Lloyds Banking Group plc – Q3 2011 Interim Management Statement

Tuesday 8 November 2011

Tim Tookey – Interim Group Chief Executive & Group Finance Director

Good morning everyone and thank you for joining the call this morning. With Antonio on medical leave as we all know, I will run through the full presentation this morning, before Kate and I take questions.

Before going through the progress on our continued risk reduction and business performance in some depth, let me give you an overview of each and some context, and therefore I am going to start with slide 2.

Our third quarter financials show further good progress on continued balance sheet risk reduction, including very good progress on non-core asset run down, as well as improved capital ratios. Despite sovereign and political issues in the Eurozone making market conditions very difficult, we have maintained a robust liquidity and funding position and completed our term funding needs for the year.

We continue to grow customer deposits and have further improved our loans to deposit ratio. Despite a weakening UK economic environment, we have seen no deterioration in our overall asset quality. Indeed Q3 impairments are lower than we had expected.

In the third quarter, we have delivered a resilient underlying trading performance, which was in line with our own expectations. Underlying income reflects the further risk reduction in our balance sheet, as well as the challenging economic conditions and the competitive markets in which we operate.

As you have seen, we have reported some volatility effects in the third quarter that, together with the absence of further liability management gains, have negatively affected overall income and profit.

Pleasingly however, we have seen a reduction in operating expenses in the third quarter. And this has been the first quarter since Q1 of 2010 when we have recorded a profit before fair value unwind.

So overall, we have made a good start in implementing our strategic initiatives, using the flexibility we have in our plans to focus on further strengthening of the balance sheet, and on making a strong start to the delivery of cost savings from our simplification initiatives. Let me now give you more detail on the progress on risk reduction, starting with the non-core asset portfolios, on slide 3.

Following the major push on non-core reductions in the first half when we did over £30 billion in reductions, we outperformed our own targets in the third quarter with a further £11 billion reduction albeit to be fair, including a £2 billion FX benefit. Non-core assets are down £42 billion year to date, which is a 22 per cent reduction, and has yielded substantial funding benefits, as well as reducing our exposures in key areas.

I am especially pleased to have passed the 1 billion Euro point of Irish property reductions this year and to have reduced UK Commercial Real Estate by £3.6 billion in just nine months, including a high proportion of secondary quality assets. Moving on to our wholesale funding on slide 4.

Against the backdrop of very tough funding markets, we issued £5.4 billion of wholesale term funding in Q3, and a further £3 billion in October. So we have now finished this year's funding plan, and although we will continue to be opportunistic and take further funding this year as and when markets are open, this will be pre-funding our 2012 requirements.

As slide 5 shows, despite the high issuance, the benefits of non core asset sales have allowed us to reduce the absolute level of Group wholesale funding, which is down 5 per cent from year end levels. At the same time, the Group has successfully maintained its maturity profile, with 50 per cent of wholesale funding and remember we report this as including interbank deposits, so 50 per cent of wholesale funding having a maturity of greater than one year.

Whilst our short term wholesale funding on slide 6 has reduced by £11 billion in the third quarter, our liquidity position remains very strong and stable, and is considerably in excess of current regulatory requirements.

Our primary liquidity portfolio at the end of September was £97 billion. This is about 120 per cent of our entire money market funding and covers about 70 per cent of all wholesale funding with a maturity of less than one year. So we have maintained a substantial buffer for use in the event of market dislocation. On top of this primary liquidity, the Group continues to hold more than £120 billion of secondary liquidity.

This chart shows how our funding strength has improved over time and how the £97 billion of primary and £123 billion of secondary liquidity gives us over 150 per cent coverage for all wholesale funding with a less than one year maturity. So what does this say? This gives us a lot of comfort at times of funding market dislocation.

And this important improvement in wholesale funding sits alongside further growth in our robust customer deposit base, as you can see on slide 7. Customer deposits excluding repos are up 4 per cent year to date, reflecting good growth in relationship deposits across Retail, and in the Wealth and International Division.

By the end of the third quarter, our loan to deposit ratio had improved to 140 per cent. We expect this will continue to improve as we reduce our non core lending balances further. Our core loan to deposit ratio also improved to 112 per cent, down from 120 per cent at the end of last year.

In terms of government and central bank funding, well it was a quiet quarter for maturities as you can see on slide 8, and we will, as I said at the half year, repay remaining facilities in line with their contractual maturity dates which I thought it would be useful to include on the chart today. Moving on to our capital position, on slide 9.

Well our core tier 1 capital ratio increased to 10.3 per cent and our total capital ratio improved to 15.3 per cent at the quarter end. The impact of the statutory loss was more than offset by a year to date reduction in risk-weighted assets of £34 billion, mainly from non-core asset sales.

At the half-year, we said that we did not expect our risk-weighted assets to reduce in the second half, given that the implementation of CRD 2 and 3 rule changes were expected to offset the benefit of further RWA reductions.

These changes will still impact in fourth quarter of course, but given the strong non-core reductions in Q3, I actually now expect that RWAs at year end will be broadly in line with the position as at the end of September.

The chart on slide 10 clearly shows the strength of capital generation from the core business, even after allowing for all the below line items, excluding PPI which I have shown on a separate brick. But it goes to show that the business continues to generate capital through RWA reductions and improving core performance. I will come to non-core later on.

Changing tack then, at the half year, we reported extensively on our exposures to peripheral Eurozone countries, and we have provided you with updated numbers in the news release this morning. We have also expanded our disclosure to include sovereign exposures to a broader group of Eurozone countries.

Slide 11 summarises these positions and shows the further reduction of exposures in every category, except for a marginal increase in our sovereign exposure, which relate primarily to holdings in government bonds, and quite clearly remains minimal.

We have seen a reduction in banking group and asset backed securities exposures since the half year. Just over half of these exposures and overall positions are secured with the balance generally consisting of floating rate notes, money market exposures or general banking facilities.

Financial assets held for trading are made up of corporate and financial positions, and are a direct result of flows in our credit trading market-making business. These positions are liquid and marked-to-market on a daily basis. Assets held within the insurance businesses are either direct investments within the tight credit criteria and appropriate investment mandate, or are held in funds administered by SWIP.

We have also seen a further reduction in corporate and retail exposures in these countries, and the vast majority of these loans are of course advances in our Irish portfolio. I will give more detail on the Irish exposure in a moment, but I now want to move on to asset quality, so let's start with the biggest book which is UK mortgages, on page 12.

As expected, falling house prices and less favourable house price forecasts during the nine months have resulted in the predicted increase in the secured impairment charge. We have also increased the provision coverage this year and it's 25.6 per cent at the end of the quarter.

Pleasingly though, the proportion of the mortgage portfolio with an indexed loan-to-value of greater than 100 per cent has decreased since the half-year and now stands at 11.4 per cent. The value of the portfolio with an indexed loan-to-value of greater than 100 per cent and which is more than three months in arrears has been stable at £3.1 billion.

In line with guidance, these increases in secured impairments have been more than offset by reductions in the unsecured portfolio and I have set some of this information out on slide 13.

As you see the level of unsecured impaired loans has continued to fall, both in absolute numbers and as a percentage of the loan portfolio, benefitting from all the control enhancements of the last 3 years and giving us a 37 per cent drop in the impairment charge for the first nine months this year compared to the same period of 2010. Turning to asset quality in Wholesale and Commercial then on slide 14.

In the core business, impaired loans as a percentage of loans and advances has remained broadly stable, both in Wholesale and in Commercial. Equally in the non-core business, on the right hand side of the chart, the proportion of the book that is impaired has remained broadly stable; but we have seen a steady improvement in the asset quality ratio since the year-end. Let me now brief you on the progress in our Irish portfolio on slide 15.

As I mentioned earlier, we have successfully started to reduce our Irish portfolio with year to date reduction, mainly from asset sales, now in excess of 1 billion Euros. Due to the prolonged difficult economic conditions, we now have 67 per cent of the Irish portfolio classified as impaired. But we have also increased coverage ratios and these now stand at 58 per cent at the end of September so we continue to believe that we are well provided. Let me summarise for a moment then on the further improvement in our balance sheet, on slide 16.

Continued good non-core reduction, well ahead of our own targets, and done in a capital neutral way: the funding plan has been completed, our capital position remains robust, and as for liquidity, funding, customer deposit growth and the loan to deposit ratios, all good and improving and the same can be said of asset quality as well.

So let's move on now to the business performance, on slide 17. Well I am afraid there are many features of our income performance, so I will try and walk us through them carefully right now.

Total income decreased by 15 per cent, with the decrease including a number of temporary volatility effects. These include mark-to-market gains arising from the equity conversion feature of the Group's ECNs, banking volatility and net credit valuation adjustments, as well as the absence this year of liability management gains.

Excluding these effects, total income decreased by 12 per cent, but if you allow me to further adjust to exclude the losses on asset sales which have benefitted funding and risk reduction so well, then income is down 9 per cent.

Now I am starting to look at an income performance which is driven by a reduction in Average Interest Earning Assets together with the impact of higher wholesale funding costs on our margin. In fact net interest income actually reduced by 7 per cent, which is in line with the fall in average interest earning assets.

The net interest margin in our banking businesses was 2.10 per cent, a little lower than the 2.12 bps for the first half and down from 2.20 per cent in the first nine months of 2010. The principal drivers of this reduction are just as we have discussed before; continued high wholesale funding costs, a competitive deposit market and the effect of refinancing a significant amount of government and central bank facilities. And obviously the numbers we are reporting here take into consideration the methodology changes we outlined in our October restatement.

With a margin of 2.10 per cent versus the half year margin of 2.12 per cent, we have seen a Q3 margin of 2.05 per cent. So this is consistent with the predicted trends and gives us high confidence that we will meet our full year guidance of just above 2.05 per cent. Let me take you through the volatility and liability management effects in more detail on slide 18.

Firstly, there is a complete lack of liability management gains as we all know. Secondly, we saw a £410 million net CVA charge in the first nine months, against a £1 million charge in the first nine months of 2010. This is a net figure for credit and debit value adjustments and reflects the significant widening of typical market credit spreads for the risk management solutions assets for our largely unrated corporate relationship banking customers.

Thirdly, just like in previous quarters, we have seen large swings in the fair value of the ECN, of the equity conversion feature therein. This time it's a gain and brings the overall gain for the first nine months to £254 million versus a £309 million loss in the same period of last year.

And fourthly, there was an adverse change of £348 million in banking volatility. So it is a complex story, but setting aside these volatility effects, income from business operations was down 12 per cent. Before I break that down further, let me take a moment to comment more on the net CVA charge on slide 19.

This adjustment comes from the business we do with our customers in Wholesale, where we hedge their market risk, mainly their interest rate and foreign exchange risks and where we have an uncollateralised counterparty risk.

In the past the Credit Value Adjustment relating to this counterparty risk was similar to the Debit Valuation Adjustment on our own credit risk, and therefore the overall charge has been quite small.

In the last three months, however, counterparty spreads have widened resulting in a higher Net Credit Value Adjustment than previously. This is not an accounting change or a change in the volume or type of this core business. It has purely been driven by the current market conditions and we would expect it to reverse in the future.

Now, back to that underlying income from business operations and the income effect in core and non-core I have set out on slide 20.

In terms of volume effect, we have seen shrinkage in both core and non-core in the first nine months. This shrinkage obviously has a negative effect on income, however it also creates a benefit from the reduced volume of relatively costly wholesale funding.

When we look at the funding cost effect, we see that the biggest movement comes from the increase of the wholesale funding cost, and this had a large effect on our margin. Against that however, we have realised some asset repricing gains on core and a repeat of the half year funding mix benefit from increasing levels of customer deposits, giving us a broadly flat core margin.

In addition we have also seen a reduction in our albeit modestly sized treasury and trading income, which has impacted the quarter on quarter trend in other operating income. And this is a direct result of the ongoing volatility in those markets. Moving then to the rest of the income statement on slide 21.

During the first nine months, operating expenses decreased by 3 per cent and the impairment charge reduced by 22 per cent. I am going to give more detail on the drivers behind each of these items in a moment.

We have now substantially completed our integration programme with annual run-rate savings of over £1.9 billion as at 30 September. A major part of the integration was the completion of the migration of Halifax and Bank of Scotland customer accounts and data to the scaled Lloyds TSB platforms. These platforms now provide the foundation for the Group's transformation plans.

On a combined businesses basis, profit before tax has fallen in the first nine months. These numbers were impacted of course, by the temporary volatility effects which I mentioned earlier moment ago. Excluding these effects, combined businesses profit before tax was down 6 per cent, with the significant improvement in impairments more than offset by reductions in income, which reflects of course the subdued UK economic environment, as well as the risk and asset reduction we undertook to further strengthen the balance sheet.

The statutory loss is of course dominated by the PPI provision we took in the first half of the year, but it also includes charges including integration and simplification delivery costs, as well as negative insurance volatility. Looking now at the drivers behind our cost performance on slide 22.

The 3 per cent reduction was driven by incremental synergies from our integration programme, as well as some initial savings from the simplification initiatives we launched at the Strategic Review in June, and lower levels of operating lease depreciation than in the first half. These savings were partly offset as expected by increases in VAT and National Insurance costs, and some inflation and other cost effects.

In our core business, expenses reduced 2 per cent, driven by the same factors largely as in the Group as a whole. Let's now turn to the significant reduction in the impairment charge. We saw a further reduction in impairment charges for the Group, quarter on quarter, as well as in the first nine months versus the same period of last year.

Higher charges in International were more than offset by improvements elsewhere in the Group, particularly the substantial fall in the Wholesale division's impairment charge compared to the same period in 2010. The key drivers of the Wholesale and Retail divisional improvements are similar to those outlined at the half-year.

Even though we saw an improvement in the third quarter across all divisions, based on our current economic assumptions, we are not making any changes to our outlook statements for 2011. The market consensus for this year's full year charge, if I look at consensus at the end of September was approximately £9.9 billion, and this remains broadly in line with management expectations.

Slide 24 shows the benefit of the improvements we have made in both costs and impairments. It shows that, despite the decline we have seen in income, we have achieved a profit before tax and fair value unwind for the first time since the first quarter of 2010.

Before I sum up, let me briefly comment on our core and non-core performance using slide 25. In the core business, profit before tax was £1.1 billion lower, driven by the £1.4 billion decline in income, partly offset by an improved cost and impairment performance.

However, excluding volatility effects and liability management gains, core profit before tax was down just 9 per cent, principally reflecting subdued new lending demand. In the non-core parts of the business, the decline in income reflects the successful run-off of our non-core assets. And while we reported a loss before tax of £2.6 billion on non-core as you can see from slide 26, this very successful run down of the non-core portfolios in the first nine months of the year has been close to capital neutral.

The capital consumed by the loss after tax in the non-core business has been nearly offset by capital released by the reduction in risk weighted assets from their disposal, and of course we will continue to benefit from the reduced the level of risk in the balance sheet going forwards.

The non-core programme has also helped deliver the obvious funding flexibility and this has helped with a reduction in our funding requirements quite clearly as a direct result. We continue to target non-core run off being capital generative over the 2012 to 2014 period in aggregate, although consistent with what we have said before, not necessarily in every reporting period. So let me now summarise and comment on guidance using slide 27.

We have successfully reduced the Group's risk profile further, and despite the very challenging environment in which we operate, we have delivered a resilient underlying trading performance.

We therefore continue to expect to deliver on the financial performance targets we set out in our 2011 guidance, however overall results continue to be impacted by accounting volatility effects and non trading items.

Although this is really a trading update statement, we have made some comments today about medium term targets. As we all know, the economic environment is much more challenging than a few months ago. As a result, we are reassessing our assumptions, principally around GDP growth and the timing of base rate increases.

Although further opportunities for improving margins and profitability may partially mitigate these economic effects, if the current weaker economic conditions persist, the attainment of some of our financial targets, principally with regard to income related metrics, may be delayed to beyond 2014.

Let me stop there and now Kate and I would be happy to take any questions you may have.

Question and Answer Session

Question 1: Chris Manners, Morgan Stanley

Good morning everyone. So I have a couple of questions for you, first was just on the net interest income, basically the interest margin I guess sort of fell four basis points in the quarter. Interest earning assets presumably are down because of the de-gearing, yet your NII sort of stayed stable. I was just trying to work out here what do you think is a sustainable NII level and what level we will be into next year?

The second part was just on the sort of the core loan growth. It seems that it sort of core loans slipped by about 1 per cent in the quarter and slipped 2.5 per cent in the first half, I mean is that like a demand driven thing? Should we actually expect contraction in the core loan book as well as the non core? And those were the two sorts of questions I had, thanks.

Answer: Tim Tookey

Okay Chris let me go through them, I will go through them in the order that you mentioned. In terms of what is happening in NII and the margins, then to some extent the trend has a degree of distortion there from banking volatility which is favourable within NII to the tune of about £100 million in the third quarter. So that creates part of the noise but otherwise we continue to benefit in there from re-pricing activity that continues as we have already said, but albeit not at the pace we were able to achieve a year ago. Some of the margin benefit actually comes from funding mix here. So the margin has held up very well in the third quarter and I am pleased with that.

A number of factors in there. Firstly there was a sort of a mathematical effect of simply only having issued about £5 billion of new funding during the third quarter, compared to £25 billion in the first half. Naturally the amount of relatively expensive funding that we have had to issue is much reduced, so the impact on the margin is therefore lower than we have seen in previous periods. We have also had the continued benefit of funding mix, so a greater proportion of our funding of the entire balance sheet is coming from customer deposits and that is in a cheaper sort of funding relative to wholesale. Quantum of course comes into the margin calculation, really pleased to have seen a 5 per cent reduction in the quarter in the absolute level of wholesale funding, that is a great achievement and there is a real vindication for the continued push on non core reductions. So we get a sort of day one benefit if you like from needing less funding and a day two, tomorrow benefit from having less risk in the balance sheet, which means we are better able to deal with whatever headwinds are coming from the outside world.

You also asked about margin trend and trajectory. Yes we have seen the expected few bps come off the margin in the third quarter, that is in line with where I have expected it to be pretty much and gives us a lot of confidence that we will meet our guidance for the full year which is to be just over 205. So all margin guidance got lifted 5 bps from the previous restatement. So you know, we have got high confidence of fitting that for the year as a whole. But if you looked at it quarter-on-quarter then you will see that the margin, you know the few bps lost in Q3 would probably be repeated in Q4 as I get the annualising effect of wholesale funding of being without the relatively cheap SLS funding. And that is exactly in line with previous trends and expectations. So the margin is under pressure from those types of things, but no more pressure today than it was under 3 or 6 months ago.

You were asking about core loans I think was your last point, Chris this is a degree of sadness, you know I said it back in May and in the summer. We would love to be growing the core book and we have clearly got the financial capacity both in capital and cash terms to grow the core book, but we are not seeing the same level of demand that we would like to see. We are not going to lower our credit risk standards in order to grow that book and inadvertently put the wrong type of assets on

but we would like to see more demand. I think consumers and corporates are being understandably cautious, given what is going on in the outside world, given the impact of inflation and of the Government's austerity programme that are starting to come in now and be felt, then I think consumers and corporates are understandably cautious. What you won't see us do though is chase risk in order to write volume and create the wrong type of income.

Chris Manners
That makes sense. So we should actually sort of still continue to expect a gentle drift down in the core total loan book I guess it sounds?

Tim Tookey
I think that trend will probably continue in the fourth quarter, albeit I would love to stop it. Where however, we are seeing good growth in the core business is in our savings side of it. You know for us to achieve 4 per cent growth in retail, wealth and international deposits, but all within the core franchise, that is a very good performance. And actually if you looked at the aggregate of assets and liabilities here, then actually the core book is as near as dam it flat. And that puts us in a good position to manage margins and income in the future, when base rates start to move and the quantum of wholesale funding that we take continues to fall. So if you like we are getting ourselves into a better position, a more resilient position to deal with current circumstances, but into a much stronger position when the environment improves for us to be able to see progression in the top line and in the margin, particularly in the core business.

Chris Manners
Perfect, thanks very much Tim.

<u>Question 2: Jason Napier, Deutsche Bank</u>
Good morning to you both, so three quick ones if I might. The first just coming back to banking volatility – Tim you mentioned £100 million of benefit in the third quarter, if you could give us the second quarter number, that would be helpful.

Secondly, on full year loan losses. I think you were saying sort of £10 billion for the full year, that is not a huge step up from the third quarter but it is a touch higher. Could you perhaps talk about you know in which books of business you think that might pertain and sort of where visibility sort of is limited and causes you to have that sort of what looks like fairly cautious guidance?

And then lastly, the fair value unwind for this year, £2.2 billion was £2.7 billion before and the text seems to suggest that the profile in future years remains the same. Is that to say that it is £500 million lower in future years or just that the kind of shape is largely unchanged? Thank you.

Answer: Tim Tookey
Okay, thanks very much Jason. Yes the £100 million I gave was Q3 banking volatility within NII and the number in the second quarter of this year was £84 million.

Jason Napier
Perfect.

Tim Tookey
In fact I think Q3 was about £100 million, if you want the exact number it was £98 million. So Q2 was £84 million, that was banking volatility within NII.

Loan losses, yes look it is an interesting trajectory, I mean we are clearly very pleased with the third quarter coming in at £1,956 million of charges in Q3 is a very good performance and I am

very happy to say that is better than we had expected but there is inevitably going to be degree of lumpiness in how some of these things come through. Yes we saw that back in the summer didn't we? When we looked at what happened in Wholesale in the second quarter, where there was a slight tick-up. But actually the first half was exactly in line with where we had expected it to be. I think as we look through the asset quality chart that I have used this morning, then you continue to see a very good performance across the Retail Bank, and actually Wholesale has been very quiet. We have had a very quiet Q3 for Wholesale impairments and that Q3 result is not as a result of one-off recoveries, that is genuinely us not seeing as many assets require provisions as we had expected. What we are seeing also, which is encouraging, is that when an asset becomes impaired today, it generally needs a smaller impairment provision in pounds in relative terms, than an asset would have done a year or eighteen months ago. So the bad assets went bad a while ago and the stuff that is going bad today isn't as bad as would have been seen in the past. So that has an impact too.

As far as the full year, I think, look I am cautious and I look at the consensus of £9.9 billion, was impairment consensus at the end of September, and I think we are about £7.4 billion at nine months. I am not deliberately building myself in some headroom in there I am simply saying that quarter on quarter is not the best way to look at trends in here and I am looking at this against our guidance for the full year and I am not uncomfortable with consensus at £9.9 billion for the full year. Look if I can stand up in February and say we have come inside that, terrific. But I am not calling that today. I think there is some lumpiness in this inevitably and it is one of the dangers of quarterly reporting is that people take these quarter trends and just extrapolate. And I am if you like, I am cautioning against that this morning. But clearly it is nice to be doing it from a position where the third quarter has performed so well and so well in every division.

I think the third part of your question was on banking volatility. I mean to a degree here the lower impairments that we have seen actually contribute towards having lower fair value unwind. The two go hand in hand on some books but not on others. But the improvements in impairments obviously in the Lloyds portfolios doesn't impact on fair value at all. There was also some currency effects that are in there that gives us part of it. I note though that actually what we are doing here is really trying to adjust the consensus view on fair value. Consensus on fair value at the end of September was £2,416 million. So I'm if you like I am giving it a tweak to £2.2 billion which is our current view. This is inherently difficult to predict and to model and that is why Jason each quarter we will tell you what we then think is the latest view for the year. Because it is impossible for you to model it and predict it and it is not impossible for us, but it is difficult. And therefore we will keep being as transparent as we can on the trends that we see.

Jason Napier
Sorry just on that last of the three questions, your half-year slide there gave £2.7 billion for the full-year, so I know our consensus said anything other than that, because you are right, we have got no idea. But are you saying cumulatively that the add-back to the P&L has changed? Is that right?

Tim Tookey:
Yes I am – from what we set at £2.7 billion, we are now predicting £2.2 billion, which is a mix of lower impairments we have seen and that is a mix by portfolio clearly means lower fair value unwind in this, but the fair value unwind will come through, it is a timing difference. So if I don't have my credit this year, it means I get it at some point in the future, it is zero sum game over time.

Jason Napier
So the £500 million you have got for next year and the year after and the old deck is another number which in all likelihood may end up being higher?

Tim Tookey
I am quite sure that we will need to update all the numbers again in February, but I am not calling out what that trend is going to be today, I am really focused on the great performance of nine months.

Jason Napier
Thank you

Question 3: Manus Costello, Autonomous
Morning everyone, I have a couple of questions please. Firstly I note you have seen a big increase in the cash you are parking at the Dutch Central Bank. I wondered if you could explain what is driving that, if it is anything to do with strategies in thinking about Eurozone difficulties?

And secondly, just to follow up there on the fair value questions. I appreciate that fair value is zero sum gain and that in the past you have talked about guidance out to 2015 of £300 million of negative going through to 2015. I just wondered if you could confirm beyond 2015 if we are looking at several years, many years of a drag coming through from fair value unwind, because I think if you total it all up there is still several hundred million per annum for many years that comes through after that period, if you could confirm that? Thank you.

Answer: Tim Tookey
Yes certainly Manus. In reverse order, yes there will be a few years beyond 2015 where there will be a small drag on fair value. What that will relate to is the ongoing tail of the HBOS debt that was fair valued on acquisition and that fair value unwinds over the period to maturity of expected redemption of each debt instrument, so that follows that line. So there is much less subjectivity on the unwind profile of that. That is actually what you see largely coming through in the core numbers. That is really the fair value unwind you see in the core results if you started at the back of the release. Because we have to regard all of that as relating to supporting the core portfolio, because you can't identify a piece of wholesale funding and say, right that particular piece of debt supports a particular non core asset. So I am afraid we are very tough on ourselves in that respect and report that within the core result.

As for the point on Dutch Central Bank deposits, this is simply the route through which we access the ECB. We do it there because we have actually got a business there, but that is how we have accessed ECB deposits and it is part of our overall management of the liquidity portfolio and of matching our Euro denominated assets with Euro liabilities to make sure that we are not running any currency risk across our different funding programmes.

Manus Costello
It is all in Euros is it? Because the overall just totalling it up, it looks like the overall Euro exposure there has gone up quite substantially if you just add up those Q3 versus Q2 numbers?

Tim Tookey
Yes it is, it is just part of the normal part of managing our overall funding profile but what we don't run is any overall currency exposures on our assets versus liabilities.

Manus Costello
Alright, thank you.

Question 4: Mike Trippitt, Oriel Securities

Tim good morning, I did just want to quickly come back to Jason's point on the impairment charges. I understand the caution, but it looks to me like you know, you have a Q4 charge of about £2.5 billion I think to get to the £9.9 billion. If you did say another £700 million in Ireland, then you know the rest is at about £1.8 billion. So I can understand the caution, but it does seem overly cautious, but I wondered if one of the reasons for this is within the non-core run-off, would losses incurred on that run-off, I mean presumably they would be reflected within the impairment charge. So I am just wondering whether, as you progress with the non-core run-off, if the cost of disposals start to increase, is that something you might see in the fourth quarter and beyond?

Answer: Tim Tookey

Interesting way of looking at it, let me go through it. Mathematically yes, if I was to hit the £9.9 billion of consensus I would be charging £2.5 billion in Q4, so I agree with your underlying numbers. As for your sort of implied split between different territories and whatever, we have actually seen no particular additional strains in Ireland. Yes I have seen a slight increase in impaired loans that we have expected, yes we have continued to tick-up the coverage ratio, it is now at 58 per cent in Ireland, but there has been no particular stresses in Ireland in the third quarter that have caused us any angst at all. Am I being overly cautious? Who knows Mike, I mean you know we saw the Q2 tick-up in Wholesale and because I hadn't predicted or called out at Q2 like that, you know it creates a bit of noise around half year. If I am being overly cautious, then we are only going to know about that and I am only going to know about that in February. I think for me we are very pleased with the risk reduction we are seeing. I think to see one quarter like we have seen, albeit with improvement across every division, is too early to call a change in a trend and this isn't a business or an economic environment for the UK or beyond where a quarter can be read as making a complete trend.

You then asked a very particular piece on non-core and non-core losses. Let me tell you, accounting wise, if you have an impaired asset that you sell, then yes you would see any difference to your book value would go through the impairment line. If you sell an unimpaired asset then the difference goes through in other operating income and that is why in the first quarter and second quarter you saw us take losses on our asset sales and they went upstairs in income, albeit we largely offset that fair value unwind downstairs at the bottom of the income statement. So yes, if we were selling impaired non-core assets then the loss would normally be regarded as additional impairment and you would see it in the impairment line. That isn't great, but in the third quarter, we took £11 billion off non-core and I didn't surprise you with a big charge in impairment in Q3. That is tremendous support for the fact that marks we have taken on our assets are adequate for us to realise these assets over time. And we are selling much more secondary commercial real estate in the UK this year than we did last year and I am doing that within our marks. We took a billion off the Irish portfolio and that is included within the numbers that we have seen today. So I am, yes technically you are absolutely right, and yes you could say that gives me or gives us more capacity to do some non-core run off in Q4. If we did then we would be reaping a capital benefit and I would be seeing less risk in the balance sheet and more cash in the balance sheet. That wouldn't be such a bad problem.

Mike Trippitt

I agree, thank you, that's great.

Question 5: Rohith Chandra-Rajan, Barclays Capital

Morning, a couple of questions if I could please, one on non interest income and a broader one just in terms of the timing of meeting the strategic objective which you have mentioned this morning. Just on non interest income, you have kind of confirmed your comfort with a lot of the lines in consensus. On non interest income, consensus looks like it indicates something like a 50 per cent

tick-up in non interest income Q-on-Q in the fourth quarter, even if you exclude the £360 million CVA in the third quarter. So a couple of questions around that. One, just I was wondering if you could provide any additional colour on the CVA, whether it reflects a specific group of credits or a specific part of the portfolio? And then secondly if there is anything else in non interest income that has depressed the number in the third quarter, for example if there are any disposal losses in non core etc which we should be thinking about as we go into the fourth quarter?

So that was the first question. And then much more broadly I just want to make sure we understand correctly your guidance in terms of the 2014 targets being pushed back. Specifically in terms of the comment about if weak economic conditions persist, I am just wondering how long is that into 2012 or through to 2014 or at some point in-between? Clearly your points around the interest rate environments will impact the Group net interest margin. I am just wondering elsewhere particularly in terms of your commentary around GDP growth, if there are particular divisions or business lines where you are now more cautious on meeting the 2014 guidance? Thanks.

Answer: Tim Tookey
Okay, there are a number of points in there, Rohith, let me try and go through them as I have scribbled them down, but if I miss something please come back and ask me again. In terms of what is going on or can I comment further on the other operating income line in there? The only things that we have seen in terms of changes of pattern are that in the third quarter, is where we have seen by far and away the largest part of that brick that I had on my income trajectory which showed that our Treasury and Trading items were up about £240 odd million. That is a nine month figure but you could really read that as a Q3 figure. And that affects our OOI entirely.

The other thing in terms of trend is you might have spotted that in the half year results announcement, we made reference to some one-off recoveries that we had made against previously written down financial assets. Those would have benefited the OOI line in the second quarter to a tune of about £100 million. And also in the first part of this year, and again it is referenced in the RNS today and I am sorry if it is lurking, I think it is top of page 11, which we had a £53 million net CVA credit in the first half of the year which quite frankly if I pull that in the £40 million and £50 million, we would be here forever. But I only pulled it out now because we have seen CVA move out against us in the third quarter. So I guess Q2 benefited by sort of £150 million odd of one offs and then Q3 has seen the CVA that you can see, as we have pulled it out, as well as the vast majority of that Treasury and Trading shortfall in the third quarter. So I think that should give you a clearer view on what is happening in the OOI line.

You then went on to talk about CVA and which books etc it relates to. This is really part of our normal risk management solutions business that supports our core relationship banking customers, largely in the Wholesale, virtually all in the Wholesale Division. These are customers who look to us as their relationship bankers to help them manage their interest rate risk principally and therefore we lend on a floating basis that we convert that for them on their behalf into fixed income obligations. We lay off all that risk with the market, but clearly I am bearing that sort of counterparty credit risk. That is what we have seen in the credit spreads, you know mathematically move against us or they move against. That creates the mathematical adjustments on CVA that we have seen so much of in the fourth quarter. So if you model a sort of five year CDS curve double B type credit, because remember virtually all these customers are unrated, then that trend over the last nine months will be an almost identical mirror for what we have seen in our sort of CVA movements.

I think the last part of your question then focused on guidance, Rohith. We are in the process of working our way through this. You know when we were back in April time preparing the Strategic Review, we were dealing with an environment where consensus was that there would be three

base rate rises in the current year. We stuck with our Chief Economist's view, after a long debate at the Group Executives Committee, we stuck at one rise. Now clearly you know, six months on, from setting those assumptions back in April/May time, you know we were looking at an environment where the market doesn't view there being a high likelihood of a rise in base rates at all next year, let alone anything this year. Now if that happens for longer and we also see GDP being marked down by everybody, that is partly UK centric, it is partly the UK impact on what is happening in Europe, because we have to remember that Europe are very significant trading partners of the UK. So we are as a UK economy, you know exposed to trends in economic activity levels across Europe. Those two things have really happened since the start of the summer period, and are causing us to reassess our assumptions.

Our current view is that you know we are not going to be seeing material differences in asset prices or unemployment so we think the impacts will be really focused primarily on interest rates and GDP, which is why we have referenced those in the news release today. As for how long will they persist, look I would love to have a crystal ball to be able to answer that. We have seen market expectations for base rates move so much this year, I think it is a brave man to call when base rates are going to move going forward. But the effects of base rates being lower for longer is deferring a movement in those rates which as we have been very clear on several reporting dates, is a key lever for us to be able to manage the different components of our income base that come primarily from our retail customers.

So we continue therefore to be seeing very sluggish churn in the mortgage book and we continue to see competitive pressures in the deposit market which means that liability margin expansion isn't possible without base rate moves. But as I said in answer to the earlier question, if we continue to grow our deposit base, then we are building a greater capability for ourselves in the future to be able to manage income and margin expansion when we see movements in those rates. The work assessing this is ongoing but I think it is going to be, everything I know today, and it is ongoing Rohith, but from everything I see today, we think the impacts will be restricted to sort of income levels and therefore income related metrics and therefore we if you like we are not saying there will be any difference on impairment guidance or expenses guidance at the moment.

And that is really as far as we can go because the work is still ongoing and you know, if we need to say anything to clarify this then we can say something in February. But most importantly, the other things in the business are still continuing. So we are continuing with all of the implementation of the strategic initiatives. We are absolutely mobilised now on the simplification work and as you saw in my expenses walk, you will have seen the first gain in expenses that have come through in that programme which is very embryonic, yet having been started in the late spring and summer. But work continues on all of the initiatives and as we see savings come through from simplification, then we create that capacity for that very strongly controlled investment and growth initiatives. Remember we said we would only invest one pound in three, and that stance won't change.

Rohith Chandra-Rajan
Thanks for that and particularly the very comprehensive answer to the non interest income question. Can I just say and come back and I appreciate this is ongoing work, but I really just want to try and understand the comment about, if weak economic conditions persist. So really it was a question about, if things start to get better perhaps at the beginning of next year, then are the 2014 targets in tact or even if that happens should we still think a little bit more cautiously about 2014 perhaps becoming 2015 or some point thereafter?

Tim Tookey
I understand the question and I understand the appetite out there for people to understand what the impact is going to be on it. Whilst the work is ongoing, I mean a hypothetical question, if things

get better early next year could things be back on track? Clearly if things get better next year then I am much more likely to be able to confirm that things will be back on track, but I am giving you a conditional response to a hypothetical question Rohith, if you don't mind. And if the longer things are tougher for or delayed for, then that removes some of our flexibility to respond. That is why I say I still believe we will be able to partially mitigate the full economic effect. Base rates are one of the many levers. Clearly we are making good progress on controlling the things that we can control. You know, the margin is still in a good spot. The expenses are starting to come down. We are managing the risk down the balance sheet, wholesale funding is coming down, deposits are up. There is so much that we are doing that we can control and influence. And that just serves to make the business ready to be able to better mitigate anything that is thrown at us from delayed base rate rises or economic recovery.

Rohith Chandra-Rajan
Okay that's great, thank you.

<u>Question 6: Raul Sinha, JP Morgan</u>
Good morning everybody. I just wanted to understand, how much was total banking volatility positive in the quarter compared to the previous quarter? You have volatility on NII where there is other operating income?

Answer: Tim Tookey
Yes if I had it in other business, I would have a grand total of £145 million favourable in the third quarter. So I had £98 million in NII, £47 million in OOI.

Raul Sinha
Okay and then if I could just go back to the point that Chris was trying to explore earlier about NII being flat in the quarter and obviously margins coming down and I have got two parts to the question. One is, it looks like your loans fall in the quarter, but your assets are up. And that increase seems to be coming from the other lines in the assets that you disclose in the core. So perhaps you could break out what that might be? And then secondly, you know it looks like NIM has fallen something like 14 bps this year, assuming a further few basis points fall in Q4. How should we be thinking about net interest margins for next year?

Tim Tookey
Okay Raul I am scratching my head on your thinking the assets are up, can you guide me to where you read that so I can make sure?

Raul Sinha
If we go down to the second to last page, within the core other assets disclosure, core other assets, probably about £13 billion increase, that is the only line that seems to have grown in terms of assets and I am trying to understand whether NII is up because of the rise in assets, despite the margin having fallen in the quarter?

Tim Tookey
I am just having a look. Yes I think that line there includes our primary liquid assets as well and I also include in there the balances on our derivative book, that is the book that is giving us the CVA effect. Derivative balances, if you come back to page 27 Raul, then you will actually see there the derivative financial instruments are up from the end of last year £51 billion, £50,777 million up to £66 billion at the end of September.

Raul Sinha
Thank you.

Tim Tookey
And you will also see the offset in liabilities. So what was the second part of your question?

Raul Sinha
Margin and for 2012?

Tim Tookey
Firstly what is happening? Yes you have seen the margin come off for the number of bps that you referred to. Things affecting that, firstly the absolute price of wholesale funding. A pound of wholesale funding is more expensive today than it was and therefore we are still seeing a rise in the weighted average cost for the wholesale funding pound. Let me explain. We are still running off obviously term funding that was on the books pre the start of the financial crisis when term money was not really much more expensive than short money. And as I replaced that term money with albeit less term money today because I am running down the balance sheet for non core assets, the balance sheet, the weighted average cost of my average wholesale funding pound continues to rise.

Offsetting that I have a benefit from the funding mix. A greater proportion of the funding supporting our balance sheet is from customer deposits. The customer deposits are bar the rounding, all core. And that is why you see the core margin is only off 2 bps, 247 bps to 245 bps, because the core margin is benefiting from that funding mix benefit by taking more deposits and a lower proportion of wholesale funding. Conversely there aren't any deposits that support the non core assets. And the non core assets are exposed in full to that rise in the weighted cost of wholesale funding. And that is why you see the wholesale banking net interest margin fall so significantly. It is one of the reasons why economically it is great to see good reduction in non core assets to reduce the absolute quantum of wholesale funding that I need. So that is why you get the different trends in the two margin lines.

Going forwards though, and obviously I still focus very much on Group margin here, going forwards you can see from the trends that we have that when I talk about guidance for the full year of being just above 205 bps, you know that trend of annualising the impact of SLS etc is still to work its way fully through. So we are probably going to see the margin you know continue to come under pressure for the first few quarters of 2012 and thereafter we will have to see what happens on other things like continue re-pricing and base rates and wholesale funding markets and debate what effect that has out there. So I am not calling an inflection point in the margin on this call today, but I am telling you and it is not really much different from what I was saying back in the summer, that yes we would expect to see that the margin continues to come under pressure as we see the animalisation effects work through at the start of next year.

Raul Sinha
Do you think the degree of pressure is going to ease into next year or is it going to remain largely the same?

Tim Tookey
I think it will have different constructs and different dynamics, but I don't see much more pressure today than a few months ago. And I think one of the reasons we don't is because of course we completed a funding plan. So we have raised the same level of funding but the balance sheet has come down more through a great performance in non core reduction in Q3. And that puts us into a very good position on top of that to have £200 billion or £220 billion of primary and secondary liquidity, you know gives us a lot of flexibility to decide how we want to work with funding markets going forwards. So if we continue to see the balance sheet decline and obviously the secured funding markets are still in good shape. I mean actually we completed a three billion secure trade

in October. £3.1 billion so secured markets are open, well certainly open for us. So we could get to the stage actually where I would have to have much less exposure to unsecured term funding next year because of balance sheet contraction and having an awful lot of very high quality collateral available to support a secured funding programmes. The funding piece is a very good, strong, balanced position to be in.

Raul Sinha
Right, thank you.

Question 7: Jon Kirk, Redburn
Morning, you actually started to answer my question in the previous answer, but just to come back to the idea of what your capacity for secured funding is from now on? Obviously you have encumbered funded quite a lot of your assets already and I am wondering what you see as your limit on that and also what the regulatory limit is on that? So that is the first question.

The second question is actually about your ECNs and given that the ECNs as continuing capital has been ruled out now by Basel for the purposes of the GSIF buffers, do you need that ECN funding and would you consider a liability management exercise which could yield I think very significant gains at this point?

Answer: Tim Tookey
Hi Jon, thanks for the question. Firstly on your point around encumbrance. Obviously with the funding that we did in the first part of this, the first ten months of this year, I had on one of my earlier charts a mix there which said of the £34 billion if I can round it, achieved in this year, £21.4 billion came from secured and £12.2 billion unsecured, giving the £33.6 billion . So we have got a roughly, two thirds, one third, which is actually in line with the guidance we gave in the summer when we said going forwards we would probably do 20-25 and about 60 per cent-two thirds per cent of that would be in the secured space. So we have got the mix this year exactly right.

In terms of capacity going forward, remember that we had an enormous amount of assets tied up with the SLS which is a very collateral, hungry facility. So actually my level of encumbrance in the balance sheet is probably lower now than it was, you know, 6-12 months ago. So in that sense we have got, the regulators understand where we come from and they also understand the importance of having access to secured funding going forward as part of a balanced wholesale funding programme that appropriately structures the balance sheet. It is also a very, very sensible way of getting closer to maturity match of your asset and liability portfolios. And in that sense you know if you don't take advantage of those markets when you have got such a high quality prime mortgage book for example as we have in the UK, then you know you really are pushing yourselves to the position where your loan to deposit ratio might look nice and low, but you are actually funding long-term lending with very short-term relationship deposits. And you know, the two crises we have had in the funding markets for the last few years, everybody knows that isn't sensible. So the wholesale markets using the collateral provides you with a very good way of balancing your funding requirements and reducing that maturity mismatch exposure. So in absolute levels of encumbrance, well lower today than of 6-12 months ago. That gives us capacity going forward and of course our wholesale funding needs a coming down. We did £50 billion in 2010, £34 billion this year, £20-25 billion next. So I am getting to a stage soon where I am going to be having more maturing than I am issuing and therefore we will be in the reducing position again.

You then asked about ECNs. The ECN is a, for us were instruments or parts of our project Seaview as well called it, which was the equity and liability management exercise of November 2009 which avoided us going into the asset protection scheme. So they played a very, very

important role in getting the Group into the better position that it is in today. As far as where those sit going forward, we have yet to conclude discussions with the FSA as to how they will be treated in the future. And indeed the G-SIFI world is some way away. But we also need to think about the potential for buffers coming in for ring-fence banks, although thankfully the ICB in positioning this said they would see that as being over-lapping with any G-SIFI buffer, definitely not incremental.

In terms of your specific point on liability management, I don't know Jon, we look at these things from time to time, but we are never going to say any comments in advance of what we do. Remember these instruments they may be regarded as relatively expensive for us today, but the cost of them is fully reflected in our guidance. Fully reflected when we say it is happening in margins. And of course the regulators look at them when they do stress tests on us as if they are Core Tier 1. It does mean that when an EBA for example stress test table comes out, we sit lower down it than we otherwise would because these things are obviously a long way off being triggered in any stress. So if you like I am not able to report a stress ratio as strong as you and I know it really is. That is just the way it is.

Jon Kirk
Okay, thank you.

Question 8: Tom Rayner, Exane BNP
Thank you, good morning Tim, good morning Kate. A couple of questions actually, well three actually. The first two are linked. I mean slide 3 on your presentation showing where you are on the non core run-off. One of your competitors now sort of gives aggregate guidance on impairments and also an indication of disposal losses as various assets are actually sold. I just wondered are you guys in a position where you are able to do something similar and are you still looking for sort of £90 billion or thereabouts by 2014 to sort of still be on balance sheet? I have a second question which links in to possibly the answer to the first. Thanks.

Answer: Tim Tookey
Okay, if you have got a second question, I had better be careful how I answer the first one I guess. Are we still targeting £90 billion? Absolutely, and the very good progress we have made in Q3, I am very open with the fact that we are some way ahead of our own expectations for Q3. So absolutely nothing changes on the £90 billion. We will continue to manage the non core just as António and I set it out in the summer which is balancing that risk reward, capital created destroyed, funding benefit trade off. We are still looking to be capital generative on a non core run down over the aggregate period of '12,'13,'14, but I would be very clear that I am not saying it will be like that in any quarter. But it is really pleasing therefore to be seeing in the nine months as I set out on slide there on slide 26 today, that the nine month position is virtually capital neutral, but realised some £36-37 billion of cash. I call that a good deal.

As for setting out future losses or impairment expectations, no we haven't and I don't think that is something we would do. I think we have found on too many occasions here that the flexibility we have got by always being so far ahead of where we have to be, and remember where necessary Tom, we can pull from the market an asset that we are putting up for sale, because if the buyers see us coming and they think we have to do something, we see the price change. And on many of our commercial real estate assets, we have pulled sales where we don't think the price is indicative of a fair result for our shareholders. And I want to continue to be in a position where we have that flexibility. And whilst we are so far ahead of where we need to be I have got a lot of flexibility and I wouldn't want to give that up.

Tom Rayner
Thanks. And really the second question was back to the Q3 impairment and the fourth quarter guidance. The fact the impairments were lower than expected in Q3 and you also had a fair value unwind number which would suggest it was linked, the delta was linked to HBOS acquired assets, I am just wondering does the caution regarding Q4 possibly reflect plans of sort of the sale maybe from the non core? If I look at the commercial real estate of £22 billion, if you were to sell a large chunk of that in Q4 you may well realise a lumpy impairment in Q4. Am I thinking along the right lines or is your caution generally just because you are a cautious person?

Tim Tookey
Tom there is nothing to read into my comments that if there is anything coming down the pipe. So there is nothing on that. All I am simply saying, I am on the Q4 point, not the fair value point. All I am simply saying there is that we had a better than expected Q3 and I am not calling a shift in the trend on the back of the three month steady performance, albeit when it was across all divisions, which is very nice to see. But in this environment, you know one swallow doesn't make summer and one quarter doesn't cause me to change full year. If I surprise on the upside in February then that will be something that will be a great achievement of how for hundreds of people managing the balance sheet have delivered over the fourth quarter. But I am not changing where I am at the moment.

In terms of the relationship with fair value, this of course depends on which book performs better. If you have a Lloyds asset that performs better, fair value is an irrelevance, there is no fair value on anything in Lloyds. If you have an HBOS asset that performs differently then you will get a different trend in your fair value. You also end up with the currency effect which can change the profile you get through here as well. But one thing to remember Tom is in the first half we had about £1.6 billion I think from memory of fair value unwind. Remember that included about £400 million that was accelerated because of the Treasury asset sales that we did during, largely in the first quarter, but some in the second quarter. So we were very clear that meant we had sucked forward about £400 million, including £200 million that would have come out of the second half. So there was a degree of, it was always going to be stronger in the first half anyway. And then you had the other effect that has given us a really quite small trend in the third quarter.

Tom Rayner
Does the fact that the fair value unwind is negative in the core business suggest there is a positive write back above the line?

Tim Tookey
No, no, no Tom. No, no. The fair value debit in core is all about HBOS own debt which was revalued when we bought HBOS and it amortises back to par on the assumption we were dealing at par on the eventual contractual maturity date, and that is pretty mechanical.

Tom Rayner
Okay, thank you very much.

<u>Question 9: Peter Toeman, HSBC</u>
The two come back onto the banking volatility number because I think the figures at the three months, the banking volatility and other operating income is about minus £142 million and at the half-way stage there is a number of minus £497 million of banking volatility and other operating income. So am I right in thinking there is actually a positive number for banking volatility in Q3? Could you explain what the banking volatility number actually relates to and how it is split between core and non core?

Answer: Tim Tookey
Yes happy to, the numbers you have quoted I think are all mathematically correct. The two Q3 numbers were £98 million positive in NII, £47 million positive in OOI and we report this as all relating to our core business. I am sure if we had the infinite capability to unravel all of our hedging programmes and allocate them against individual core and non core assets, I could come up with a split, but the reality is that this is about our overall hedge effect of this programme under our old friend IAS 39, where if you have any degree of hedge ineffectiveness, then you have what we call out as banking volatility. This is the kind of volatility which absolutely zeros out over time as all of the instruments that you put in place to manage different aspects of your balance sheet risk, where all the accounting noise created by IAS 39 is not economic value, except for timing differences, because obviously it does flow through results. I am not saying it is irrelevant. But over time that accounting volatility zeros out to give you nil economic effect. So I actually reported all in core because I think that is the more honest appraisal, because if all the non core assets went away tomorrow, I would still have banking volatility.

Peter Toeman
There is no material distortion between the performance in Q2 and Q3 in the core bank as a result of banking volatility?

Tim Tookey
No core banking Q2 was I think £84 million to one of the earlier questions. No there is no difference there, but because we have had these numbers moving around Peter, it is one of the reasons why when we did the restatement of our funding cost allocations, we also decided it would be sensible to strip out volatility from banking margin because it creates a distortion that has got nothing to do with how we are funding the bank and the real costs of the liquidity that supports the assets that actually generate business value.

Peter Toeman
I appreciate that you have given us quarterly numbers, but it would be helpful if the volatile items could be shown within the core bank, as opposed to the sort of Group level?

Tim Tookey
In the core, non core split at the back of the news release, all of the banking volatilities within the core business numbers that are set out on page 29. I appreciate they are not in separate lines there Peter, I apologise for that, but it is all sitting in that core. There is no banking volatility in the non core analysis on page 30. We are quite strict over what we allow into non core. So it really is those items that I would really expect to trend to zero as the non core elements of the balance sheet are run down. And that is true on funding and particularly true on costs.

Peter Toeman
Thanks very much.

End of Q&A

Closing Remarks – Tim Tookey

Okay I think we are going to draw stumps there as I have some other commitments. Can I just thank everybody for dialling into the call this morning giving Kate and I the opportunity to talk to you about what's been going on in the business. I very much appreciate the questions and particularly the quality of the questions this time, but if there are items that you feel we have not covered properly or as you write up your notes you want to follow up with things, then please feel comfortable to contact us in the usual way over the next few days. Thank you very much indeed.