issued amendments to IAS 7 Statement of Cash Flows (which require additional disclosure about an entity's financing activities) and IAS 12 Income Taxes (which clarify when a deferred tax asset should be recognised for unrealised losses) together with a number of other minor amendments to IFRSs, which will be effective for annual periods beginning on or after either 1 January 2017 or 1 January 2018. These revised requirements are not expected to have a significant impact on the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 57: PARENT COMPANY DISCLOSURES

A COMPANY INCOME STATEMENT

	2016	2015	2014
	£ million	£ million	£ million
Net interest income	**66**	276	255
Other income	**3,618**	983	283
Total income	**3,684**	1,259	538
Operating expenses	**(221)**	(290)	(265)
Profit on ordinary activities before tax	**3,463**	969	273
Taxation	**(328)**	(72)	106
Profit for the year	**3,135**	897	379
Profit attributable to ordinary shareholders	**2,723**	503	92
Profit attributable to other equity holders	**412**	394	287
Profit for the year	**3,135**	897	379

B COMPANY BALANCE SHEET

	2016	2015[1]
	£ million	£ million
Assets		
Non-current assets:		
Investment in subsidiaries	**44,188**	40,785
Loans to subsidiaries	**6,912**	14,548
Deferred tax assets	**38**	51
	51,138	55,384
Current assets:		
Derivative financial instruments	**461**	590
Other assets	**959**	909
Amounts due from subsidiaries	**67**	67
Cash and cash equivalents	**42**	24
Current tax recoverable	**465**	32
	1,994	1,622
Total assets	**53,132**	57,006
Equity and liabilities		
Capital and reserves:		
Share capital	**7,146**	7,146
Share premium account	**17,622**	17,412
Merger reserve	**7,423**	7,633
Capital redemption reserve	**4,115**	4,115
Retained profits	**1,584**	785
Shareholders' equity	**37,890**	37,091

Other equity instruments	**5,355**	5,355
Total equity	**43,245**	42,446
Non-current liabilities:		
Debt securities in issue	**2,455**	–
Subordinated liabilities	**4,329**	3,065
	6,784	3,065
Current liabilities:		
Current tax liabilities	**–**	–
Other liabilities	**3,103**	11,495
	3,103	11,495
Total liabilities	**9,887**	14,560
Total equity and liabilities	**53,132**	57,006

1 During 2016 the Company has reviewed the treatment of certain holdings of preference shares issued by its subsidiary, Lloyds Bank plc. As a result loans to subsidiaries and other liabilities have been increased by £585 million; comparatives have been restated accordingly.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 57: PARENT COMPANY DISCLOSURES continued

C COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital and premium £ million	Merger reserve £ million	Capital redemption reserve £ million	Retained profits[1] £ million	Total shareholders' equity £ million	Other equity instruments £ million	Total equity £ million
Balance at 1 January 2014	24,424	7,764	4,115	1,414	37,717	–	37,717
Total comprehensive income[1]	–	–	–	379	379	–	379
Distributions on other equity instruments, net of tax	–	–	–	(225)	(225)	–	(225)
Issue of ordinary shares	3	–	–	–	3	–	3
Issue of other equity instruments	–	–	–	(21)	(21)	5,355	5,334
Movement in treasury shares	–	–	–	(182)	(182)	–	(182)
Value of employee services:							
Share option schemes, net of tax	–	–	–	122	122	–	122
Other employee award schemes	–	–	–	233	233	–	233
Balance at 31 December 2014	24,427	7,764	4,115	1,720	38,026	5,355	43,381
Total comprehensive income[1]	–	–	–	897	897	–	897
Dividends paid	–	–	–	(1,070)	(1,070)	–	(1,070)
Distributions on other equity instruments, net of tax	–	–	–	(314)	(314)	–	(314)
Redemption of preference shares	131	(131)	–	–	–	–	–
Movement in treasury shares	–	–	–	(753)	(753)	–	(753)
Value of employee services:							
Share option schemes	–	–	–	133	133	–	133
	–	–	–	172	172	–	172

Other employee award schemes							
Balance at 31 December 2015	24,558	7,633	4,115	785	37,091	5,355	42,446
Total comprehensive income[1]	–	–	–	3,135	3,135	–	3,135
Dividends paid	–	–	–	(2,014)	(2,014)	–	(2,014)
Distributions on other equity instruments, net of tax	–	–	–	(330)	(330)	–	(330)
Redemption of preference shares	210	(210)	–	–	–	–	–
Movement in treasury shares	–	–	–	(301)	(301)	–	(301)
Value of employee services:							
Share option schemes	–	–	–	141	141	–	141
Other employee award schemes	–	–	–	168	168	–	168
Balance at 31 December 2016	24,768	7,423	4,115	1,584	37,890	5,355	43,245

1 Total comprehensive income comprises only the profit (loss) for the year.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 57: PARENT COMPANY DISCLOSURES continued

D COMPANY CASH FLOW STATEMENT

	2016 £ million	2015[1] £ million	2014 £ million
Profit (loss) before tax	3,463	969	273
Fair value and exchange adjustments and other non-cash items	2,482	(594)	1,118
Change in other assets	(50)	(566)	558
Change in other liabilities and other items	(8,392)	458	(4,242)
Dividends received	(3,759)	(1,080)	(720)
Distributions on other equity instruments received	(119)	–	–
Tax (paid) received	(679)	(142)	301
Net cash provided by (used in) operating activities	(7,054)	(955)	(2,712)
Cash flows from investing activities			
Return of capital contribution	441	600	198
Dividends received	3,759	1,080	720
Distributions on other equity instruments received	119	–	–
Capital injection to Lloyds Bank plc	(3,522)	–	–
Amounts advanced to subsidiaries	(4,978)	(1,157)	(7,892)
Redemption of loans to subsidiaries	13,166	570	4,420
Net cash used in investing activities	8,985	1,093	(2,554)
Cash flows from financing activities			
Dividends paid to ordinary shareholders	(2,014)	(1,070)	–
Distributions on other equity instruments	(412)	(394)	(287)
Issue of other equity instruments	–	–	5,329
Issue of subordinated liabilities	1,061	1,436	629
Interest paid on subordinated liabilities	(229)	(129)	(128)
Repayment of subordinated liabilities	(319)	(152)	(596)
Proceeds from issue of ordinary shares	–	–	3
Net cash provided by financing activities	(1,913)	(309)	4,950
Change in cash and cash equivalents	18	(171)	(316)
Cash and cash equivalents at beginning of year	24	195	511
Cash and cash equivalents at end of year	42	24	195

1 See note 1 on page F-103.

E INTERESTS IN SUBSIDIARIES

The principal subsidiaries, all of which have prepared accounts to 31 December and whose results are included in the consolidated accounts of Lloyds Banking Group plc, are:

	Country of registration/ Incorporation	Percentage of equity share capital and voting rights held	Nature of business
Lloyds Bank plc	England	100%	Banking and financial services
Scottish Widows Limited	Scotland	100%[1]	Life assurance
HBOS plc	Scotland	100%[1]	Holding company
Bank of Scotland plc	Scotland	100%[1]	Banking and financial services

1 Indirect interest.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 58: CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The Company owns 100 per cent of the share capital of Lloyds Bank plc (Lloyds Bank), which intends to offer and sell certain securities in the US from time to time utilising a registration statement on Form F-3 filed with the SEC by the Company. This will be accompanied by a full and unconditional guarantee by the Company.

Lloyds Bank intends to utilise an exception provided in Rule 3-10 of Regulation S-X, which allows it to not file its financial statements with the SEC. In accordance with the requirements to qualify for the exception, presented below is condensed consolidating financial information for:

- The Company on a stand-alone basis as guarantor;
- Lloyds Bank on a stand-alone basis as issuer;
- Non-guarantor subsidiaries of the Company and Lloyds Bank on a combined basis (Subsidiaries);
- Consolidation adjustments; and
- Lloyds Banking Group’s consolidated amounts (the Group).

Under IAS 27, the Company and Lloyds Bank account for investments in their subsidiary undertakings at cost less impairment. Rule 3-10 of Regulation S-X requires a company to account for its investments in subsidiary undertakings using the equity method, which would increase/(decrease) the results of the Company and Lloyds Bank in the information below by £(1,072) million and £(851) million, respectively, for the year ended 31 December 2016; by £(37) million and £(10,248) million, respectively, for the year ended 31 December 2015; and by £1,033 million and £(545) million, respectively, for the year ended 31 December 2014. The net assets of the Company and Lloyds Bank in the information below would also be increased/(decreased) by £4,780 million and £(8,268) million, respectively, at 31 December 2016; and by £4,143 million and £(7,366) million, respectively, at 31 December 2015.

INCOME STATEMENTS

For the year ended 31 December 2016	**Company £m**	**Lloyds Bank £m**	**Subsidiaries £m**	**Consolidation adjustments £m**	**Group £m**
Net interest income	**66**	**4,883**	**4,661**	**(336)**	**9,274**
Other income	**3,618**	**5,489**	**30,349**	**(9,119)**	**30,337**
Total income	**3,684**	**10,372**	**35,010**	**(9,455)**	**39,611**
Insurance claims	**–**	**–**	**(22,344)**	**–**	**(22,344)**
Total income, net of insurance claims	**3,684**	**10,372**	**12,666**	**(9,455)**	**17,267**
Operating expenses	**(221)**	**(7,722)**	**(6,380)**	**1,696**	**(12,627)**

Trading surplus	**3,463**	**2,650**	**6,286**	**(7,759)**	**4,640**
Impairment	**–**	**(620)**	**(239)**	**107**	**(752)**
Profit before tax	**3,463**	**2,030**	**6,047**	**(7,652)**	**3,888**
Taxation	**(328)**	**(77)**	**(1,815)**	**496**	**(1,724)**
Profit for the year	**3,135**	**1,953**	**4,232**	**(7,156)**	**2,164**

For the year ended 31 December 2015	Company £m	Lloyds Bank £m	Subsidiaries £m	Consolidation adjustments £m	Group £m
Net interest income	276	4,170	7,129	(257)	11,318
Other income	983	16,057	10,035	(15,243)	11,832
Total income	1,259	20,227	17,164	(15,500)	23,150
Insurance claims	–	–	(5,729)	–	(5,729)
Total income, net of insurance claims	1,259	20,227	11,435	(15,500)	17,421
Operating expenses	(290)	(8,994)	(6,948)	845	(15,387)
Trading surplus	969	11,233	4,487	(14,655)	2,034
Impairment	–	(265)	(222)	97	(390)
Profit before tax	969	10,968	4,265	(14,558)	1,644
Taxation	(72)	(57)	(803)	244	(688)
Profit for the year	897	10,911	3,462	(14,314)	956

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 58: CONDENSED CONSOLIDATING FINANCIAL INFORMATION continued

For the year ended 31 December 2014	Company £m	Lloyds Bank £m	Subsidiaries £m	Consolidation adjustments £m	Group £m
Net interest income	255	3,800	7,158	(553)	10,660
Other income	283	7,180	20,039	(8,270)	19,232
Total income	538	10,980	27,197	(8,823)	29,892
Insurance claims	–	–	(13,493)	–	(13,493)
Total income, net of insurance claims	538	10,980	13,704	(8,823)	16,399
Operating expenses	(265)	(7,927)	(6,602)	909	(13,885)
Trading surplus	273	3,053	7,102	(7,914)	2,514
Impairment	–	(585)	(777)	610	(752)
Profit before tax	273	2,468	6,325	(7,304)	1,762
Taxation	106	(143)	(716)	490	(263)
Profit for the year	379	2,325	5,609	(6,814)	1,499

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 December 2016	**Company £m**	**Lloyds Bank £m**	**Subsidiaries £m**	**Consolidation adjustments £m**	**Group £m**
Profit (loss) for the year	**3,135**	**1,953**	**4,232**	**(7,156)**	**2,164**
Other comprehensive income					
Items that will not subsequently be reclassified to profit or loss:					
Post-retirement defined benefit scheme remeasurements:					
Remeasurements before taxation	**–**	**(682)**	**(666)**	**–**	**(1,348)**
Taxation	**–**	**184**	**136**	**–**	**320**
	–	**(498)**	**(530)**	**–**	**(1,028)**
Items that may subsequently be reclassified to profit or loss:					
Movements in revaluation reserve in respect of available-for-sale financial assets:					
Adjustment on transfer from held-to-maturity portfolio	**–**	**1,544**	**–**	**–**	**1,544**
Change in fair value	**–**	**268**	**84**	**4**	**356**
Income statement transfers in respect of disposals	**–**	**(507)**	**(68)**	**–**	**(575)**
Income statement transfers in respect of impairment	**–**	**172**	**1**	**–**	**173**

Taxation	–	(269)	(32)	–	(301)
	–	1,208	(15)	4	1,197
Movements in cash flow hedging reserve:					
Effective portion of changes in fair value	–	1,290	125	1,017	2,432
Net income statement transfers	–	(241)	(233)	(83)	(557)
Taxation	–	(258)	29	(237)	(466)
		791	(79)	697	1,409
Currency translation differences (tax: nil)	–	19	44	(67)	(4)
Other comprehensive income for the year, net of tax	–	1,520	(580)	634	1,574
Total comprehensive income for the year	3,135	3,473	3,652	(6,522)	3,738
Total comprehensive income attributable to ordinary shareholders	2,723	3,354	3,450	(6,302)	3,225
Total comprehensive income attributable to other equity holders	412	119	101	(220)	412
Total comprehensive income attributable to equity holders	3,135	3,473	3,551	(6,522)	3,637
Total comprehensive income attributable to non-controlling interests	–	–	101	–	101
Total comprehensive income for the year	3,135	3,473	3,652	(6,522)	3,738

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 58: CONDENSED CONSOLIDATING FINANCIAL INFORMATION continued

For the year ended 31 December 2015	Company £m	Lloyds Bank £m	Subsidiaries £m	Consolidation adjustments £m	Group £m
Profit (loss) for the year	897	10,911	3,462	(14,314)	956
Other comprehensive income					
Items that will not subsequently be reclassified to profit or loss:					
Post-retirement defined benefit scheme remeasurements:					
Remeasurements before taxation	–	31	(305)	–	(274)
Taxation	–	(1)	60	–	59
	–	30	(245)	–	(215)
Items that may subsequently be reclassified to profit or loss:					
Movements in revaluation reserve in respect of available-for-sale financial assets:					
Change in fair value	–	(300)	(27)	9	(318)
Income statement transfers in respect of disposals	–	(14)	(37)	–	(51)
Income statement transfers in respect of impairment	–	1	38	(35)	4
Taxation	–	(17)	2	9	(6)
	–	(330)	(24)	(17)	(371)
Movements in cash flow hedging reserve:					
Effective portion of changes in fair value	–	294	183	60	537
Net income statement transfers	–	(421)	(557)	22	(956)
Taxation	–	(76)	59	24	7
	–	(203)	(315)	106	(412)
Currency translation differences (tax: nil)	–	(13)	52	(81)	(42)
Other comprehensive income for the year, net of tax	–	(516)	(532)	8	(1,040)
Total comprehensive income for the year	897	10,395	2,930	(14,306)	(84)
Total comprehensive income attributable to ordinary shareholders	503	10,395	2,834	(14,306)	(574)
Total comprehensive income attributable to other equity holders	394	–	–	–	394
Total comprehensive income attributable to equity holders	897	10,395	2,834	(14,306)	(180)
Total comprehensive income attributable to non-controlling interests	–	–	96	–	96
Total comprehensive income for the year	897	10,395	2,930	(14,306)	(84)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 58: CONDENSED CONSOLIDATING FINANCIAL INFORMATION continued

For the year ended 31 December 2014	Company £m	Lloyds Bank £m	Subsidiaries £m	Consolidation adjustments £m	Group £m
Profit (loss) for the year	379	2,325	5,609	(6,814)	1,499
Other comprehensive income					
Items that will not subsequently be reclassified to profit or loss:					
Post–retirement defined benefit scheme remeasurements:					
Remeasurements before taxation	–	309	365	–	674
Taxation	–	(62)	(73)	–	(135)
	–	247	292	–	539
Items that may subsequently be reclassified to profit or loss:					
Movements in revaluation reserve in respect of available-for-sale financial assets:					
Change in fair value	–	364	256	70	690
Income statement transfers in respect of disposals	–	11	(129)	(13)	(131)
Income statement transfers in respect of impairment	–	1	7	(6)	2
Taxation	–	(14)	(1)	2	(13)
	–	362	133	53	548
Movements in cash flow hedging reserve:					
Effective portion of changes in fair value	–	1,799	(56)	2,153	3,896
Net income statement transfers	–	(227)	(474)	(452)	(1,153)
Taxation	–	(315)	106	(340)	(549)
	–	1,257	(424)	1,361	2,194
Currency translation differences (tax: nil)	–	3	(13)	7	(3)
Other comprehensive income for the year, net of tax	–	1,869	(12)	1,421	3,278
Total comprehensive income for the year	379	4,194	5,597	(5,393)	4,777
Total comprehensive income attributable to ordinary shareholders	92	4,194	5,510	(5,393)	4,403
Total comprehensive income attributable to other equity holders	287	–	–	–	287
Total comprehensive income attributable to equity holders	379	4,194	5,510	(5,393)	4,690
Total comprehensive income attributable to non-controlling interests	–	–	87	–	87
Total comprehensive income for the year	379	4,194	5,597	(5,393)	4,777

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 58: CONDENSED CONSOLIDATING FINANCIAL INFORMATION continued

BALANCE SHEETS

At 31 December 2016	**Company £m**	**Lloyds Bank £m**	**Subsidiaries £m**	**Consolidation adjustments £m**	**Group £m**
Assets					
Cash and balances at central banks	–	44,595	2,857	–	47,452
Items in course of collection from banks	–	512	194	–	706
Trading and other financial assets at fair value through profit or loss	–	48,309	112,154	(9,289)	151,174
Derivative financial instruments	461	36,714	18,737	(19,774)	36,138
Loans and receivables:					
Loans and advances to banks	–	4,379	22,498	25	26,902
Loans and advances to customers	–	161,161	290,036	6,761	457,958
Debt securities	–	2,818	528	51	3,397
Due from fellow Lloyds Banking Group undertakings	7,021	152,260	104,314	(263,595)	–
Available-for-sale financial assets	–	55,122	3,274	(1,872)	56,524
Goodwill	–	–	2,343	(327)	2,016
Value of in-force business	–	–	4,761	281	5,042
Other intangible assets	–	893	314	474	1,681
Property, plant and equipment	–	3,644	9,263	65	12,972
Current tax recoverable	465	420	26	(883)	28
Deferred tax assets	38	2,286	1,503	(1,121)	2,706
Retirement benefit assets	–	254	86	2	342
Investment in subsidiary undertakings, including assets held for sale	44,188	38,757	–	(82,945)	–
Other assets	959	1,168	11,613	(985)	12,755
Total assets	53,132	553,292	584,501	(373,132)	817,793
Equity and liabilities					
Liabilities					
Deposits from banks	–	9,450	6,936	(2)	16,384
Customer deposits	–	213,135	202,433	(108)	415,460
Due to fellow Lloyds Banking Group undertakings	2,690	86,803	149,152	(238,645)	–
Items in course of transmission to banks	–	292	256	–	548
Trading and other financial liabilities at fair value through profit or loss	–	55,776	945	(2,217)	54,504
Derivative financial instruments	–	38,591	16,107	(19,774)	34,924
Notes in circulation	–	–	1,402	–	1,402
Debt securities in issue	2,455	74,366	22,336	(22,843)	76,314
Liabilities arising from insurance contracts and participating investment contracts	–	–	94,409	(19)	94,390
	–	–	20,112	–	20,112

Liabilities arising from non-participating investment contracts					
Other liabilities	**413**	**3,295**	**27,668**	**(2,183)**	**29,193**
Retirement benefit obligations	**–**	**399**	**420**	**3**	**822**
Current tax liabilities	**–**	**3**	**1,390**	**(1,167)**	**226**
Deferred tax liabilities	**–**	**–**	**–**	**–**	**–**
Other provisions	**–**	**2,833**	**2,355**	**30**	**5,218**
Subordinated liabilities	**4,329**	**10,575**	**10,648**	**(5,721)**	**19,831**
Total liabilities	**9,887**	**495,518**	**556,569**	**(292,646)**	**769,328**
Equity					
Shareholders' equity	**37,890**	**54,557**	**25,687**	**(75,464)**	**42,670**
Other equity instruments	**5,355**	**3,217**	**305**	**(3,522)**	**5,355**
Total equity excluding non-controlling interests	**43,245**	**57,774**	**25,992**	**(78,986)**	**48,025**
Non-controlling interests	**–**	**–**	**1,940**	**(1,500)**	**440**
Total equity	**43,245**	**57,774**	**27,932**	**(80,486)**	**48,465**
Total equity and liabilities	**53,132**	**553,292**	**584,501**	**(373,132)**	**817,793**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 58: CONDENSED CONSOLIDATING FINANCIAL INFORMATION continued

At 31 December 2015	Company £m	Lloyds Bank £m	Subsidiaries £m	Consolidation adjustments £m	Group £m
Assets					
Cash and balances at central banks	–	55,919	2,498	–	58,417
Items in course of collection from banks	–	518	179	–	697
Trading and other financial assets at fair value through profit or loss	–	52,064	103,789	(15,317)	140,536
Derivative financial instruments	590	30,992	17,363	(19,478)	29,467
Loans and receivables:					
Loans and advances to banks	–	2,625	22,467	25	25,117
Loans and advances to customers	–	158,117	291,529	5,529	455,175
Debt securities	–	2,865	1,247	79	4,191
Due from fellow Lloyds Banking Group undertakings	14,639	132,784	88,957	(236,380)	–
Available-for-sale financial assets	–	32,476	4,835	(4,279)	33,032
Held-to-maturity investments	–	19,808	–	–	19,808
Goodwill	–	–	2,343	(327)	2,016
Value of in-force business	–	–	4,280	316	4,596
Other intangible assets	–	720	303	815	1,838
Property, plant and equipment	–	3,522	9,389	68	12,979
Current tax recoverable	32	250	21	(259)	44
Deferred tax assets	51	3,490	2,777	(2,308)	4,010
Retirement benefit assets	–	402	675	(176)	901
Investment in subsidiary undertakings	40,785	39,241	–	(80,026)	–
Other assets	909	916	13,028	(989)	13,864
Total assets	57,006	536,709	565,680	(352,707)	806,688
Equity and liabilities					
Liabilities					
Deposits from banks	–	13,614	3,313	(2)	16,925
Customer deposits	–	205,717	212,798	(189)	418,326
Due to fellow Lloyds Banking Group undertakings	11,101	70,656	122,031	(203,788)	–
Items in course of transmission to banks	–	326	391	–	717
Trading and other financial liabilities at fair value through profit or loss	–	56,332	5,043	(9,512)	51,863
Derivative financial instruments	–	31,040	14,739	(19,478)	26,301
Notes in circulation	–	–	1,112	–	1,112
Debt securities in issue	–	78,430	27,504	(23,878)	82,056
Liabilities arising from insurance contracts and participating investment contracts	–	–	80,316	(22)	80,294
Liabilities arising from non-participating investment contracts	–	–	22,777	–	22,777
Other liabilities	394	2,988	28,340	(2,061)	29,661

Retirement benefit obligations	–	148	255	(38)	365
Current tax liabilities	–	–	807	(528)	279
Deferred tax liabilities	–	–	1,053	(1,020)	33
Other provisions	–	3,421	2,236	30	5,687
Subordinated liabilities	3,065	19,709	14,106	(13,568)	23,312
Total liabilities	14,560	482,381	536,821	(274,054)	759,708
Equity					
Shareholders' equity	37,091	54,328	26,968	(77,153)	41,234
Other equity instruments	5,355	–	–	–	5,355
Total equity excluding non-controlling interests	42,446	54,328	26,968	(77,153)	46,589
Non-controlling interests	–	–	1,891	(1,500)	391
Total equity	42,446	54,328	28,859	(78,653)	46,980
Total equity and liabilities	57,006	536,709	565,680	(352,707)	806,688

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 58: CONDENSED CONSOLIDATING FINANCIAL INFORMATION continued

CASH FLOW STATEMENTS

For the year ended 31 December 2016	**Company £m**	**Lloyds Bank £m**	**Subsidiaries £m**	**Consolidation adjustments £m**	**Group £m**
Net cash provided by (used in) operating activities	**(7,054)**	**577**	**11,131**	**(2,580)**	**2,074**
Cash flows from investing activities					
Dividends received from subsidiary undertakings	**3,759**	**3,984**	**–**	**(7,743)**	**–**
Distributions on other equity instruments received	**119**	**–**	**–**	**(119)**	**–**
Return of capital contributions	**441**	**–**	**–**	**(441)**	**–**
Available-for-sale financial assets and held-to-maturity investments:					
Purchases	**–**	**(4,664)**	**(322)**	**56**	**(4,930)**
Proceeds from sale and maturity	**–**	**6,429**	**2,350**	**(2,444)**	**6,335**
Purchase of fixed assets	**–**	**(1,122)**	**(2,638)**	**–**	**(3,760)**
Proceeds from sale of fixed assets	**–**	**19**	**1,665**	**–**	**1,684**
Purchase of other equity instruments issued by subsidiaries	**–**	**–**	**–**	**–**	**–**
Capital lending to Lloyds Bank	**–**	**–**	**–**	**–**	**–**
Capital repayments by Lloyds Bank	**–**	**–**	**–**	**–**	**–**
Additional capital lending to subsidiaries	**(4,978)**	**–**	**–**	**4,978**	**–**
Capital repayments by subsidiaries	**13,166**	**–**	**–**	**(13,166)**	**–**
Additional capital injections to subsidiaries	**(3,522)**	**(309)**	**–**	**3,831**	**–**
Acquisition of businesses, net of cash acquired	**–**	**–**	**(20)**	**–**	**(20)**
Disposal of businesses, net of cash disposed	**–**	**231**	**5**	**(231)**	**5**
Net cash flows from investing activities	**8,985**	**4,568**	**1,040**	**(15,279)**	**(686)**
Cash flows from financing activities					
Dividends paid to ordinary shareholders	**(2,014)**	**(3,040)**	**(4,602)**	**7,642**	**(2,014)**
Distributions on other equity instruments	**(412)**	**(119)**	**(101)**	**220**	**(412)**
Dividends paid to non-controlling interests	**–**	**–**	**(29)**	**–**	**(29)**
Interest paid on subordinated liabilities	**(229)**	**(1,516)**	**(893)**	**951**	**(1,687)**
Proceeds from issue of subordinated liabilities	**1,061**	**2,753**	**–**	**(2,753)**	**1,061**
Repayment of subordinated liabilities	**(319)**	**(13,200)**	**(4,952)**	**10,586**	**(7,885)**
Proceeds from issue of other equity instruments	**–**	**3,217**	**305**	**(3,522)**	**–**
Capital contribution received	**–**	**–**	**309**	**(309)**	**–**
Return of capital contributions	**–**	**(441)**	**–**	**441**	**–**
Capital borrowing from the Company	**–**	**–**	**–**	**–**	**–**
Capital repayments to the Company	**–**	**(3,387)**	**(1,198)**	**4,585**	**–**
Change in stake of non-controlling interests	**–**	**–**	**(8)**	**–**	**(8)**
Net cash used in financing activities	**(1,913)**	**(15,733)**	**(11,169)**	**17,841**	**(10,974)**
	–	**2**	**19**	**–**	**21**

Effects of exchange rate changes on cash and cash equivalents					
Change in cash and cash equivalents	**18**	**(10,586)**	**1,021**	**(18)**	**(9,565)**
Cash and cash equivalents at beginning of year	**24**	**55,852**	**16,101**	**(24)**	**71,953**
Cash and cash equivalents at end of year	**42**	**45,266**	**17,122**	**(42)**	**62,388**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 58: CONDENSED CONSOLIDATING FINANCIAL INFORMATION continued

For the year ended 31 December 2015	Company £m	Lloyds Bank £m	Subsidiaries £m	Consolidation adjustments £m	Group £m
Net cash provided by (used in) operating activities	(955)	7,539	7,472	2,316	16,372
Cash flows from investing activities					
Dividends received from subsidiary undertakings	1,080	12,820	–	(13,900)	–
Return of capital contributions	600	–	–	(600)	–
Available-for-sale financial assets and held-to-maturity investments:					
Purchases	–	(7,903)	(13,593)	2,142	(19,354)
Proceeds from sale and maturity	–	7,055	14,945	–	22,000
Purchase of fixed assets	–	(1,279)	(2,138)	–	(3,417)
Proceeds from sale of fixed assets	–	61	1,476	–	1,537
Additional capital injections to subsidiaries	–	(64)	–	64	–
Purchase of other equity instruments issued by subsidiaries	–	(1,500)	–	1,500	–
Capital lending to Lloyds Bank	(1,157)	–	–	1,157	–
Capital repayments by Lloyds Bank	570	–	–	(570)	–
Acquisition of businesses, net of cash acquired	–	–	(5)	–	(5)
Disposal of businesses, net of cash disposed	–	850	122	(5,043)	(4,071)
Net cash flows from investing activities	1,093	10,040	807	(15,250)	(3,310)
Cash flows from financing activities					
Dividends paid to ordinary shareholders	(1,070)	(1,080)	(12,820)	13,900	(1,070)
Distributions on other equity instruments	(394)	–	–	–	(394)
Dividends paid to non-controlling interests	–	–	(52)	–	(52)
Interest paid on subordinated liabilities	(129)	(1,755)	(956)	1,000	(1,840)
Proceeds from issue of subordinated liabilities	1,436	–	–	(1,098)	338
Repayment of subordinated liabilities	(152)	(1,266)	(2,151)	370	(3,199)
Capital contributions received	–	–	165	(165)	–
Return of capital contributions	–	(600)	–	600	–
Capital borrowing from the Company	–	1,157	–	(1,157)	–
Capital repayments to the Company	–	(1,155)	–	1,155	–
Changes in non-controlling interests	–	–	1,459	(1,500)	(41)
Net cash used in financing activities	(309)	(4,699)	(14,355)	13,105	(6,258)
Effects of exchange rate changes on cash and cash equivalents	–	–	2	–	2
Change in cash and cash equivalents	(171)	12,880	(6,074)	171	6,806
Cash and cash equivalents at beginning of year	195	42,972	22,175	(195)	65,147
Cash and cash equivalents at end of year	24	55,852	16,101	(24)	71,953

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 58: CONDENSED CONSOLIDATING FINANCIAL INFORMATION continued

	Company	Lloyds Bank	Subsidiaries	Consolidation adjustments	Group
For the year ended 31 December 2014	£m	£m	£m	£m	£m
Net cash (used in) provided by operating activities	(2,712)	1,978	11,927	(840)	10,353
Cash flows from investing activities					
Dividends received from subsidiary undertakings	720	2,873	–	(3,593)	–
Return of capital contributions	198	–	–	(198)	–
Available-for-sale financial assets:					
Purchases	–	(6,052)	(5,657)	176	(11,533)
Proceeds from sale and maturity	–	1,626	7,776	(4,734)	4,668
Purchase of fixed assets	–	(1,182)	(2,260)	–	(3,442)
Proceeds from sale of fixed assets	–	100	1,943	–	2,043
Additional capital lending to subsidiaries	(7,892)	(750)	–	8,642	–
Capital repayments by subsidiaries	4,420	1,930	–	(6,350)	–
Acquisition of businesses, net of cash acquired	–	–	(1)	–	(1)
Disposal of businesses, net of cash disposed	–	728	905	(1,090)	543
Net cash flows from investing activities	(2,554)	(727)	2,706	(7,147)	(7,722)
Cash flows from financing activities					
Distributions on other equity instruments	(287)	–	–	–	(287)
Dividends paid to equity shareholders	–	–	(3,593)	3,593	–
Dividends paid to non-controlling interests	–	–	(27)	–	(27)
Interest paid on subordinated liabilities	(128)	(1,832)	(1,624)	1,379	(2,205)
Proceeds from issue of subsordinated liabilities	629	–	–	–	629
Proceeds from issue of ordinary shares	3	–	–	–	3
Proceeds from issue of other equity instruments	5,329	–	(5,329)	–	–
Repayment of subordinated liabilities	(596)	(1,380)	(6,472)	5,425	(3,023)
Capital contributions received	–	–	8,642	(8,642)	–
Sale of non-controlling interest in TSB	–	634	–	–	634
Other changes in non-controlling interests	–	–	1	–	1
Return of capital contribution	–	(198)	–	198	–
Capital repayments to parent company	–	–	(6,350)	6,350	–
Net cash used in financing activities	4,950	(2,776)	(14,752)	8,303	(4,275)
Effects of exchange rate changes on cash and cash equivalents	–	6	(12)	–	(6)
Change in cash and cash equivalents	(316)	(1,519)	(131)	316	(1,650)
Cash and cash equivalents at beginning of year	511	44,491	22,306	(511)	66,797
Cash and cash equivalents at end of year	195	42,972	22,175	(195)	65,147

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GLOSSARY

Term used	**US equivalent or brief description.**
Accounts	Financial statements.
Allotted	Issued.
Associates	Long-term equity investments accounted for by the equity method.
Attributable profit	Net income.
ATM	Automatic Teller Machine.
ATM interchange	System allowing customers of different ATM operators to use any ATM that is part of the system.
Balance sheet	Statement of financial position.
Broking	Brokerage.
Building society	A building society is a mutual institution set up to lend money to its members for house purchases. See also 'Demutualisation'.
Buy-to-let mortgages	Buy-to-let mortgages are those mortgages offered to customers purchasing residential property as a rental investment.
Called-up share capital	Ordinary shares, issued and fully paid.
Contract hire	Leasing.
Creditors	Payables.
Debtors	Receivables.
Deferred tax	Deferred income tax.
Demutualisation	Process by which a mutual institution is converted into a public limited company.
Depreciation	Amortisation.
Endowment mortgage	An interest-only mortgage to be repaid by the proceeds of an endowment insurance policy which is assigned to the lender providing the mortgage. The sum insured, which is payable on maturity or upon the death of the policyholder, is used to repay the mortgage.
Finance lease	Capital lease.
Freehold	Ownership with absolute rights in perpetuity.
ISA	Individual Savings Account.
Leasehold	Land or property which is rented from the owner for a specified term under a lease. At the expiry of the term the land or property reverts back to the owner.
Lien	Under UK law, a right to retain possession pending payment.
Life assurance	Life insurance.
Loan capital	Long-term debt.
Members	Shareholders.
Memorandum and articles of association	Articles and bylaws.
National Insurance	A form of taxation payable in the UK by employees, employers and the self-employed, used to fund benefits at the national level including state pensions, medical benefits through the National Health Service (NHS), unemployment and maternity. It is part of the UK's national social security system and ultimately controlled by HM Revenue & Customs.
Nominal value	Par value.
Open Ended Investment Company (OEIC)	Mutual fund.
Ordinary shares	Common stock.
Overdraft	A line of credit, contractually repayable on demand unless a fixed-term has been agreed, established through a customer's current account.

Preference shares	Preferred stock.

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GLOSSARY

Term used	**US equivalent or brief description.**
Premises	Real estate.
Profit attributable to equity shareholders	Net income.
Provisions	Reserves.
Regular premium	Premiums which are payable throughout the duration of a policy or for some shorter fixed period.
Reinsurance	The insuring again by an insurer of the whole or part of a risk that it has already insured with another insurer called a reinsurer.
Retained profits	Retained earnings.
Share capital	Capital stock.
Shareholders' equity	Stockholders' equity.
Share premium account	Additional paid-in capital.
Shares in issue	Shares outstanding.
Single premium	A premium in relation to an insurance policy payable once at the commencement of the policy.
Specialist mortgages	Specialist mortgages include those mortgage loans provided to customers who have self-certified their income (normally as a consequence of being self-employed) or who are otherwise regarded as a sub-prime credit risk. New mortgage lending of this type has not been offered by the Group since early 2009.
Tangible fixed assets	Property and equipment.
Undistributable reserves	Restricted surplus.
Write-offs	Charge-offs.

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FORM 20-F CROSS REFERENCE SHEET

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EXHIBIT INDEX

1. Articles of association of Lloyds Banking Group plc

2. Neither Lloyds Banking Group plc nor any subsidiary is party to any single long-term debt instrument pursuant to which a total amount of securities exceeding 10 per cent of the Group’s total assets (on a consolidated basis) is authorised to be issued. Lloyds Banking Group plc hereby agrees to furnish to the Securities and Exchange Commission (the Commission), upon its request, a copy of any instrument defining the rights of holders of its long-term debt or the rights of holders of the long-term debt issued by it or any subsidiary for which consolidated or unconsolidated financial statements are required to be filed with the Commission.

4. (a) (i) Registration Rights Agreement dated 12 January 2009 between Lloyds Banking Group plc and The Commissioners of Her Majesty’s Treasury (as amended with effect from 11 June 2009)

(ii) Resale Rights Agreement effective 11 June 2009 between Lloyds Banking Group plc and The Commissioners of Her Majesty’s Treasury

(iii) Deed of Withdrawal dated 3 November 2009 between Lloyds Banking Group plc and The Lords Commissioners of Her Majesty’s Treasury[²]

4. (b) (i) Service agreement dated 3 November 2010 between Lloyds Bank plc and António Horta-Osório[o]

(ii) Letter of appointment dated 23 February 2009 between Lloyds Banking Group plc and Anthony Watson[†]

(iii) Letter of appointment dated 17 November 2010 between Lloyds Banking Group plc and Anita Frew[o]

(iv) Letter of appointment dated 31 January 2012 between Lloyds Banking Group plc and Sara Weller[§]

(v) Service agreement dated 1 March 2012 between Lloyds Bank plc and George Culmer[r]

(vi) Letter of appointment dated 25 February 2013 between Lloyds Banking Group plc and Nick Luff[r]

(vii) Letter of appointment dated 28 October 2013 between Lloyds Banking Group plc and Dyfrig John•

(viii) Service agreement dated 30 November 2010 between Lloyds Bank plc and Juan Colombás•

(ix) Letter of appointment dated 31 March 2014 between Lloyds Banking Group plc and Lord Blackwell[£]

(x) Letter of appointment dated 1 April 2014 between Lloyds Banking Group plc and Nick Prettejohn[£]

(xi) Letter of appointment dated 1 May 2014 between Lloyds Banking Group plc and Simon Henry[£]

(xii) Letter of appointment dated 26 June 2014 between Lloyds Banking Group plc and Alan Dickinson[£]

(xiii) Letter of appointment dated 26 November 2015 between Lloyds Banking Group plc and Deborah McWhinney[+]

(xiv) Letter of appointment dated 26 November 2015 between Lloyds Banking Group plc and Stuart Sinclair[+]

8.1 List of subsidiaries, their jurisdiction of incorporation and the names under which they conduct business

12.1 Certification of António Horta-Osório filed pursuant to 17 CFR 240.13a-14(a) and 15 U.S.C. 7241

12.2 Certification of George Culmer filed pursuant to 17 CFR 240.13a-14(a) and 15 U.S.C. 7241

13.1 Certification of António Horta-Osório and George Culmer furnished pursuant to 17 CFR 240.13a-14(b) and 18 U.S.C. 1350

15.1 Consent of PricewaterhouseCoopers LLP

† Previously filed with the SEC on Lloyds Banking Group’s Form 20–F filed 7 May 2009

Previously filed with the SEC on Lloyds Banking Group’s Form 20-F filed 13 May 2010

o Previously filed with the SEC on Lloyds Banking Group’s Form 20–F filed 13 May 2011

§ Previously filed with the SEC on Lloyds Banking Group’s Form 20–F filed 16 March 2012

r Previously filed with the SEC on Lloyds Banking Group’s Form 20–F filed 25 March 2013

• Previously filed with the SEC on Lloyds Banking Group’s Form 20-F filed 5 March 2014

£ Previously filed with the SEC on Lloyds Banking Group’s Form 20-F filed 12 March 2015

+ Previously filed with the SEC on Lloyds Banking Group’s Form 20-F filed 8 March 2016

² Pursuant to a request for confidential treatment filed with the SEC, the confidential portions of this exhibit have been omitted and filed separately with the SEC.

The exhibits shown above are listed according to the number assigned to them by the Form 20–F.

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SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorised the undersigned to sign this annual report on its behalf.

LLOYDS BANKING GROUP plc
By: /s/ G Culmer

Name: George Culmer
Title: Chief Financial Officer

Dated: 10 March 2017
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