

HOLD THAT HORSE!!! FOR NOW?

Lloyds' FY 2009 results put a dampener on the nascent bull story, in our opinion, with a greater-than-expected loss (see below). Going forward, the real focus for us is not the improving NIM, but the balance between having to right-size the balance sheet so that it can be independently funded and generating enough core capital to meet Basel III capital adequacy standards. Here the bank disappointed, particularly with respect to the 2% HoH RWA increase in H2 2009 due to procyclicality. We maintain our HOLD rating for the time being, in anticipation of increased capital adequacy worries. We raise our target price slightly to 56p from 49p due to a better outlook for NII, NIM and earnings, but maintain our key concern about capital.

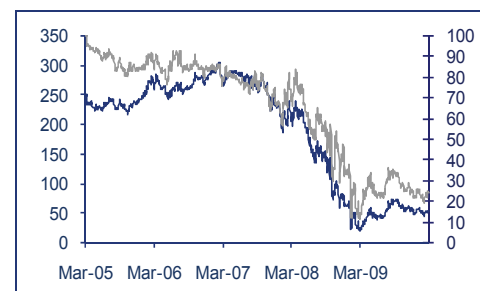
- Near term, we are most worried about the weak organic capital generation, combined with the growth in risk-weighted assets due to procyclicality. In our opinion, this is likely to exacerbate concerns that Lloyds is poorly capitalised under forthcoming Basel III regulations. Our own calculations point to a Basel III Core Tier 1 ratio of only 5.2% at year-end 2012. We acknowledge that Lloyds *potentially* has significant upside if management can execute its restructuring plan well. However, we believe it is more likely the market will come to consider Lloyds as weakly capitalised.
- We do not actually have near-term concerns about Lloyds' earnings per se, despite the FY 2009 miss. Closer inspection of net interest income reveals that core *banking* NII is moving in the right direction. There was an impressive 9% HoH increase in banking NII in H2 2009, driven mainly by an increase in the NIM to 1.84% from 1.74%. The reason why the *group* NII fell 2.5% HoH was because NII from treasury and trading (T&T), which is not included in banking NII, fell from £849mn in H1 2009 to a modest loss of £26mn in H2 2009. Management indicates that this is a one-off due to weakness in structured trading activities, and that the annual run-rate for T&T NII should be about £800mn. This being the case, NII for the group should rise strongly H1 2010 versus H2 2009.
- Loan losses for FY 2009 were £24bn, about £1bn more than we were expecting due to higher loan losses in Ireland. Management indicated that the HoH decrease in gross loan losses in H2 2009 of ~20% should continue throughout 2010, meaning that estimated loan losses for FY 2010 should be about £15bn. This is slightly higher than we and the market were expecting. However, management also guided to £2.5bn of fair value gains on the loans acquired from HBOS (i.e. arising from the release of provisions already made), which is much greater than previously expected. On the whole we believe this points to a better-than-expected development in underlying asset quality.

Research

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Rating	HOLD
Target price (p)	56.00
Yesterday's closing price	57.50
Upside/Downside	-3%
Market cap (£bn)	39.2
Market cap (€bn)	43.7
Sector	Pan-European Banks

GBP/GBPm	2009A	2010E	2011E
Net interest income	12,726	13,751	14,059
Net fees & commissions	0	0	0
Trading profits/losses	0	0	0
Other revenue	11,238	11,549	11,834
Total operating revenues	23,964	25,300	25,894
Operating costs	-11,609	-11,471	-11,212
Operating profit	12,355	13,830	14,681
Total provisions	-23,988	-15,144	-10,389
Pre-tax profit	-6,300	679	4,922
ROA	-0.58%	0.05%	0.37%
ROE	-16.19%	1.11%	7.71%
ROTNV	-19.33%	1.30%	8.96%
Cost/Income	-48.44%	-45.34%	-43.30%
Net interest margin	1.77%	1.98%	2.04%
LLC % gross loans	-3.52%	-2.38%	-1.73%
NPL ratio	8.96%	10.00%	8.00%
NPL coverage ratio	44.17%	43.00%	50.00%
Loans % deposits	169%	157%	148%
Core tier 1 ratio (Basel II)	8.10%	7.89%	8.36%
Est. Core tier 1 ratio (Basel III)	4.19%	3.98%	4.45%
EPS	-12.22	0.76	5.50
DPS	0.00	0.00	0.00
Payout ratio	0.00%	0.00%	0.00%
P/E	-4.71	75.82	10.46
P/TNAV	0.99	0.98	0.90
Div yield	0.00%	0.00%	0.00%



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FURTHER DETAIL

Lloyds reported a pre-tax loss for FY 2009 of £6.3bn, greater than both we and consensus had expected. Note that net profit was flattered by a large positive tax benefit of £1.9bn, resulting in a better net result than consensus was expecting.

The key reasons for the pre-tax miss were lower-than-expected net interest income, higher-than-expected operating costs (which management claims are due to investment in cost efficiency initiatives, which should lower costs in 2010 and beyond) and greater-than-expected gross loan losses.

H1 2010 earnings should be much better than H2 2009, as certain key earnings drivers recover...

Despite the disappointing FY 2009 pre-tax result, we are not too concerned about the earnings outlook for 2010. We explain below why there should be a positive development for each of the items mentioned above, leading us to believe that H1 2010 pre-tax losses should be only £437mn, which is significantly less than the pre-tax loss of £2.3bn in H2 2009. We forecast positive FY 2010 pre-tax earnings of £679mn (including fair value gains on loans acquired from HBOS).

However, over-riding these positives are our concerns about the attempts to restructure the balance sheet at Lloyds appropriately. We believe that Lloyds will be unable to right-size the balance sheet so that it can be funded on an independent basis, while simultaneously ensuring that earnings are high enough and RWA low enough such that it has adequate capital under the proposed Basel III principles. We believe consensus will gradually come to this view and that the stock price is likely to be weighed down by these concerns until such time that they are resolved.

The Balance Sheet Restructuring Conundrum

... but our overriding concern is that Lloyds will be considered poorly capitalised under Basel III

Regarding balance sheet restructuring, we believe the key aims should be to:

- Right-size the balance sheet so that it can be funded on an independent basis (i.e. without government support);
- Reduce risk-weighted assets;
- Generate enough earnings so that it can be considered adequately capitalised under Basel III.

Unfortunately, we do not think these aims can be achieved simultaneously, particularly in light of the 2% HoH increase in RWA that we saw in H2 2009 due to procyclicality. We think that, ultimately, this will lead to Lloyds being considered undercapitalised under Basel III, (which is currently not a consensus opinion at all). We believe this could lead to fears of a capital raise or, more likely, an enforced divestment of its interests in other financial entities (mainly Scottish Widows).

To illustrate our concerns with more clarity, we outline below how we expect the key metrics to develop up to year-end 2012, when full implementation of Basel III is expected.

Figure 1: Lloyds' Balance Sheet Restructuring Conundrum

	H1 2008	H2 2008	H1 2009	H2 2009	H1 2010E	H2 2010E	H1 2011E	H2 2011E	H1 2012E	H2 2012E
KEY DATA										
Net earnings	2,775	-9,488	-2,812	-1,451	-312	796	1,126	2,382	2,914	3,476
Customer loans	N/A	677,246	652,599	626,969	607,122	589,361	571,858	553,765	536,518	520,074
Customer deposits	N/A	381,000	369,900	371,200	371,200	371,200	371,200	371,200	371,200	371,200
Core Tier 1 Capital (Basel II basis)	N/A	30,680	30,306	39,935	39,623	40,297	41,299	43,078	45,279	47,928
RWA	N/A	498,513	482,455	493,307	503,173	510,721	515,828	520,986	523,591	526,209
Total assets	N/A	1,127,725	1,063,129	1,027,255	1,000,805	976,524	957,497	940,108	927,794	916,678
HoH % GROWTH RATES										
Customer loans	N/A	N/A	-3.64%	-3.93%	-3.17%	-2.93%	-2.97%	-3.16%	-3.11%	-3.06%
Customer deposits	N/A	N/A	-2.91%	0.35%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Core Tier 1 Capital (Basel II basis)	N/A	N/A	-1.22%	31.77%	-0.78%	1.70%	2.49%	4.31%	5.11%	5.85%
RWA	N/A	N/A	-3.22%	2.25%	2.00%	1.50%	1.00%	1.00%	0.50%	0.50%
Total assets	N/A	N/A	-5.73%	-3.37%	-2.57%	-2.43%	-1.95%	-1.82%	-1.31%	-1.20%
IMPORTANT RATIOS										
Loan-to-deposit ratio	N/A	178%	176%	169%	164%	159%	154%	149%	145%	140%
RWA as % of Total Assets	N/A	44.21%	45.38%	48.02%	50.28%	52.30%	53.87%	55.42%	56.43%	57.40%
Core Tier 1 ratio (Basel II basis)	N/A	6.15%	6.28%	8.10%	7.87%	7.89%	8.01%	8.27%	8.65%	9.11%
Organic capital generation 2009-12	-	-	-	-	-	-	-	-	-	1.01%
Core Tier 1 ratio (Basel III basis)	-	-	-	4.19%	-	-	-	-	-	5.20%

Source: Matrix Research, company data

From the above table, the following are notable:

- Management has a 'soft' target of bringing the currently very high loan-to-deposit ratio of 170% down to ~140% over the next few years to try and make the bank better funded from customer deposits. We assume that this is achieved by the end of 2012 by modelling a contraction in customer loans of about 3% per half (a similar run-rate to that achieved in H1 and H2 2009), together with zero growth per half in customer deposits.
- In keeping with this LTD ratio target, management intends to contract the balance sheet by running down £200bn of 'non-relationship' lending and investments over the five years from 2008 to 2013. As per the H1 2009 interim report, this comprises: "customer lending c. £140bn; treasury assets £60bn; risk-weighted assets £100bn". The size of the balance sheet should therefore contract over the next few years (offset somewhat by writing new, higher-quality and higher-margin loans), as has already been seen in 2009.
- Management indicated at the 2009 results that £60bn of the £200bn assets earmarked as non-core had already been run down over 2009, which is significantly ahead of schedule. The reduction in RWA in 2009 should therefore have been substantial. Everything else being equal, it should have fallen by about 6%, representing some £30bn (i.e. £60bn multiplied by the indicated proportion of RWA to total assets of 50% for the non-core assets, as above). **However, RWA only contracted in 2009 by 1% and actually increased in H2 2009 by 2.2%, which management attributes to procyclicality.** This compares with a decrease in total assets in 2009 of 9%. Management indicates to us that the increase in RWA in H2 2009 was due primarily to the deteriorating economic outlook affecting expected losses arising from the unsecured retail book.

Running down of £200bn of non-core assets is ahead of schedule. However, procyclicality resulted in a 2% increase in RWA in H2 2009

We believe Lloyds will find it very difficult to increase its Core Tier 1 ratio organically

We see Lloyds' Core Tier 1 ratio under Basel III as being very weak compared to peers, exacerbated by its lack of organic capital generation

We believe Lloyds can solve its capital situation by i) raising £12bn of equity ii) retaining earnings (i.e. not paying dividends) until 2014 at the earliest iii) floating its investments in other financial institutions or iv) demerging its investments in other financial institutions

The most likely outcome, in our opinion, is that management retains earnings to improve its capital ratios, but we do not favour this option for shareholders

- Given the end of quantitative easing in the UK (for the time being at least), an unsteady economic recovery in general and the fact that non-core RWA reduction thus far has pertained to 'low-hanging fruit', we believe there is near-term risk that procyclicality will lead to further increases in RWA. We have modelled RWA increases throughout 2010, with the rate of increase declining gradually thereafter. Combined with the fact that net earnings in 2010 should only be marginally positive, the likelihood is high that the Core Tier 1 ratio will actually fall in H1 2010 and perhaps also in H2 2010. We expect the Core Tier 1 ratio to fall to 7.9% at year-end 2010 from 8.1%. **This appears modest, but the important point here is that Lloyds, in our opinion, will find it very difficult to improve its Basel II Core Tier 1 ratio organically by year-end 2012.**
- Why is this so important? The last part of our argument is that Lloyds fares quite poorly under the proposed Basel III regime on our analysis. We have argued many times before that Lloyds' Core Tier 1 ratio is substantially affected by the need to deduct 100% of its investments in other financial entities from *common equity*, compared to 100% being deducted at the *total capital* level as is currently allowed under an FSA provision. **Given our anticipation of low organic capital generation, we see Lloyds' Basel III Core Tier 1 ratio at only 5.2% at year-end 2012.** The bull argument for Lloyds is that the opportunity to run down risky, low-margin, non-core assets should allow RWA to be reduced without substantially affecting earnings, and therefore the bank can organically earn its way out of the negative impact arising from Basel III. The bulls argue that the Core Tier 1 ratio can be increased by some 400bps to year-end 2012 on an organic basis. We are simply not convinced this is achievable.

We show below the expected impact on the lending banks' Core Tier 1 ratios when the Basel III proposals are implemented. The greatest impact for Lloyds arises from the need to deduct its investments in other financial entities 100% from common equity (see Figure 2). Another substantial deduction arises from deferred tax assets. We were previously of the opinion that Lloyds would be one of the few banks where this deduction would hold, given a lack of profitability over the next few years. We now believe that Lloyds should be able to realise nearly all of its DTA by year-end 2012, given stronger-than-expected earnings (see the next chapter). However, doing so would 'only' add 79bps to the Core Tier 1 ratio, making the estimated Core Tier 1 ratio under Basel III at year-end 2012 still only 6.0% rather than 5.2%. We continue to regard Lloyds as very poorly capitalised compared to its peers (Figure 3).

How Does Lloyds Get Out of This Situation?

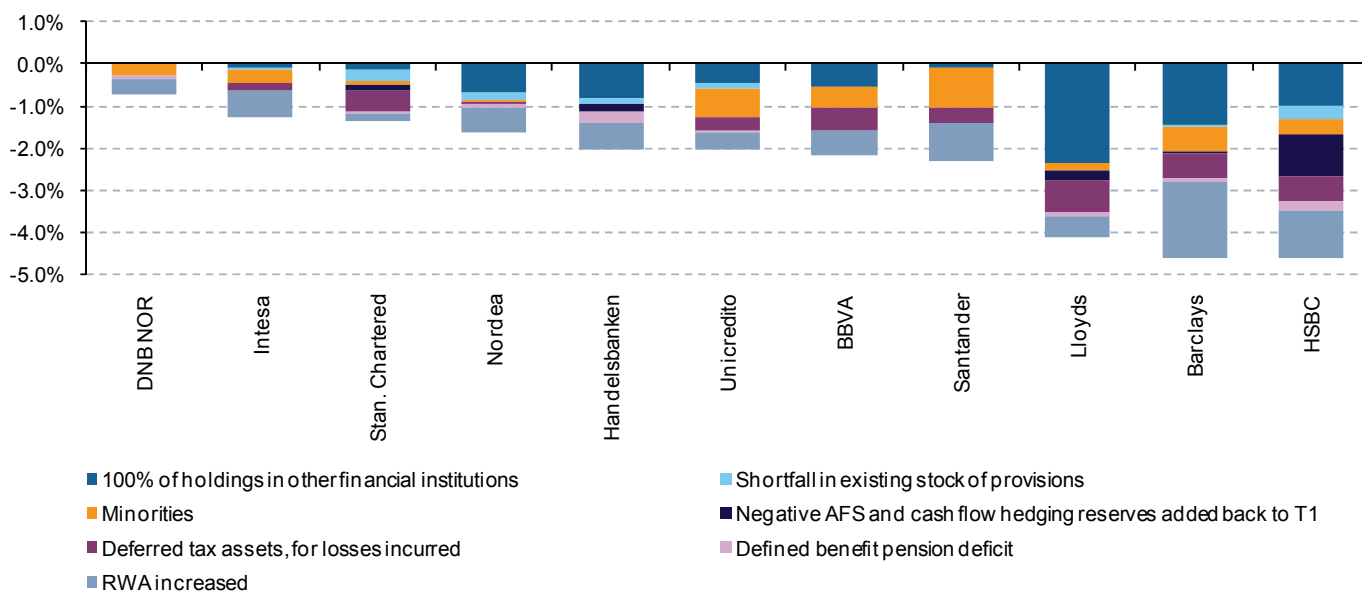
Assuming we are correct in our analysis, what options are available to Lloyds to solve the lack of capital adequacy? A Basel III Core Tier 1 ratio of 5.2% at year-end 2012 represents a capital deficit of £4.2bn (or about 8% of estimated shareholders' equity at year-end 2012) compared to what we believe would be an appropriate regulatory minimum of 6.0%. However, we believe it would be most appropriate to raise the Basel III Core Tier 1 ratio to 7.5%, which is in line with the peer group of lending banks and, importantly, provides a suitable buffer above the regulatory minimum such that management should not be prevented from paying out dividends to shareholders and bonuses to staff (as recommended by the Basel Committee consultative document). To obtain a Basel III 7.5% Core Tier 1 target, we believe the main options available to Lloyds would be as follows:

- Raise £12bn in equity capital, representing 23% of estimated shareholders' equity at year-end 2012. This option would dilute existing shareholders (probably substantially) and is fraught with execution risk.
- Lloyds takes advantage of lengthy transition rules and asks the regulator for permission to retain organic earnings to improve its capital ratios. This is the most likely outcome in our view, but still means that Lloyds would substantially lag the capital ratios of its peers and be unable to pay dividends until such time that its capital ratios are strong enough (we predict 2014 at the earliest).

- IPO its investments in other financial entities, (representing a sale of Lloyds’ interests to the market as opposed to a capital raise). This option would allow Lloyds to make a potentially large capital gain **in addition to** the capital benefit that would be derived from no longer having to deduct its investments in other financial entities from common equity. Note that there is £11.6bn of equity capital backing Lloyds’ investments in other financial entities, of which £3.8bn pertains to the life business. The in-force value within the life business is £5.2bn. We presume that the goodwill on Lloyds’ balance sheet, amounting to £5.8bn, relates substantially to this in-force value. If Lloyds sold these interests, then it could achieve a substantial capital gain – but this is on the assumption that it realises an attractive sale price above the net asset value, which is not a given. Note that undertaking an IPO, especially such a large one, has associated execution risks and may also result in negative revenue and cost synergies.
- Lloyds could simply list its investments in other financial entities, without raising money via an IPO. This is essentially a demerger, whereby the shareholders in Lloyds would own shares in both Lloyds Bank as well as in the newly listed entity comprising the other financial businesses. Lloyds would not realise a capital gain, but its Basel III Core Tier 1 ratio would benefit by some 2.3% (therefore increasing to some 7.5% at year-end 2012) from not having to deduct its interests in other financial entities from common equity. There is lower execution risk compared to the IPO and capital raise options, but there would still be potential for negative revenue and cost synergies as the newly listed entity would operate as an independent company.

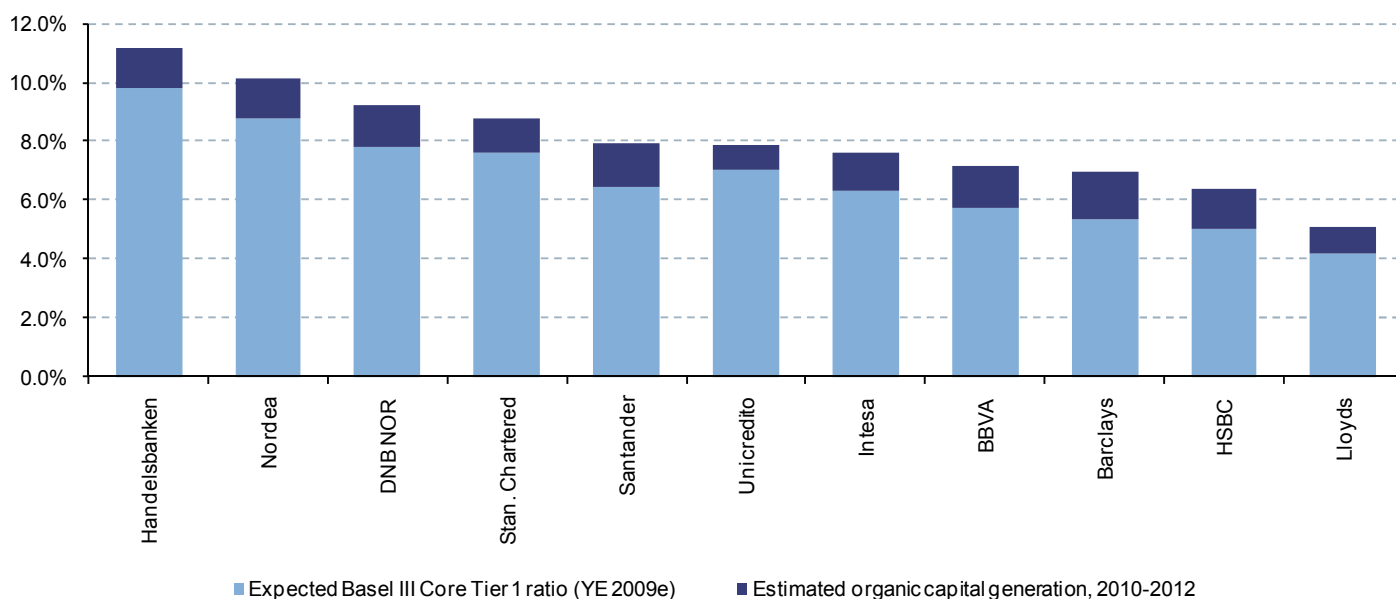
We believe the option of separately listing the other financial entities presents the best combination of solving the capital conundrum quickly and effectively while undertaking the least execution risk. However, our belief is that management would be loath to demerge the group, which would lead to potential dis-synergies. We think it most likely that management will seek another transition provision from the regulator, which would allow it to retain earnings to solve the capital situation. **However, in our opinion, this would still mark the company out as being undercapitalised versus peers and therefore a valuation discount versus the sector would be appropriate.**

Figure 2: Impact of Individual Components on Banks’ Core Tier 1 Ratios



Source: Matrix Research

Figure 3: Banks Ranked by Estimated Basel III Core Tier 1 Ratio



Source: Matrix Research

Earnings Outlook is More Promising

We are actually more positive on Lloyds' near-term earnings development, despite the greater-than-expected loss in FY 2009. Note, however, that this is incorporated in our model of how earnings and the balance sheet for Lloyds are likely to develop and does not detract from our view that there are significant capital adequacy concerns.

The key reasons for the greater-than-expected pre-tax loss of £6.3bn (against our expectation of a loss of £4.7bn and consensus a loss of £6.1bn) were:

- Lower-than-expected net interest income, despite an improvement in the banking net interest margin to 1.84% in H2 2009 from 1.72% in H1 2009.
- Greater-than-expected operating costs of £11.6bn (we had estimated £11.2bn). Importantly, this means that there was an absolute increase in operating costs in H2 2009 to £5.9bn from £5.5bn in H1 2009).
- Greater-than-expected gross loan loss charges of £24bn (our expectation was £23bn; consensus' was £23.5bn).

For all three of the above, management has provided credible reasons, in our opinion, as to why the market's fears should be allayed and indeed, why there should be a significant improvement in pre-tax earnings for H1 2010 compared to H2 2009.

NII and NIM – Underlying Metrics are Positive

The paradox for the market was why the net interest income for the group fell, despite the banking net interest margin having improved from 1.72% in H1 2009 to 1.84% in H2 2009. Closer inspection of the breakdown of net interest income into its various components shows that the *banking* NII did actually increase by an impressive 9% HoH, with interest-earning assets up a modest 0.7% HoH as well.

However, there was a substantial fall in NII from Treasury and Trading (T&T) activities to -£26mn in H2 2009 from £849mn in H1 2009. T&T NII is not included in banking NII and was the key reason for the absolute fall in group NII. Management explained to us that the fall was due to general weakness in structured trading activities and what it calls "asymmetric accounting". Management's guidance for T&T

Core banking NII and NIM are better than expected, masked by the weakness in Treasury & Trading NII. Group NII in H1 2010 should be much stronger than in H2 2009

NII is that it should be a positive £800mn on an annual basis, but that the line will be quite volatile from half to half. We have no reason to disbelieve this guidance and have included it in our earnings projections. Together with the fact that banking NII should increase in H1 2010 due to further improvements in the banking NIM, we predict that the group NII should rebound substantially by some 8% HoH in H1 2010.

It is also notable that management's guidance for development of the banking NIM has improved from what was provided to the market previously. It is now guiding the banking NIM at about 2.0% in 2010, and improving thereafter. Importantly, this forecast includes the estimated impact on wholesale funding costs as it migrates away from the SLS and CGS government-guaranteed funding programmes.

Costs

Operating costs were substantially ahead of expectations in H2 2009 at £5.9bn, representing an increase from £5.7bn in H1 2009. This took the market slightly by surprise given previous assertions by management that the integration of HBOS was well under way. There is perhaps an element of seasonality in our opinion, but, importantly, management indicated that there was investment in cost initiatives in the second half that are expected to yield absolute declines in the cost base from the beginning of 2010. Given that cost management is historically one of Lloyds' strengths, we are inclined to accept management's guidance in our modelling assumptions.

Gross Loan Losses Offset by Greater-Than-Expected Fair Value Gains on HBOS Loans

Gross loan losses for FY 2009 were £24bn, some £1bn higher than we were expecting and £0.5bn more than consensus expectations. This is due principally to much higher loan losses for commercial real estate exposure in Ireland.

Group loan losses were some 21% lower in H2 2009 than in H1 2009. Management indicated that this rate of decline in loan losses would continue for much of 2010, which would imply that gross loan losses for that year should be about £15bn. We believe this is more than most analysts were aiming for.

However, management also guided a fair value unwind on loans of about £2.5bn for 2010, which is substantially more than previously indicated. This unwind arises from the fact that the loss experienced on loans acquired from HBOS is expected to be more benign than has already been assumed, judging by the provisions made against them. The market may see this as a 'low-quality' source of income (and a multiple should certainly not be put on it since it is not recurring income).

However, taking into account the deterioration seen in Irish CRE, we still believe that the group is experiencing better-than-expected asset quality, which should lead to earnings upgrades.

Valuation

Our valuation is based on a DCF model, driven mainly by dividend growth expectations. A key assumption in our model is that dividends will not be paid by management until 2014, whereupon we assume a 40% payout ratio. Together with a rather high COE assumption of 11.5%, (which itself is driven by a Bloomberg calculated 2-year beta of 1.66), this results in our price target of 56p.

Our price target could be substantially increased on the basis that management demerges the group into separately listed entities for banking and other financial businesses. This would result in potential negative revenue and cost synergies (possibly 10% of pre-tax earnings) impacting the total value for the shareholder. Far more importantly, however, a much lower cost of capital would be appropriate,

Cost initiatives should yield benefits going forward

Overall, we believe Lloyds is experiencing a better-than-expected development in loan losses, net of fair value gains

Potential for substantial increase in the share price – if management demerges the group

reflecting the fact that Lloyds would be a well capitalised bank generating earnings per share of some 90p (net of dis-synergies) in 2012. Applying a 10x multiple and discounting by 10% for two years indicates a target price of at least 74p, or some 29% above the current share price.

Figure 4: Lloyds Banking Group DCF Valuation Table

LLOYDS BANKING		16/03/2010		Target price:	56.00	Rating:			HOLD
Stock ticker	LLOY LN	DCF Fair Value	56.44		FY 2009E	FY 2010E	FY 2011E	FY 2012E	
Currency	GBP	Price/DCF FV	102%	EPS	-12.22	0.76	5.50	10.02	
Price	57.57	Price/Target Price	103%	P/E	-4.71	75.82	10.46	5.75	
Market cap (€bn)	43.7	DCF Assumptions		TNAV per share	58.29	58.86	63.97	73.57	
Dividend yield FY 2010E	0.00%	Risk-free rate	3.95%	P/TNAV	0.99	0.98	0.90	0.78	
PEG Ratio	0.29	LT Market Return	8.5%	ROE	-16.19%	1.11%	7.71%	12.66%	
Loans % Deposits FY 2010E	157%	Equity beta	1.66	ROTNAV	-19.33%	1.30%	8.96%	14.57%	
Assets % Equity FY 2010E	23.0	COE	11.5%	ROA	-0.58%	0.05%	0.37%	0.69%	
Tier 1 ratio FY 2010E	9.4%	Long-term growth rate	5.0%	Core Tier 1 Ratio	8.10%	7.89%	8.36%	9.44%	

Source: Matrix Research

Figure 5: Lloyds Banking Earnings Table

LLOYDS BANKING	FY 2008	H1 2009	H2 2009E	H2 2009	FY 2009E	FY 2009	FY 2010E	FY 2011E	FY 2012E
INCOME STATEMENT (£m)									
Net interest income	7,718	6,442	6,937	6,284	13,379	12,726	13,751	14,059	13,836
Net fees & commissions	2,537	0	1,371	0	1,371	0	0	0	0
Trading profits/losses	-9,186	0	700	0	700	0	0	0	0
Other revenue	8,799	5,497	3,605	5,741	9,102	11,238	11,549	11,834	12,156
Total operating revenues	9,868	11,939	12,614	12,025	24,553	23,964	25,300	25,894	25,992
Operating costs	-6,000	-5,718	-5,515	-5,891	-11,233	-11,609	-11,471	-11,212	-11,005
Operating profit	3,868	6,221	7,099	6,134	13,320	12,355	13,830	14,681	14,986
Total provisions	-2,876	-13,399	-9,598	-10,589	-22,997	-23,988	-15,144	-10,389	-6,393
Impairments on other assets	-136	0	-200	0	-200	0	0	0	0
Goodwill impairment	-100	0	0	0	0	0	0	0	0
Other income/loss (mainly fair value gains)	4	3,221	2,000	2,112	5,221	5,333	1,994	630	370
Pre-tax profit	760	-3,957	-699	-2,343	-4,656	-6,300	679	4,922	8,964
Taxes	38	1,203	196	708	1,399	1,911	-190	-1,378	-2,510
Minorities	-26	-58	5	184	-53	126	-5	-35	-65
Net profit	772	-2,812	-498	-1,451	-3,310	-4,263	484	3,509	6,389
ASSETS (£m)									
Loans to customers	240,344	652,599	627,449	626,969	627,449	626,969	584,049	550,859	520,074
Interbank loans	38,733	37,398	37,398	35,361	37,398	35,361	36,068	37,525	39,041
Total securities	105,187	264,877	272,576	229,265	272,576	229,265	220,186	211,467	203,093
Intangible assets	2,453	6,574	6,574	6,103	6,574	6,103	6,225	6,477	6,738
Total assets	436,033	1,063,129	1,071,766	1,027,255	1,071,766	1,027,255	976,524	940,584	918,433
Net interest-earning assets	284,085	750,381	755,423	702,903	755,423	702,903	662,330	632,302	604,807
LIABILITIES (£m)									
Interbank borrowings	66,514	112,909	107,264	83,489	107,264	83,489	75,349	68,002	61,372
Customer deposits	170,938	429,082	431,227	406,741	431,227	406,741	390,634	382,860	382,860
Total shareholders' equity	9,393	35,026	41,317	43,278	41,317	43,278	43,762	47,271	53,660
Tangible net asset value	6,940	28,452	34,743	37,175	34,743	37,175	37,537	40,794	46,922
IMPORTANT FINANCIAL RATIOS									
ROA	0.20%	0.00%	-0.09%	-0.28%	-0.44%	-0.58%	0.05%	0.37%	0.69%
ROE	7.17%	-15.91%	-2.67%	-7.57%	-13.06%	-16.19%	1.11%	7.71%	12.66%
ROTNV	9.32%	0.00%	-3.24%	-9.07%	-15.88%	-19.33%	1.30%	8.96%	14.57%
Cost/income	-60.80%	-47.89%	-43.72%	-48.99%	-45.75%	-48.44%	-45.34%	-43.30%	-42.34%
Tax rate	5.00%	0.00%	-28.00%	-30.22%	-30.04%	-30.33%	-28.00%	-28.00%	-28.00%
Payout ratio	83.94%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Net interest margin	2.90%	1.70%	1.84%	1.84%	1.78%	1.77%	1.98%	2.04%	2.09%
LLC % gross loans	-1.25%	-3.86%	-2.85%	-3.16%	-3.36%	-3.52%	-2.38%	-1.73%	-1.13%
Non-performing loans % gross loans	3.53%	7.17%	8.50%	8.96%	8.50%	8.96%	10.00%	8.00%	6.00%
NPL coverage ratio	33.06%	42.23%	45.00%	44.17%	45.00%	44.17%	43.00%	50.00%	60.00%
Loans % deposits	140.60%	176.43%	168.78%	168.90%	168.78%	168.90%	157.34%	148.40%	140.11%
Tier 1 ratio	8.04%	8.62%	10.52%	9.63%	10.52%	9.63%	9.38%	9.82%	10.88%
Core Tier 1 ratio (Basel II)	5.60%	6.28%	8.12%	8.10%	8.12%	8.10%	7.89%	8.36%	9.44%
Est. Core Tier 1 ratio (Basel III)	1.69%	2.37%	4.21%	4.19%	3.97%	4.19%	3.98%	4.45%	5.53%
Equity % total assets	2.15%	3.29%	3.86%	4.21%	3.86%	4.21%	4.48%	5.03%	5.84%

Source: Matrix Research

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