BARCLAYS

31 October 2012

Q3 2012 Interim Management Statement

Chris Lucas, Group Finance Director

Slide: Name slide

Thanks Antony and good morning

In general my comments today compare the first nine months this year with the first nine months of last year and as usual, we're using adjusted numbers because they give a better understanding of underlying performance.

Slide: Adjusted Financial highlights

Adjusted profits increased 18% to £6 billion

Total income was broadly stable at £22.3 billion despite a billion pounds of gilt gains from the sale of hedging instruments last year

Impairment improved 7% to £2.7 billion, mainly as a result of favourable trends in our UK businesses.

This resulted in net income growth of 1% to £19.7 billion.

By contrast, costs were down 4% to £13.8 billion.

Our capital, liquidity and funding remain strong with a core Tier 1 ratio of 11.2% and total capital of 16.9%.

We've also continued to reduce our exposure to the Eurozone.

Slide: Adjustments to profit before tax

Adjustments to statutory numbers include:

- a £4 billion charge on own credit compared to a gain of £3 billion last year,
- and a provision for PPI of a billion pounds, which includes the £700 million increase in the third quarter.

This is in addition to a provision for redress on interest rate hedges and a gain on the sale of our stake in BlackRock that we told you about in the first half.

As a result, statutory profits for the nine months were £712 million.

Slide: Adjusted performance measures

Return on equity was 8.8% compared to 8.4% for the same period last year.

There were strong performances in our three largest businesses:

- UK Retail & Business Banking delivered returns of 16.9%,
- Barclaycard achieved 22.7%,
- and returns in the Investment Bank were 14.2%.

Returns by business are in the appendix to the slide pack.

Our overall cost income ratio improved to 62% as we reduced costs.

We've also announced a cash dividend for the third quarter of 1 pence. We're aware of the importance of dividends to our shareholders and we aim to pursue a progressive dividend policy. We continue to explore options for distributing reserve dividends with regulators to achieve this.

Turning now to the individual businesses.

Slide: UK Retail and Business Banking

In UK Retail and Business Banking, profits fell 4% to £1.1 billion.

Total income was down 5% to £3.3 billion reflecting the non-recurrence of the 2011 gilt gains, and a decline in the underyling contribution from our structural hedges.

Excluding these impacts, net interest income rose slightly year on year, as a result of higher volumes, especially in mortgages.

Impairment charges almost halved to £198 million, due to improvements in the quality of our personal unsecured lending. The loan loss rate halved to 21 basis points and 90 day arrears on unsecured personal loans improved from 1.8% to 1.4%.

- Operating expenses, excluding PPI, increased 2% to just under £2 billion.
- Barclays is participating in the Government's Funding for Lending Scheme and we're passing on all funding cost benefits to our customers.

We've already drawn down a billion pounds and launched new products such as Cashback for Business, which provides upfront cash to small businesses taking out a loan of £10,000 or more.

Slide: Europe Retail and Business Banking

In Europe Retail and Business Banking, losses increased to £151 million as income fell 28%, and impairment increased 31%, mainly as a result of a deterioration in Spanish and Portuguese home loans.

We've taken actions to reduce costs significantly in Europe and they are down 31%, reflecting restructuring charges in 2011 and the subsequent savings.

Slide: Africa Retail and Business Banking

In Africa Retail and Business Banking, total income was down 12% to £2.4 billion as a result of adverse exchange rates and the non-recurrence of last year's gilt gains.

Impairment charges grew 33% as we took further provisions on mortgages in the Absa recovery book during the third quarter. We believe impairment in this book has now peaked. Early arrears are improving across almost all portfolios, including mortgages.

Costs decreased 12%, and as a result of these movements, profits were down 41% to £330 million, or 34% on a local currency basis.

Slide: Barclaycard

At Barclaycard, profits were up 21% to £1.2 billion.

Income was stable at just over £3 billion as growth across the businesses, including income from last year's acquisitions, was offset by higher funding costs and last year's gilt gains.

Impairment decreased 28% as a result of lower delinquencies in the US and European card portfolios. The loan loss rate was 291 basis points compared to 423 last year.

Operating expenses, excluding PPI, increased 3% as we continued to invest in the business for growth.

Slide: Investment Bank

Turning to the Investment Bank, profits grew 19% to £3.2 billion.

Total income grew 7% to £9.1 billion compared to the first nine months of 2011. Fixed Income, Currencies and Commodities increased 11% to £5.9 billion, Equities and Prime services were up 4% to £1.5 billion, and Investment Banking was broadly stable at £1.5 billion.

There were impairment charges of £346 million compared to £3 million in the same period last year.

This includes a charge relating to legacy CDO assets as well as a corporate default in France. There was also a one off release of £223 million in 2011.

We reduced costs by 4% to £5.6 billion. Performance costs were lower, despite an increase in charges relating to deferrals from prior years. Non-performance costs were down 1%, despite absorbing £193 million of the Libor settlement. Excluding Libor, the reduction was 5%.

The cost to net operating income ratio came down from 68% to 64%, and the compensation to income ratio reduced from 46% to 39%.

Slide: Investment Bank Quarterly Income progression

Comparing the third quarter with a strong second quarter in our Investment Bank, total income was down 13% to £2.6 billion.

In general, our flow business model is designed to protect us from downside market risks. As a result, we may outperform in weak markets and underperform in strong markets.

Fixed Income, Currencies and Commodities were down 20%, in markets with tightening spreads, but low secondary trading volumes. On the other hand Equities and Prime Services were up 26% as we grew share in all regions, despite low market volumes. Investment Banking was stable.

As a result, profits were down 6% from the second quarter to £937 million.

We continue to reduce our legacy assets so Credit Market Exposures have decreased by £2.7 billion to £10 billion since the half year.

We exited these positions at or above our marks. Reducing these further remains an area of focus.

Slide: Corporate Banking

Profits in Corporate Banking grew to £444 million, compared to £167 million last year.

Within this, the UK was up 15% to £681 million, losses in Europe decreased 33% to £290 million, and profits in other regions grew to £53 million.

Impairment reduced 29% to £635 million, with a substantial improvement in Spain as a result of reduced exposure to the property and construction sector.

Impairment in Spain decreased 35% to £271 million. Costs fell 15% to £1.1 billion.

Slide: Wealth and Investment Management

In Wealth and Investment Management, profits grew 31% to £200 million. Income grew 3% to £1.3 billion, driven by the high net worth business. Costs were held flat.

Moving on now to capital, liquidity and funding.

Slide: Capital, Liquidity and Funding

Our Core Tier 1 ratio increased to 11.2%, on a Basel 2.5 basis, with total capital of 16.9% and risk weighted assets down to £379 billion.

Our liquidity position remains strong with a pool of £160 billion, which compares with wholesale funding maturing in the next 12 months of £113 billion. 88% of the pool is held in cash, highly liquid government bonds, and deposits with central banks.

We've met our funding needs for the year and any further debt issuance will pre-fund our 2013 requirements. Our maturities in 2013 of £18 billion are much lower than this year.

As you know, our retail banking, corporate banking and wealth businesses are largely funded by customer deposits. The customer loan to deposit ratio for these businesses was 104%, down from 106% at the end of June.

Slide: Pro forma Core Tier 1 ratios

We shared our thinking on the implementation of Basel 3 with you at the half year.

Although the timing remains uncertain, we've updated our proforma ratios assuming implementation in January 2013.

Our capital flightpath is broadly unchanged, with a proforma Basel 3 Core Tier One ratio of 10.4% at the end of 2013, which is broadly in line with 10.3% reported at the time of our half year results.

We estimate that our fully loaded Basel 3 Core Tier 1 ratio would have been 8% as at the end of September.

We do expect some increase in Basel 2.5 RWAs in the fourth quarter, following the third quarter reduction, as we implement regulatory change and bring in prudent operational risk assessments.

The focus of our capital management is not just on Core Tier 1 but also the size and shape of our overall capital structure.

We agree with the Financial Policy Committee that Contingent Capital will play an important role, especially in respect of increased loss absorbancy, and we've made significant progress with the FSA regarding the capital value to be attributed to these instruments.

Now that we have greater clarity, we'll be engaging with investors in the next few weeks to solicit their views.

We continue to believe that we're well capitalised.

Turning now to costs.

Slide: Cost income ratio improved to 62%

We've reduced overall costs by 4% to £13.8 billion.

Overall performance costs were down 9% to just under £2 billion.

In the Investment Bank, performance costs reduced 11% while profits grew 19%.

Non performance costs for the Group were reduced by 3% to £11.8 billion.

We continue to operate with the cost run rate required to achieve our targeted cost savings and this should result in non performance costs in the region of £15.5 billion in 2013.

Slide: Margins

Moving on to margins which I look at in two parts:

- customer margins which drive the vast majority of our net interest income
- and then the secondary margin derived from our structural hedges.

I'll start by talking about hedging.

Across the Group as a whole, the total contribution from structural hedges fell from £2.8 billion to £1.3 billion as expected.

This was mainly due to the billion pounds of gilt gains last year.

The businesses which contribute to our margin analysis are Retail and Business Banking, Corporate Banking and Wealth.

Margins from these businesses fell 23 basis points to 186. 19 points of this decline was from the reduced hedging contribution, highlighting the relative stability of our customer margin.

Increased customer volumes, mainly on the liability side, broadly offset the margin contraction, so that net interest income generated from customers was stable at £7.3 billion.

Overall net interest income decreased 9% to £8.3 billion.

Slide: Reduced exposure to the Eurozone

Moving on to our Eurozone exposures…

We continued to reduce the redenomination risk in our European businesses during the third quarter:

The local net funding mismatch in Spain is now immaterial as it's decreased from £2.5 billion to £100 million as a result of actions taken to attract corporate deposits and reduce corporate lending; in Portugal we've lowered the mismatch to £3.3 billion, and in Italy, it's decreased to £9.6 billion.

We've also reduced our peripheral sovereign exposures during the third quarter by 15% to £4.8 billion, driven by a 24% reduction in Italy to £1.9 billion.

Outlook

In terms of outlook, we continue to operate in a challenging environment but we remain confident in the strength of our market positions, our robust risk management, and the benefits of the universal banking model.
Before I close, I want to mention some additional disclosure in our announcement today, which gives quarterly balance sheet and margin data for the first time.

From January next year, we'll also be allocating more head office costs to the businesses.

Slide: Summary

So in summary, we're reporting a good performance for the first nine months.

Adjusted profits grew 18% to just under £6 billion, income was broadly stable, despite the billion pound gilts gain in 2011, impairment improved 7%, while operating costs decreased 4%.

Our capital, liquidity and funding remain strong with a core Tier 1 ratio of 11.2%, and we've further reduced our exposure to the Eurozone.

Thanks very much – I'll now hand back to Antony.