BOCA RESORTS INC
Form 10-Q
May 13, 2003

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2003

OR

o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________________ to __________________

Commission file number: 1-13173

BOCA RESORTS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**65-0676005**
(State of Incorporation)	(I.R.S. Employer Identification No.)
501 East Camino Real **Boca Raton, Florida** (Address of Principal Executive Offices)	**33432** (Zip Code)

Registrant s telephone number, including area code: **(561) 447-5300**

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report: **Not Applicable**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes x No o

As of May 13, 2003, there were 39,022,079 shares of Class A Common Stock, $.01 par value per share, and 255,000 shares of Class B Common Stock, $.01 par value per share, outstanding.

TABLE OF CONTENTS

PART I -- FINANCIAL INFORMATION
Item 1. Financial Statements
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations
Item 3. Quantitative and Qualitative Disclosures About Market Risk
Item 4. Controls and Procedures
Part II -- OTHER INFORMATION
Item 1. Legal Proceedings
Item 2. Changes in Securities and Use of Proceeds
Item 3. Defaults Upon Senior Securities
Item 4. Submission of Matters to a Vote of Security Holders
Item 5. Other Information
Item 6. Exhibits and Reports on Form 8-K
SIGNATURES
SECTION 302 CERTIFICATIONS
SECTION 302 CERTIFICATIONS CONTINUED
EX-99.1 Certification of CEO & CFO

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

BOCA RESORTS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)
(Unaudited)

	March 31, 2003	June 30, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 16,077	$ 3,691
Restricted cash	647	721
Accounts receivable, net	25,321	21,591
Inventory	7,040	6,433
Current portion of Premier Club notes receivable	3,687	3,382
Other current assets	2,249	3,223
Total current assets	55,021	39,041
Property and equipment, net	824,684	822,630
Intangible assets, net	34,518	34,518
Long-term portion of Premier Club notes receivable	7,021	7,410
Other assets	10,176	13,137
Total assets	$931,420	$916,736
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 33,654	$ 30,222
Current portion of deferred revenue and advance deposits	28,685	22,355
Net liabilities of discontinued operations	1,074	2,436
Current portion of credit line and note payable	26,332	227
Total current liabilities	89,745	55,240
Long-term portion of credit line and note payable		18,793
Deferred revenue, net of current portion	36,001	38,073
Other liabilities	9,561	9,695
Deferred income taxes	33,582	30,052
Senior subordinated notes payable	190,145	192,895
Premier Club refundable membership fees	55,684	55,716
Commitments and contingencies		
Shareholders equity:		
Class A Common Stock, $.01 par value, 100,000,000 shares authorized and 39,022,079 and 39,538,479 shares issued and outstanding at March 31, 2003 and June 30, 2002, respectively	390	395
Class B Common Stock, $.01 par value, 10,000,000 shares authorized and 255,000 shares issued and outstanding at March 31, 2003 and June 30, 2002.	3	3

Contributed capital	459,362	464,565
Retained earnings	56,947	51,309
Total shareholders equity	516,702	516,272
Total liabilities and shareholders equity	$931,420	$916,736

See accompanying notes to consolidated financial statements.

1

BOCA RESORTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three Months Ended March 31
(In thousands, except per share data)
(Unaudited)

	2003	**2002**
Leisure and recreation revenue	$ 100,277	$ 99,988
Operating expenses:		
Cost of leisure and recreation services	37,802	37,091
Selling, general and administrative expenses	22,576	21,479
Depreciation	10,073	8,615
Total operating expenses	70,451	67,185
Operating income	29,826	32,803
Interest and other income	39	50
Interest expense	(5,407)	(6,026)
Income from continuing operations before income taxes	24,458	26,827
Provision for income taxes	9,416	10,731
Net income	$ 15,042	$ 16,096
Net income per share basic	$ 0.38	$ 0.40
Shares used in computing net income per share basic	39,209	39,749
Net income per share diluted	$ 0.38	$ 0.40
Shares used in computing net income per share diluted	39,563	40,656

See accompanying notes to consolidated financial statements.

Table of Contents

BOCA RESORTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the Nine Months Ended March 31
(In thousands, except per share data)
(Unaudited)

	2003	2002
Leisure and recreation revenue	$213,615	$197,290
Operating expenses:		
Cost of leisure and recreation services	95,859	89,029
Selling, general and administrative expenses	63,978	61,627
Depreciation	28,093	24,843
Loss on early retirement of debt	149	1,613
Total operating expenses	188,079	177,112
Operating income	25,536	20,178
Interest and other income	78	1,034
Interest expense	(16,447)	(18,138)
Income from continuing operations before income taxes	9,167	3,074
Provision for income taxes	3,529	1,230
Income from continuing operations	5,638	1,844
Gain on disposition of discontinued operations, net of income taxes		23,728
Net income	$ 5,638	$ 25,572
Income per share from continuing operations	$ 0.14	$ 0.05
Income per share from discontinued operations		0.60
Net income per share basic	$ 0.14	$ 0.64
Shares used in computing net income per share basic	39,367	39,798
Income per share from continuing operations	$ 0.14	$ 0.05
Income per share from discontinued operations		0.59
Net income per share diluted	$ 0.14	$ 0.63
Shares used in computing net income per share diluted	39,907	40,557

See accompanying notes to consolidated financial statements.

Table of Contents

BOCA RESORTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended March 31
(In thousands)
(Unaudited)

	2003	2002
Operating activities:		
Net income	$ 5,638	$ 25,572
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	28,093	24,843
Provision for deferred income taxes	3,529	1,230
Impairment loss on land parcel	2,396	
Gain on sale of land parcel	(2,291)	
Loss on early retirement of debt	149	1,613
Non-cash compensation expense	217	
Gain on disposition of discontinued operations, net of income taxes		(23,728)
Changes in operating assets and liabilities		
Accounts receivable	(3,730)	(4,813)
Other assets	3,604	2,836
Accounts payable and accrued expenses	2,616	4,962
Deferred revenue and other liabilities	4,092	7,599
Net liabilities of discontinued operations	(1,362)	
Net cash provided by operating activities	42,951	40,114
Investing activities:		
Net proceeds from the sale of land parcels	12,786	
Net proceeds from the disposition of discontinued operations		80,061
Capital expenditures	(42,563)	(61,929)
Change in restricted cash	74	(167)
Net cash provided by (used in) investing activities	(29,703)	17,965
Financing activities:		
Borrowings under credit facility	37,000	24,500
Payments under long-term debt agreements and credit facility	(29,688)	(24,672)
Repurchases of senior subordinated notes payable	(2,750)	(57,000)
Repurchases of common stock	(6,174)	(2,306)
Proceeds from exercise of stock options	750	1,120
Net cash used in financing activities	(862)	(58,358)
Cash provided by (used in) continuing operations	13,748	(80,340)
Cash provided by (used in) discontinued operations	(1,362)	80,061
Cash and cash equivalents, at beginning of period	3,691	9,909
Cash and cash equivalents, at end of period	$ 16,077	$ 9,630

See accompanying notes to consolidated financial statements.

4

Table of Contents

BOCA RESORTS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying Unaudited Condensed Consolidated Financial Statements of Boca Resorts, Inc. and subsidiaries (the Company) have been prepared in accordance with generally accepted accounting principles for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, the financial information furnished in this report reflects all material adjustments (including normal recurring accruals) necessary for a fair presentation of the results for the interim periods presented. The results of operations for the three and nine months ended March 31, 2003 are not necessarily indicative of the results to be expected for the entire year primarily due to seasonal variations. All significant intercompany accounts have been eliminated.

2. Nature of Operations

The Company is an owner and operator of five luxury resorts located in Florida with hotels, conference facilities, golf courses, spas, marinas and private clubs. The Company s resorts include the Boca Raton Resort & Club (Boca Raton), the Registry Resort at Pelican Bay (Naples), the Edgewater Beach Hotel (Naples), the Hyatt Regency Pier 66 Resort and Marina (Fort Lauderdale), and the Radisson Bahia Mar Resort and Yachting Center (Fort Lauderdale). The Company also owns and operates two championship golf courses located in Florida Grande Oaks Golf Club in Davie and Naples Grande Golf Club in Naples.

The Company sold its entertainment and sports business, which primarily consisted of the operations of the Florida Panthers Hockey Club and related arena management operations, on July 25, 2001. Accordingly, the Company s entertainment and sports business has been accounted for as discontinued operations and the accompanying Unaudited Condensed Consolidated Financial Statements presented herein report separately the net liabilities and operating results of this discontinued operation.

3. Earnings Per Common Share

Basic earnings per share equals net income divided by the number of weighted average common shares outstanding. Diluted earnings per share includes the effects of common stock equivalents to the extent they are dilutive.

	Three Months Ended March 31,		**Nine Months Ended March 31,**	
	2003	**2002**	**2003**	**2002**
	(In Thousands)			
Basic weighted average shares outstanding	39,209	39,749	39,367	39,798
Stock options	354	907	540	759
Diluted weighted average shares outstanding	39,563	40,656	39,907	40,557

Options to purchase 6.5 million and 5.8 million shares of common stock were outstanding at March 31, 2003 and 2002, respectively, but were not included in the computation of earnings per share because their exercise prices were greater than the average market price of the common shares and, therefore, including the options in the denominator would be antidilutive.

4. Recently Implemented Accounting Standards

In August 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived

5

Table of Contents

BOCA RESORTS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (Continued)

Assets . The new rules apply to the classification and impairment analysis conducted on long-lived assets other than intangible assets and was adopted by the Company on July 1, 2002. The new rules provide a single accounting treatment for the impairment of long-lived assets and implementation guidance regarding impairment calculations. This statement also modifies accounting and disclosure requirements for discontinued operations. The adoption of SFAS No. 144 did not have a material impact on the Company s results of operations or financial position.

In April 2002, the FASB issued SFAS No. 145, which rescinds SFAS No. 4, Reporting Gains and Losses from Extinguishment of Debt . Previously, SFAS No. 4 required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. Under SFAS No. 145, gains and losses from extinguishment of debt are classified as extraordinary items only if they meet the criteria in Accounting Principles Board (APB) Opinion 30, Reporting the Results of Operations Discontinued Events and Extraordinary Items . Applying the provisions of APB Opinion 30 distinguishes transactions that are part of an entity s recurring operations from those that are unusual or infrequent, or that meet the criteria for classification as an extraordinary item. The Company adopted SFAS No. 145 on July 1, 2002. Accordingly, losses on the extinguishment of debt that were classified as an extraordinary item in the prior periods presented, have been reclassified to recurring operations.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities . This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity . The provisions of this Statement shall be effective for exit or disposal activities initiated after March 31, 2003. This Statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost was recognized at the date of an entity s commitment to an exit plan. The adoption of SFAS No. 146 is not anticipated to have a material impact on the Company s results of operations or financial position.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. This statement amends SFAS No. 123, Accounting for Stock-Based Compensation to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reporting results. The provisions of this statement are effective for interim and annual financial statements for fiscal years ending after December 15, 2002 and have been incorporated into these unaudited condensed consolidated financial statements and accompanying notes. See Note 7.

5. Comprehensive Income

Comprehensive income was the same as net income for the three and nine months ended March 31, 2003 and 2002.

6. Long-Lived Assets and Assets to be Disposed of

In August 2002, the Company sold a land parcel located in Naples, Florida for $5.7 million. The transaction yielded net proceeds of $5.6 million and a pre-tax gain of $2.3 million, which is included in interest and other income in the accompanying Unaudited Condensed Consolidated Statements of Operations.

In December 2002, the Company sold a land parcel located in Plantation, Florida for $7.2 million, which yielded net proceeds of $7.1 million. The Company recorded an impairment loss of $2.4 million to reflect the

BOCA RESORTS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (Continued)

difference between the carrying value of this land parcel and the net proceeds during the three months ended September 30, 2002. The impairment loss is included in interest and other income in the accompanying Unaudited Condensed Consolidated Statements of Operations.

7. Stock Option Plan

The Company grants stock options for a fixed number of shares to employees with an exercise price equal to the fair value of the shares at the date of grant. The Company accounts for the options granted under the intrinsic value method, which follows the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees. No stock-based employee compensation cost is reflected in net income. The following table summarizes the effect of accounting for these awards as if the fair value recognition provisions of SFAS No. 123, as amended by SFAS No. 148, had been applied.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2003	2002	2003	2002
Net income as reported	$15,042	$16,096	$5,638	$25,572
Less: total stock based compensation determined under fair value based method for awards, net of related tax effects	448	465	1,343	1,396
Pro forma net income	$14,594	$15,631	$4,295	$24,176
Income per share from continuing operations, as reported	$ 0.38	$ 0.40	$ 0.14	$ 0.05
Income per share from discontinued operations, as reported				0.60

£50.6bn	(2)		
Risk-weighted assets	£276.6bn	£310.3bn	(11)
Core tier 1 capital ratio	13.5%	12.0%	1.5pp
Estimated pro forma fully loaded CRD IV core tier 1 ratio5	9.9%	8.1%	1.8pp
Estimated pro forma fully loaded leverage ratio (including tier 1 instruments)5	4.1%	3.8%	0.3pp
Estimated fully loaded CRD IV core tier 1 ratio	9.5%	8.1%	1.4pp
Estimated fully loaded leverage ratio (including tier 1 instruments)	4.0%	3.8%	0.2pp
Net tangible assets per share1	51.1p	51.9p	(0.8)p

1Restated to reflect the implementation of IAS 19R and IFRS 10. See page 14.
2Excludes reverse repos of £0.7 billion (31 December 2012: £5.1 billion).
3Excludes repos of £3.0 billion (31 December 2012: £4.4 billion).

4 Loans and advances to customers excluding reverse repos divided by customer deposits excluding repos.

5 Pro forma ratios including benefits of announced sales of the Australian operations, Sainsbury's Bank and Heidelberger Leben.

UNDERLYING BASIS CONSOLIDATED INCOME STATEMENT – CORE AND NON-CORE

Core	Nine months ended 30 Sept 2013 £ million	Nine months ended 30 Sept 2012[1] £ million	Change %	Three months ended 30 Sept 2013 £ million	Three months ended 30 Sept 2012[1] £ million	Change %
Net interest income	7,742	7,381	5	2,711	2,459	10
Other income	5,991	5,850	2	1,803	1,963	(8)
Insurance claims	(233)	(335)	30	(85)	(102)	17
Total underlying income	13,500	12,896	5	4,429	4,320	3
Total costs	(6,720)	(6,913)	3	(2,252)	(2,246)	–
Impairment	(1,231)	(1,351)	9	(324)	(373)	13
Underlying profit	5,549	4,632	20	1,853	1,701	9
Banking net interest margin	2.44%	2.32%	12bp	2.54%	2.32%	22bp
Impairment charge as a % of average advances	0.39%	0.42%	(3)bp	0.32%	0.36%	(4)bp
Return on risk-weighted assets	3.17%	2.57%	60bp	3.19%	2.83%	36bp
Non-core						
Net interest income	225	409	(45)	50	116	(57)
Other income	294	526	(44)	76	149	(49)
Total underlying income	519	935	(44)	126	265	(52)
Total costs	(390)	(624)	38	(109)	(246)	56
Impairment	(1,252)	(3,068)	59	(346)	(889)	61
Underlying loss	(1,123)	(2,757)	59	(329)	(870)	62
Banking net interest margin	0.41%	0.57%	(16)bp	0.41%	0.49%	(8)bp
Impairment charge as a % of average advances	1.70%	3.23%	(153)bp	1.41%	3.08%	(167)bp

BALANCE SHEET AND KEY RATIOS

	At 30 Sept 2013	At 31 Dec 2012	Change %
Core			
Loans and advances to customers excluding reverse repos[2]	£430.0bn	£425.3bn	1
Customer deposits excluding repos[3]	£430.2bn	£419.1bn	3

Core loan to deposit ratio4	100%	101%	(1)pp
Risk-weighted assets	£227.6bn	£237.4bn	(4)
Non-core			
Total non-core assets	£76.1bn	£98.4bn	(23)
Risk-weighted assets	£49.0bn	£72.9bn	(33)
Retail non-core assets (pro forma)5	£40.2bn	£49.9bn	(19)
Non-retail non-core assets (pro forma)5	£29.8bn	£48.5bn	(39)
Total non-core assets (pro forma)5	£70.0bn	£98.4bn	(29)
Risk-weighted assets (pro forma)5	£44.4bn	£72.9bn	(39)

1 Restated to reflect the implementation of IAS 19R and IFRS 10. See page 14.
2 Excludes reverse repos of £0.7 billion (31 December 2012: £5.1 billion).
3 Excludes repos of £3.0 billion (31 December 2012: £4.4 billion).
4 Loans and advances to customers excluding reverse repos divided by customer deposits excluding repos.
5 Non-core assets and non-core risk-weighted assets are reported on a pro forma basis to recognise the reductions from the announced sales of the Australian operations (announced in October) and Heidelberger Leben (announced in August).

GROUP CHIEF EXECUTIVE'S STATEMENT

The nine months to the end of September have been important for the Group. We have made further significant progress on our strategy, by investing in our core UK franchise to improve our products, services and processes to support our customers and the UK economic recovery, and by continuing to reduce costs and risk and therefore our cost of equity. As a result, we have delivered substantial improvements both in Group profitability and returns despite further legacy charges, and in our core business which is performing strongly.

In the third quarter, we further improved the underlying profit and returns in the Group and in our core business, while continuing to strengthen our balance sheet and reduce risk. We made substantial capital accretive non-core asset reductions in the quarter and, together with additional sales announced in October, we have now achieved our year end target of less than £70 billion of non-core assets. The sale of a number of non-core international assets, including announced sales in Germany and Australia, has further reduced our international presence and increased our focus on our core UK market.

September was a significant month for the Group. We successfully launched two new banks, TSB and Lloyds Bank, with TSB bringing a fresh new competitor to Britain's high streets and the revitalised Lloyds Bank building on its history of almost 250 years of serving the people and businesses of Britain. We were also pleased to see the UK government begin the process of returning the Group to full private ownership and getting taxpayer's money back at a profit through the sale of part of its shareholding in September. These are key milestones for Lloyds Banking Group and for UK banking.

A substantial increase in profitability and returns

Group underlying profit in the nine months to the end of September increased by £2,551 million to £4,426 million, while the Group's return on risk-weighted assets improved to 2.01 per cent from 0.74 per cent. The key drivers of this improvement were an increase in the net interest margin of 13 basis points to 2.06 per cent, and our continued strong

control of cost and risk, with Group costs reducing 6 per cent to £7,110 million and the impairment charge 44 per cent lower at £2,483 million.

Profit and returns in the core business improved substantially, with underlying profit up 20 per cent to £5,549 million, and the return on risk-weighted assets increasing by 60 basis points to 3.17 per cent. Core underlying income grew 5 per cent to £13,500 million (a 2 per cent increase excluding St. James's Place), with net interest margin increasing by 12 basis points to 2.44 per cent, and costs and the impairment charge reducing by 3 per cent to £6,720 million and 9 per cent to £1,231 million, respectively. In line with our focus on supporting the UK economy, we not only continued to grow our core loan book in the quarter, having returned it to growth earlier this year, but importantly, we also returned mortgage lending to growth.

Statutory profit before tax was £1,694 million, compared to a £607 million loss in the same period last year, despite a charge for legacy items of £1,325 million in the first nine months of this year. This includes an additional charge for legacy PPI business of £750 million in the third quarter. PPI complaint volumes have continued to decline, albeit at a slower than expected rate, while response rates to proactive mailing were higher than forecast.

Continued balance sheet strengthening and risk reduction

We have made significant progress in further strengthening the balance sheet and reducing risk, while growing net lending in all our core divisions in the third quarter. We have a strong capital position, and our estimated pro forma fully loaded CRD IV core tier 1 ratio of 9.9 per cent represents an improvement of 0.3 percentage points over the last quarter and 1.8 percentage points since the start of the year. This has been mainly driven by capital generation in the core business and from the decrease in risk-weighted assets from improving economic conditions and non-core asset reductions.

The Group's funding position remains strong, with customer deposits up 2 per cent and our core loan to deposit ratio further improved to 100 per cent from 101 per cent at the end of 2012.

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

Significant progress in delivering our strategy and supporting customers and the UK economy

We continue to focus on creating a low risk, highly efficient UK retail and commercial bank, focused on our customers' needs, and supporting the UK economic recovery.

We are targeting a leading cost position through the delivery of our Simplification programme, which is already substantially decreasing our operating leverage and improving our processes and the service we deliver to our customers. Together with our low risk business model and strong competitive position, we expect this to deliver a lower cost of equity. In turn, we believe this will deliver sustainable competitive advantage and strong returns for our shareholders over time.

In line with our UK-focused strategy, we continue to reshape the business and reduce our international presence, most recently announcing the sale of our remaining Australian operations and reducing our business in Germany. We have now exited, or announced the exit from, 21 countries and in doing so have met our target to be operating in 10 countries or fewer by the end of 2014, more than a year ahead of plan.

The outlook for the UK economy now looks more positive and the Group's business model is well matched to the economic environment. We are actively supporting sustainable growth in the UK economy through the focused range of products and the services we provide to our business and personal customers, as well as through the partnerships we have built with industry and government.

For our corporate customers, the government's Funding for Lending scheme supports the UK economic recovery by providing low cost funding to small and medium sized businesses which are at the heart of the British economy. We have committed more than £28 billion of gross funds to customers through this scheme since September 2012, and so far this year we have helped around 94,000 business start-ups, meaning that we are on track to achieve our commitment of 100,000 by the end of 2013.

For our retail customers, we have made strong progress in customer service, with FCA reportable banking complaints, excluding PPI, reducing in the first nine months of the year by 20 per cent compared to the same period in 2012. Similarly we have continued to improve satisfaction scores, with Net Promoter Scores increasing by 13 per cent over the first nine months.

We continue to be the UK's largest lender to first-time buyers, providing one in four mortgages, and had lent £6.7 billion to over 56,000 first-time buyers at the end of September. In October, we exceeded our commitment to help 60,000 customers buy their first home in 2013. The UK government's Help to Buy scheme is designed to provide access for first-time buyers and home movers to mortgages at up to 95 per cent of the value of the home purchases. In support of the scheme we have introduced a range of mortgage products through Halifax and Bank of Scotland. These products will enable customers to benefit from the scheme which features a loan guarantee by the government. We believe this programme will increase liquidity in the housing market and to the wider economy, including through increased activity in the construction sector.

For our Insurance customers, we are enhancing our market leading pensions and protection products, which help customers protect themselves today and prepare for a secure future. Our strong performance in Corporate Pensions reflects the strength of our proposition and the robust pipeline generated in the run-up to the implementation of the Retail Distribution Review. Looking forward, we believe that supporting our customers through auto-enrolment will drive growth in this area. In addition, we have launched our enhanced annuities product in both the intermediary and direct channels as a key step to expanding our participation in the annuity market. In General Insurance we are enhancing our systems capability to improve the competitiveness of our offering. As a result of this activity we are confident our multi-brand, multi-channel model leaves us well positioned to meet the changing financial needs of our customers.

In the Wealth business we have rolled out a new point-of-sale system and introduced a pilot of the improved Customer Relationship Management technology, while we continue to invest in products and propositions in the Asset Finance business, including new website functionality which allows customers to get car finance quotes online.

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

Guidance further enhanced

We continue to make substantial progress and as a result we are today further upgrading our guidance for net interest margin and non-core asset reduction. We now expect our 2013 full year Group net interest margin to improve to 2.11 per cent, a significant increase from our expectation at the beginning of the year of around 1.98 per cent, and above the improved guidance we gave in our half year results. We now expect total non-core assets to reduce to around £66 billion by the end of this year, compared to our previous guidance of less than £70 billion, which we have already achieved. We have also improved our guidance for non-retail non-core assets, and now expect to achieve a reduction to around £26 billion by the end of 2013 and around £15 billion by the end of 2014.

At the half year, we upgraded our outlook for capital, expecting our fully loaded ratio to be above 10 per cent by the end of 2013, and we remain confident of achieving this target. We also continue to expect costs to reduce to around £9.6 billion in the full year 2013, and the impairment charge in 2013 to be substantially lower than in 2012.

We have now commenced discussions with the regulators regarding the timetable and conditions for future dividend payments.

Remain confident in delivering our strategic plan
Our strong underlying performance reflects the significant progress made on our strategy. We have accelerated its delivery in many areas, with progress towards our non-core asset reduction, cost saving and international footprint targets being achieved significantly ahead of plan. We are well on our way to becoming a better, simpler, low risk bank, which delivers the products our customers need and the strong performance and sustainable returns our shareholders expect.

António Horta-Osório
Group Chief Executive

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE

Overview
In the first nine months of 2013, we significantly improved the Group's underlying and statutory profitability, with margin expansion, core lending growth and a gain from the sales of shares in St. James's Place all supporting income growth, while costs and impairments continued to fall as we further simplified the business and de-risked the balance sheet. The third quarter saw us return our mortgage book to growth and we again increased lending to both SME customers and other corporates. Non-core asset reductions continued to be capital accretive and underlying losses from the portfolio declined significantly. The Group's capital position has advanced considerably in the year to date despite further charges for legacy PPI business, while our funding position remains secure and our liquid asset buffer prudent.

Significantly improved Group underlying and statutory profitability and a strong balance sheet
Group underlying profit before tax increased by £2,551 million to £4,426 million compared to the first nine months of 2012 and the return on risk-weighted assets improved to 2.01 per cent from 0.74 per cent, driven by increased earnings and reduced risk-weighted assets, predominantly in the non-core business. Underlying income grew by 1 per cent to £14,019 million, including a £433 million gain relating to the sales of shares in St. James's Place recognised in the first half. Group net interest margin increased to 2.06 per cent, mainly driven by improved deposit margins and the reduction in lower margin non-core assets. Total costs continue to be tightly controlled and fell by 6 per cent to £7,110 million. The impairment charge improved by 44 per cent to £2,483 million, mainly driven by the reduction in non-core assets and the sustained improvement in Group asset quality.

Core underlying profit improved substantially to £5,549 million from £4,632 million, with the return on risk-weighted assets improving to 3.17 per cent from 2.57 per cent. Excluding St. James's Place effects, the return on risk-weighted assets was 2.88 per cent. Core underlying income increased 5 per cent to £13,500 million, and by 2 per cent excluding St. James's Place effects. The core net interest margin increased by 12 basis points to 2.44 per cent, again driven mainly by improved deposit margins.

Core loans and advances grew by £4.7 billion to £430.0 billion, primarily driven by increases in Commercial Banking and Wealth, Asset Finance and International. We also returned Retail secured lending to growth as expected in the third quarter. Core costs decreased by 3 per cent, driven by further savings from the Simplification programme and the deconsolidation of St. James's Place. The core impairment charge decreased 9 per cent to £1,231 million with the reduction primarily attributable to lower Retail impairments.

The non-core underlying loss reduced by 59 per cent to £1,123 million year-on-year, largely as a result of a 59 per cent reduction in the impairment charge to £1,252 million, with reduced impairment charges in Commercial Banking
and Ireland.

Group statutory profit before tax increased by £2,301 million to £1,694 million, driven by an improvement in underlying profit of £2,551 million and the lower provision for legacy issues of £1,325 million compared to the £2,225 million charge in the first nine months of 2012. In the third quarter we made a statutory loss before tax of £440 million as strong underlying performance was offset by a further £750 million provision for legacy PPI business and £626 million of losses arising from capital accretive asset sales including the statutory loss before tax on the announced sale of the Group's German life insurance business Heidelberger Lebensversicherung AG (Heidelberger Leben) of approximately £330 million.

We have reduced non-core assets by £28.4 billion to £70.0 billion on a pro forma basis, meeting our year end target. These non-core asset reductions continue to be capital accretive overall and, together with core underlying profit generation and management actions, have resulted in a considerable strengthening of our capital ratios since December 2012. Our estimated pro forma fully loaded CRD IV core tier 1 ratio has now increased from 8.1 per cent at the beginning of the year to 9.9 per cent, including the effect of PPI provisions and the announced disposals of the Group's Australian operations, the Heidelberger Leben business and our interest in Sainsbury's Bank.

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE (continued)

Underlying income

	Total			Core		
	Nine months ended 30 Sept 2013 £ million	Nine months ended 30 Sept 2012 £ million	Change %	Nine months ended 30 Sept 2013 £ million	Nine months ended 30 Sept 2012 £ million	Change %
Net interest income	7,966	7,787	2	7,741	7,378	5
Other income	5,738	6,157	(7)	5,444	5,631	(3)
Insurance claims	(233)	(335)	30	(233)	(335)	30
	13,471	13,609	(1)	12,952	12,674	2
St. James's Place	548	222		548	222	
Total underlying income	14,019	13,831	1	13,500	12,896	5
Banking net interest margin	2.06%	1.93%	13bp	2.44%	2.32%	12bp
Average interest-earning banking assets	£513.9bn	£547.8bn	(6)	£419.4bn	£424.6bn	(1)
Loan to deposit ratio	114%	124%	(10)pp	100%	102%	(2)pp

Total underlying income

Group underlying income increased by 1 per cent to £14,019 million and was 1 per cent lower at £13,471 million excluding St. James's Place.

Net interest income increased by 2 per cent to £7,966 million in the nine months ended September and by 7 per cent against the third quarter of 2012. This reflects the improved net interest margin of 2.06 per cent in the nine months and 2.17 per cent in the third quarter, partly offset by the 6 per cent fall in average interest-earning assets, principally driven by the non-core asset reduction.

The improvement in net interest margin was principally driven by strong underlying performance in deposit margin, which more than offset a small decline in asset margin and the 8 basis points income drag from the repositioning of

our government bond portfolio. Our net interest margin has also benefited, relative to our expectations at the beginning of the year, from the effect of repositioning our structural hedge.

Excluding St. James's Place, other income was 7 per cent lower, primarily driven by the 44 per cent reduction in income in the non-core business as we continue to run down the assets. Insurance claims levels were lower as the significant weather related claims incurred in 2012 have not been repeated.

Core underlying income

Core net interest income increased 5 per cent compared to the same period last year. The reduction in average interest-earning assets was more than offset by the 12 basis point improvement in the net interest margin to 2.44 per cent in the nine months, and the 11 basis point improvement to 2.54 per cent in the quarter. Excluding St. James's Place, core other income net of insurance claims was down 2 per cent at £5,211 million.

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE (continued)

Total costs

	Nine months ended 30 Sept 2013 £ million	Nine months ended 30 Sept 2012[1] £ million	Change %
Core	(6,720)	(6,913)	3
Non-core	(390)	(624)	38
Total costs	(7,110)	(7,537)	6
Simplification savings annual run-rate	1,315	660	

1 Restated to reflect the implementation of IAS 19R and IFRS 10. See page 14.

The Group continues to make strong progress on cost reductions with total costs decreasing 6 per cent to £7,110 million despite increasing investment in the business and inflationary pressures. Core costs reduced 3 per cent, driven by the benefits of the Simplification programme, strong cost management and the benefit from the deconsolidation of St. James's Place. Costs attributable to St. James's Place were £127 million in the nine months to September 2012, compared to £44 million in the first nine months of this year. Non-core costs fell 38 per cent due to the significant reduction in non-core assets.

At 30 September 2013, we had realised annual run-rate cost savings of £1,315 million from our initiatives to simplify the Group, an increase of £468 million since 31 December 2012. These initiatives contributed cost savings of £968 million in the nine months to September. We remain confident of achieving our target of £1.9 billion of annual run-rate cost savings by the end of 2014.

Impairment

	Nine months ended 30 Sept 2013	Nine months ended 30 Sept 2012	Change

	£ million	£ million	%
Core	(1,231)	(1,351)	9
Non-core	(1,252)	(3,068)	59
Total impairment	(2,483)	(4,419)	44
Core	0.39%	0.42%	(3)bp
Non-core	1.70%	3.23%	(153)bp
Impairment charge as a % of average advances	0.63%	1.04%	(41)bp

	As at 30 Sept 2013 %	As at 31 Dec 2012 %	Change
Impaired loans as a % of closing advances	7.2	8.6	(1.4)pp
Provisions as a % of impaired loans	50.9	48.2	2.7pp

The impairment charge reduced by 44 per cent to £2,483 million with continued strong management of impaired loans and the reduction in non-core leading to a further significant improvement in overall portfolio quality. The impairment charge as a percentage of average advances improved by 41 basis points to 0.63 per cent, close to our 2014 target for the Group of 50 to 60 basis points. The core impairment charge as a percentage of average advances continues to remain low at 0.39 per cent.

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE (continued)

The 9 per cent decrease in core impairment to £1,231 million compared to the first nine months of 2012 was primarily driven by lower impairments in Retail due to strong underlying performance across all portfolios, and we have seen good underlying trends in Commercial Banking in the year to date. The significant improvement in the non-core impairment charge of 59 per cent compared to the first nine months of 2012 reflects substantial reductions in both our Commercial Banking and Irish portfolios.

Impaired loans as a percentage of closing advances reduced to 7.2 per cent, from 8.6 per cent at 31 December 2012, driven by improvements in Commercial Banking's core and non-core books. Provisions as a percentage of impaired loans increased from 48.2 per cent at 31 December 2012 to 50.9 per cent.

Statutory profit

Statutory profit before tax was £1,694 million compared to a loss of £607 million in the first nine months of 2012. Further detail on the reconciliation of underlying to statutory results is included on page 17.

	Nine months ended 30 Sept 2013 £ million	Nine months ended 30 Sept 20121 £ million
Underlying profit	4,426	1,875
Asset sales and volatile items:		
Asset sales	(637)	(27)

Sale of government securities	786	1,326
Liability management	(97)	(207)
Own debt volatility	(167)	(341)
Other volatile items	(243)	(618)
Volatility arising in insurance businesses	637	241
Fair value unwind	(91)	212
	188	586
Simplification and Verde costs	(1,194)	(731)
Legacy items:		
Payment protection insurance provision	(1,250)	(2,075)
Other regulatory provisions	(75)	(150)
	(1,325)	(2,225)
Other items:		
Past service pensions (charge) credit	(104)	250
Amortisation of purchased intangibles	(297)	(362)
	(401)	(112)
Profit (loss) before tax – statutory	1,694	(607)
Taxation	(1,414)	(429)
Profit (loss) for the period	280	(1,036)
Earnings (loss) per share	0.4p	(1.6)p

1 Restated to reflect the implementation of IAS 19R and IFRS 10. See page 14.

Asset sales

Asset sales included gains on the sale of government securities of £786 million (2012: £1,326 million) and a net loss of £637 million (after related fair value unwind of £1,345 million), principally from the significant reduction in non-core assets. In the third quarter there was a net loss of £626 million, of which approximately £330 million related to the statutory loss before tax on the announced sale of the Group's German life insurance business, Heidelberger Leben. This nevertheless benefited the Group's estimated pro forma fully loaded CRD IV core tier 1 ratio by approximately 13 basis points.

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE (continued)

Volatility arising in insurance businesses

The Group's statutory result before tax is affected by insurance volatility, caused by movements in financial markets and policyholder interests volatility, which primarily reflects the gross up of policyholder tax included in the Group tax charge. The statutory result included £637 million of positive insurance and policyholder interests volatility (30 September 2012: positive volatility of £241 million), reflecting the rise in equity markets in the period.

Simplification and Verde costs

Simplification programme costs were £608 million, with a total of £1,469 million spent to date, realising annual run-rate cost savings of £1,315 million. We now expect over £2.0 billion to be directly expensed through the income statement, out of an estimated total cost of around £2.3 billion.

The Group continues to progress the EC mandated business disposal (Verde) through an Initial Public Offering (IPO) which remains subject to regulatory and EC approval. We continue to target an IPO in mid-2014. In September we rebranded the business as TSB Bank and this now operates as a separate business within Lloyds Banking Group. Costs relating to Verde were £586 million and, from inception to the end of September 2013, totalled £1,368 million.

PPI

The volume of PPI complaints continues to fall, although more slowly than projected. Average monthly complaint volumes were down 8 per cent in the quarter and weekly complaints averaged approximately 11,000 in the third quarter of 2013, compared to approximately 12,500 in the second quarter. Monthly complaint volumes were on average 55 per cent below those in the third quarter of 2012.

Costs in the three months to September 2013 continued to be higher than projected reflecting the acceleration of cases with the Financial Ombudsman Service, higher reactive volumes, as well as an increased scope of proactive mailings combined with higher response rates. The average uphold rates have continued to trend upwards since early 2013.

As a result we are increasing our forward projections and raising the provision by £750 million, driven primarily by higher reactive and proactive volumes, the increased scope of remediation and higher than projected uphold rates and associated operational costs. This brings the total amount provided for PPI to £8,025 million (of which approximately £1.7 billion relates to administration costs). The total amount provided for PPI represents our best estimate of likely costs and a number of risks and uncertainties remain, in particular complaint volumes, uphold rates, average redress costs and the outcome of the FCA Enforcement Team investigation. The cost of these factors could differ materially from our estimates, which could result in a further provision being required.

As at 30 September 2013, £1,694 million of the total provision remained unutilised, and total costs incurred in the three months to 30 September 2013 were £706 million, including £161 million of administration costs.

Other items

The Group recognised a charge for other statutory items of £401 million in the period compared to a charge of £112 million in the first nine months of 2012. This included a charge of £104 million as a result of changes to early retirement and commutation factors in two of the Group's principal defined benefit schemes (2012: £250 million gain related to a change in policy in respect of discretionary pension increases).

Taxation

The tax charge for the first nine months of 2013 was £1,414 million. This reflects a higher effective tax rate than the UK statutory rate primarily due to an additional tax charge arising from the impact on the net deferred tax asset of the announced reductions in UK corporation tax rate to 21 per cent from 1 April 2014 and 20 per cent from 1 April 2015; and the write-down of a deferred tax asset in respect of Australian trading losses due to the announced sale of Australian operations.

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE (continued)

Balance sheet

	At 30 Sept 2013	At 31 Dec 2012	Change %
Risk-weighted assets	£276.6bn	£310.3bn	(11)
Core tier 1 capital ratio	13.5%	12.0%	1.5pp
Tier 1 capital ratio	13.9%	13.8%	0.1pp
Total capital ratio	19.9%	17.3%	2.6pp
Estimated pro forma fully loaded CRD IV risk-weighted assets1	£279.7bn	£321.1bn	(13)
Estimated pro forma fully loaded CRD IV core tier 1 ratio1	9.9%	8.1%	1.8pp
	4.1%	3.8%	0.3pp

Estimated pro forma fully loaded CRD IV leverage ratio1, 2			
Estimated fully loaded CRD IV risk-weighted assets	£285.3bn	£321.1bn	(11)
Estimated fully loaded CRD IV core tier 1 ratio	9.5%	8.1%	1.4pp
Estimated fully loaded CRD IV leverage ratio2	4.0%	3.8%	0.2pp
Funded assets	£509.4bn	£538.7bn	(5)
Non-core assets (pro forma)3	£70.0bn	£98.4bn	(29)
Non-retail non-core assets (pro forma)3	£29.8bn	£48.5bn	(39)
Customer deposits4	£432.9bn	£422.5bn	2
Wholesale funding	£151.4bn	£169.6bn	(11)
Wholesale funding <1 year maturity	£49.7bn	£50.6bn	(2)
Of which money-market funding <1 year maturity	£30.1bn	£31.0bn	(3)
Loan to deposit ratio	114%	121%	(7)pp
Core loan to deposit ratio	100%	101%	(1)pp
Primary liquid assets	£90.8bn	£87.6bn	4

1 Pro forma ratios including effects of announced sales of the Australian operations, Sainsbury's Bank and Heidelberger Leben.
2 Including grandfathered tier 1 capital.
3 Recognising the reductions from the announced sales of the Australian operations (announced in October) and Heidelberger Leben (announced in August). Excluding these transactions, non-core assets would have been £76.1 billion.
4 Excluding repos of £3.0 billion (31 December 2012: £4.4 billion) (all core).

We have further strengthened the Group's capital ratios in the first nine months of this year, with the estimated pro forma fully loaded CRD IV core tier 1 ratio increasing to 9.9 per cent from 8.1 per cent at 31 December 2012 and the core tier 1 ratio improving to 13.5 per cent. This improvement was driven by capital generation in our core business, the decrease in risk-weighted assets from non-core asset reductions and improving economic conditions, and management actions such as the sales of shares in St. James's Place, the disposals of US residential mortgage-backed security (RMBS) portfolios and the £1.6 billion dividend paid by the insurance business to the Group in the first half of the year. These were partially offset by the effects of changes to pension accounting and other statutory items.

Excluding the benefits of the announced sales of our Australian operations, Heidelberger Leben and Sainsbury's Bank, our estimated fully loaded CRD IV core tier 1 ratio was 9.5 per cent, while the Group's total capital ratio increased to 19.9 per cent, with £26.3 billion of tier 1 and tier 2 securities contributing to the £55.1 billion capital base. The transition to CRD IV is expected to reduce the volume of deductions from non-equity capital arising from the Group's insurance operations and therefore to release a material proportion of tier 1 and tier 2 capital.

GROUP FINANCE DIRECTOR'S REVIEW OF FINANCIAL PERFORMANCE (continued)

The Group awaits the outcome of the Prudential Regulatory Authority's consultation on future capital requirements as set out in its consultation paper CP 5/13 “Strengthening capital standards: implementing CRD IV”, which was published in August this year. The PRA's consultation closed in early October and it is expected to publish finalised rules in December this year, which will implement the European Union's new capital requirements legislation, known as CRD IV, in the UK from 1 January 2014, and will include detail on bank capital requirements and on related governance and reporting obligations.

The Group has a strong capital position and continues to expect to meet the PRA's requirement of £8.6 billion additional capital announced in June without recourse to further equity issuance or the utilisation of additional contingent
capital securities.

The Group's estimated pro forma fully loaded leverage ratio, including grandfathered tier 1 capital, increased to 4.1 per cent from 3.8 per cent at the end of 2012 and to 3.4 per cent from 3.1 per cent excluding grandfathered tier 1. Both of these ratios are in excess of the Basel Committee's proposed minimum of 3 per cent applicable from 2018.

The Group's liquidity position remains strong, with primary liquid assets of £90.8 billion at 30 September 2013 (31 December 2012: £87.6 billion). Primary liquid assets represent approximately 3 times our money-market funding and are approximately 2 times our wholesale funding with a maturity of less than one year, providing a substantial buffer in the event of market dislocation. In addition to primary liquid assets, the Group has significant secondary liquidity holdings of £117.0 billion (31 December 2012: £117.1 billion). Total liquid assets represent approximately 4 times our wholesale funding with a maturity of less than one year.

The Group's non-core assets now stand at £70.0 billion on a pro forma basis, a significant reduction of 29 per cent (£28.4 billion) since December 2012. This is a reduction of £12.6 billion since June 2013, including £5.5 billion in Australia as well as reductions of £1.2 billion in UK commercial real estate and £0.9 billion in the shipping portfolio. The non-retail non-core element of the portfolio reduced 39 per cent (£18.7 billion) in the year and now stands at £29.8 billion. Non-core asset reductions continue to be capital accretive overall, with capital accretion in the nine months to 30 September on a fully loaded basis of approximately £2 billion.

The reduction in non-core assets and continued growth in customer deposits in the first nine months of this year have reduced the Group's funding requirement. This has enabled us to reduce wholesale funding by £18.2 billion and, as reported at the half year, repay the full amount of the Long Term Refinancing Operation funding from the European Central Bank of €13.5 billion ahead of schedule.

The Group's loan to deposit ratio improved to 114 per cent from 121 per cent at 31 December 2012. The core loan to deposit ratio improved to 100 per cent from 101 per cent at 31 December 2012.

Conclusion

The Group has continued to deliver strong profits and returns with growth in core lending, underlying income and net interest margin, and further reductions in costs and impairments. The continued progress we have made in reducing risk in the balance sheet and strengthening the Group's capital ratios leaves us well positioned to continue growing our core business as we support the UK economic recovery.

George Culmer
Group Finance Director

STATUTORY CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Nine months ended 30 Sept 2013 £ million	Nine months ended 30 Sept 20121 £ million
Interest and similar income	15,961	17,916

Interest and similar expense	(10,989)	(12,418)
Net interest income	4,972	5,498
Fee and commission income	3,209	3,535
Fee and commission expense	(1,025)	(1,088)
Net fee and commission income	2,184	2,447
Net trading income	14,657	11,020
Insurance premium income	6,240	6,215
Other operating income	2,647	2,529
Other income	25,728	22,211
Total income	30,700	27,709
Insurance claims	(16,496)	(13,801)
Total income, net of insurance claims	14,204	13,908
Regulatory provisions	(1,325)	(2,225)
Other operating expenses	(8,892)	(8,512)
Total operating expenses	(10,217)	(10,737)
Trading surplus	3,987	3,171
Impairment	(2,293)	(3,778)
Profit (loss) before tax	1,694	(607)
Taxation	(1,414)	(429)
Profit (loss) for the period	280	(1,036)
Profit attributable to non-controlling interests	24	51
Profit (loss) attributable to equity shareholders	256	(1,087)
Profit (loss) for the period	280	(1,036)
Basic earnings (loss) per share	0.4p	(1.6)p
Diluted earnings (loss) per share	0.4p	(1.6)p

1 Restated to reflect the implementation of IAS 19R and IFRS 10. See below.

Restatements to reflect new accounting standards effective from 1 January 2013
Comparative financial information has been restated following the adoption of the following new accounting standards effective from 1 January 2013:

Amendments to IAS 19 Employee Benefits (IAS 19R). The main change is that actuarial gains and losses in respect of defined benefit pension schemes are no longer permitted to be deferred using the corridor approach and must be recognised immediately in other comprehensive income. In addition, IAS 19R requires a net interest amount to be calculated by applying the discount rate to the net defined benefit liability or asset, in place of the interest cost on scheme liabilities and the expected return on scheme assets. The effect of applying this amended standard at 1 January 2013 was the recognition of previously unrecognised actuarial losses of £2.7 billion and deferred tax assets of £0.6 billion, leading to a reduction in shareholders' equity of £2.1 billion. The changes to the calculation of the income statement charge have decreased profit after tax for the nine months to 30 September 2013 by £3 million (nine months to 30 September 2012: £34 million).

IFRS 10 Consolidated Financial Statements. This new standard establishes the principles to determine whether one entity controls another; where such control exists the controlling entity is required to consolidate the other entity in its financial statements. The adoption of IFRS 10 has required the Group to consolidate certain entities that were previously not consolidated and deconsolidate certain entities that were previously consolidated. The effect of applying IFRS 10 at 1 January 2013 was to recognise an increase in total assets and total liabilities of £10.2 billion with no resulting change in shareholders' equity and no impact on profit after tax for the nine months to 30 September 2013 (nine months to 30 September 2012: nil).

SUMMARY CONSOLIDATED BALANCE SHEET (UNAUDITED)

Assets	At 30 Sept 2013 £ million	At 31 Dec 2012[1] £ million
Cash and balances at central banks	57,179	80,298
Trading and other financial assets at fair value through profit or loss	140,276	160,620
Derivative financial instruments	39,355	56,557
Loans and receivables:		
Loans and advances to banks	27,157	32,757
Loans and advances to customers	495,496	517,225
Debt securities	1,613	5,273
	524,266	555,255
Available-for-sale financial assets	43,003	31,374
Other assets	66,282	50,117
Total assets	870,361	934,221
Liabilities		
Deposits from banks	12,093	38,405
Customer deposits	435,870	426,912
Trading and other financial liabilities at fair value through profit or loss	45,063	33,392
Derivative financial instruments	36,632	48,676
Debt securities in issue	101,261	117,253
Liabilities arising from insurance and investment contracts	109,387	137,592
Subordinated liabilities	33,210	34,092
Other liabilities	55,620	55,318
Total liabilities	829,136	891,640
Total equity	41,225	42,581
Total equity and liabilities	870,361	934,221

1 Restated to reflect the implementation of IAS 19R and IFRS 10. See page 14.

APPENDIX 1

QUARTERLY UNDERLYING BASIS INFORMATION

Group	Quarter ended 30 Sept 2013 £ million	Quarter ended 30 June 2013 £ million	Quarter ended 31 Mar 2013 £ million	Quarter ended 31 Dec 2012 £ million	Quarter ended 30 Sept 2012 £ million
Net interest income	2,761	2,653	2,553	2,545	2,575
Other income	1,879	1,984	2,422	2,040	2,112
Insurance claims	(85)	(62)	(86)	(30)	(102)
Total underlying income	4,555	4,575	4,889	4,555	4,585

Total underlying income excl. SJP	4,537	4,525	4,409	4,448	4,503
Total costs	(2,361)	(2,341)	(2,408)	(2,587)	(2,492)
Impairment	(670)	(811)	(1,002)	(1,278)	(1,262)
Underlying profit	1,524	1,423	1,479	690	831
Banking net interest margin	2.17%	2.06%	1.96%	1.94%	1.93%
Impairment charge as a % of average advances	0.51%	0.57%	0.80%	0.96%	0.93%
Return on risk-weighted assets	2.14%	1.93%	1.96%	0.87%	1.01%

Core	Quarter ended 30 Sept 2013 £ million	Quarter ended 30 June 2013 £ million	Quarter ended 31 Mar 2013 £ million	Quarter ended 31 Dec 2012 £ million	Quarter ended 30 Sept 2012 £ million
Net interest income	2,711	2,579	2,452	2,487	2,459
Other income	1,803	1,923	2,265	1,932	1,963
Insurance claims	(85)	(62)	(86)	(30)	(102)
Total underlying income	4,429	4,440	4,631	4,389	4,320
Total underlying income excl. SJP	4,411	4,390	4,151	4,282	4,238
Total costs	(2,252)	(2,199)	(2,269)	(2,341)	(2,246)
Impairment	(324)	(416)	(491)	(568)	(373)
Underlying profit	1,853	1,825	1,871	1,480	1,701
Banking net interest margin	2.54%	2.43%	2.34%	2.33%	2.32%
Impairment charge as a % of average advances	0.32%	0.34%	0.51%	0.50%	0.36%
Return on risk-weighted assets	3.19%	3.11%	3.20%	2.47%	2.83%

Non-core	Quarter ended 30 Sept 2013 £ million	Quarter ended 30 June 2013 £ million	Quarter ended 31 Mar 2013 £ million	Quarter ended 31 Dec 2012 £ million	Quarter ended 30 Sept 2012 £ million
Net interest income	50	74	101	58	116
Other income	76	61	157	108	149
Total underlying income	126	135	258	166	265
Total costs	(109)	(142)	(139)	(246)	(246)
Impairment	(346)	(395)	(511)	(710)	(889)
Underlying loss	(329)	(402)	(392)	(790)	(870)
Banking net interest margin	0.41%	0.37%	0.44%	0.37%	0.49%
Impairment charge as a % of average advances	1.41%	1.62%	2.03%	2.80%	3.08%

APPENDIX 2

BASIS OF PREPARATION OF UNDERLYING BASIS INFORMATION

The tables below set out a reconciliation from the published statutory results to the underlying basis results:

		Removal of:					
Nine months ended 30 September 2013	Lloyds Banking Group statutory £m	Acquisition related and other items1 £m	Volatility arising in insurance businesses £m	Insurance gross up £m	Legal and regulatory provisions2 £m	Fair value unwind £m	Underlying basis £m
Net interest income	4,972	(16)	5	2,576	–	430	7,967
Other income	25,728	112	(642)	(18,962)	–	49	6,285
Insurance claims	(16,496)	–	–	16,263	–	–	(233)
Total underlying income	14,204	96	(637)	(123)	–	479	14,019
Operating expenses3	(10,217)	1,618	–	123	1,325	41	(7,110)
Impairment	(2,293)	239	–	–	–	(429)	(2,483)
Profit (loss)	1,694	1,953	(637)	–	1,325	91	4,426

		Removal of:					
Nine months ended 30 September 20124	Lloyds Banking Group statutory £m	Acquisition related and other items1 £m	Volatility arising in insurance businesses £m	Insurance gross up £m	Legal and regulatory provisions2 £m	Fair value unwind £m	Underlying basis £m
Net interest income	5,498	(80)	(9)	1,917	–	464	7,790
Other income	22,211	(53)	(232)	(15,510)	–	(40)	6,376
Insurance claims	(13,801)	–	–	13,466	–	–	(335)
Total underlying income	13,908	(133)	(241)	(127)	–	424	13,831
Operating expenses3	(10,737)	843	–	127	2,225	5	(7,537)
Impairment	(3,778)	–	–	–	–	(641)	(4,419)
(Loss) profit	(607)	710	(241)	–	2,225	(212)	1,875

1 Comprises the effects of asset sales (nine months to 30 September 2013: gain of £149 million; nine months to 30 September 2012: gain of £1,299 million), volatile items (nine months to 30 September 2013: loss of £410 million; nine months to 30 September 2012: loss of £959 million), liability management (nine months to 30 September 2013: loss of £97 million; nine months to 30 September 2012: loss of £207 million), Simplification costs related to severance, IT and business costs of implementation (nine months to 30 September 2013: £608 million; nine months to 30 September 2012: £332 million), Verde costs (nine months to 30 September 2013: £586 million; nine months to 30 September 2012: £399 million); the amortisation of purchased intangibles (nine months to 30 September 2013: £297 million; nine months to 30 September 2012: £362 million) and the past service pensions item (nine months to 30 September 2013: charge of £104 million; nine months to 30 September 2012: credit of £250 million).

2 Comprises the payment protection insurance provision (nine months to 30 September 2013: £1,250 million; nine months to 30 September 2012 £2,075 million) and other regulatory provisions (nine months to 30 September 2013: £75 million; nine months to 30 September 2012 £150 million.

3 On an underlying basis this is described as total costs.

4 Restated to reflect the implementation of IAS 19R and IFRS 10. See page 14.

CONTACTS

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Copies of this interim management statement may be obtained from Investor Relations, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN. The statement can also be found on the Group's website – www.lloydsbankinggroup.com.

Registered office: Lloyds Banking Group plc, The Mound, Edinburgh EH1 1YZ
Registered in Scotland no. SC95000

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LLOYDS BANKING GROUP plc

(Registrant)

By: Charles King
Name: Charles King

Title: Investor Relations Director

Date: 29 October 2013