Barclays PLC H1 2012 Interim Management Statement
Chris Lucas, Group Finance Director

[Slide: Name slide]

Thanks Marcus and good morning.

[Slide: 2012 First half highlights]

We're reporting adjusted profit growth of 13% today, with good performances in UK Retail and Business Banking, Barclaycard, Corporate Banking and Wealth. There was also a good performance relative to the industry in the Investment Bank.

Operating costs decreased 3%; our capital, liquidity and funding remain strong with a core Tier 1 ratio of 10.9%; we have reduced our exposure to the Eurozone; and though we have further to go, we made progress towards our 13% return on equity target.

Let me take you through the financial headlines before we talk about the individual businesses. In general my comments compare the first half this year with the same period last year.

[Slide: Group profit before tax]

Profits increased 13% to £4.2 billion on an adjusted basis, which is much larger than statutory profits of £759 million.

Adjusted numbers exclude: a charge on own credit of £2.9 billion, a gain on the sale of our stake in BlackRock of £227 million, the additional £300 million PPI provision that we told you about in April, and a provision for redress on interest rate hedging products of £450 million.

I'll use adjusted numbers this morning, as usual, because they give a better understanding of the operating trends of the business.

[Slide: Financial headlines]

Moving on to the other headlines….

Total income grew 1% to £15.5 billion impairment was flat at 1.8 billion, as reductions in many of our businesses were offset by an increase in the Investment Bank, and we reduced operating costs by 3% to 9.5 billion. Together, these movements resulted in adjusted profits of 4.2 billion.

[Slide: Adjusted performance measures]

Return on equity grew to 9.9%, and return on tangible equity increased to 11.5%.

In our three largest businesses, which account for two thirds of Barclays' risk weighted assets, returns were at or above our targets. UK Retail and Business Banking delivered returns of more than 16%, at Barclaycard they were 22%, and the Investment Bank generated a return on equity of almost 15%.

Other businesses were below our targeted returns and we continue to work to improve them.

Our overall cost income ratio improved from 64 to 61%, and we've announced a dividend for the second quarter of 1 pence, bringing the dividend for the first half to 2 pence.

I'd like to move now to the performance of the individual businesses…

[Slide: UK Retail and Business Banking]

In UK Retail and Business Banking, profits grew 6% to £746 million, largely as a result of improved impairment in personal unsecured lending.

Total income decreased 2% to £2.2 billion, mainly as a result of lower net fees and commissions. Margins have reduced slightly, as expected, reflecting a lower benefit from the structural hedges. Net interest income remained broadly stable as a result of higher volumes.

Impairment charges reduced by 56% to £122 million and the annualised loan loss rate was 19 basis points compared to 46 basis points in 2011.

Operating expenses increased 5% to £1.3 billion, including costs related to processing PPI claims.

Return on equity grew to 16.6%.

Customer deposits have grown 2% to £114 billion since the year end, while total loans and advances grew 2% to 123 billion, driven by growth in mortgage balances with net new mortgage lending of £2.2 billion.

[Slide: Europe Retail and Business Banking]

In Europe Retail and Business Banking we have worked hard to restructure the business and this has helped to reduce the loss by 43% to £92 million.

Income decreased 20% to £486 million both as a result of the difficult economic environment and the fact that the business is now smaller. We've reduced the number of distribution points and headcount by 14%.

Impairment charges increased 35% to £157 million due to increased delinquencies across the mortgage book in Spain, Portugal and Italy, especially in the second quarter.

Costs have decreased 35% to **£428** million, reflecting a restructuring charge of **£129** million in the same period in 2011, and the benefits from that restructuring.

[Slide: Africa Retail and Business Banking]

In Africa Retail and Business Banking, profits decreased 20% to £274 million as a result of increased impairment on mortgages in the Absa recovery book, along with adverse currency movements. We were disappointed by the level of provisions and expect to see this moderate in the second half.

Total income was down 8% at £1.6 billion, impairment charges increased 19% to £321 million, and costs fell 11% to just over a billion pounds.

On a local currency basis, profits decreased 8%.

We remain committed to our One Africa strategy as this is an attractive market where we have a strong competitive advantage.

[Slide: Barclaycard]

There was strong growth in Barclaycard, with profits up 32% to £753 million as a result of: balance growth in UK consumer cards, the acquisitions made in 2011, a significant improvement in the US, and good growth in business payments due to higher volumes.

Income grew 3% to just over £2 billion. Within this, income in the UK was up 2% to £1.3 billion and international increased 3% to £745 million.

Impairment improved 29% to £460 million as 30 day arrears fell in the UK, US and South Africa. The annualised loan loss rate was 285 basis points compared with 420 basis points in the first half of 2011.

Operating expenses grew 8% reflecting the enlarged business after 2011 acquisitions, PPI processing costs and the investment in the business.

Return on equity was well above last year at 22%.

[Slide: Investment Bank]

Turning to the Investment Bank, total income grew 4% to £6.5 billion compared to the first half last year. Fixed Income, Currencies and Commodities grew 11% to £4.4 billion, Equities and Prime services fell 12% to just below a billion pounds, and Investment Banking was down 11%, reflecting lower market volumes.

There were impairment charges of £323 million compared to a release of £111 million in the same period last year. This included a charge related to legacy CDO assets as well as a corporate default in France.

Costs fell 3% to £3.9 billion, after absorbing about two thirds of the settlement relating to LIBOR - the remainder is accounted for in Head Office. Performance costs decreased 19%, and non-performance costs were up 4% as a result of the LIBOR settlement.

Taken together, this resulted in profits decreasing 2% to £2.3 billion.

The cost to net operating income ratio was within our target range at 64% and the compensation to income ratio was 39%, compared to 45% last year.

Return on equity was close to 15%.

Since the year end, we have reduced credit market exposures by £2.5 billion to £12.7 billion, mainly driven by the sale of commercial real estate loans and properties.

[Slide: Investment Bank Income]

If you compare second quarter performance with that of the second quarter last year, income was up 5%.

Despite subdued market volumes, we continue to grow share in many of our business lines including: debt capital markets, where we retained our number two position in the global league tables, equity capital markets, where our share grew from 3.6% to 4.8% in the first half; and M&A, where share increased during the first half from 13% to 15.6%.

[Slide: Corporate Banking]

In Corporate Banking we've continued to make good progress and grew profits to £346 million. This compares to £54 million for the same period last year.

Within this, profits in the UK grew 18% to £487 million; the loss in Europe was £180 million, which is an improvement of 50%; and there was a profit in other corporate markets of £39 million, compared to breakeven in the same period last year.

Impairment reduced 31% to £425 million, with a substantial improvement in Spain as a result of reduced exposure to the property and construction sector.

Costs fell 16% to £754 million due to restructuring in 2011.

Return on equity improved from under 1% to 6%.

[Slide: Wealth and Investment Management]

Wealth and Investment Management profits grew 38% to £121 million.

Income grew 5% to £892 million.

Costs grew just 1%, despite ongoing investment in the business, and client assets grew to £176 billion.

The return on equity grew to 10% - we expect Wealth to become a significant contributor to Group profits as a result of our investment programme.

Moving on now to capital, liquidity and funding……

[Slide: Capital, Liquidity and Funding]

Our Core Tier 1 ratio remains strong at 10.9% with risk weighted assets stable at £390 billion.

Adjusted gross leverage was 20 times and we had a liquidity pool of £170 billion at the end of June. 92% is held in cash, highly liquid government bonds and deposits with central banks.

Our wholesale term funding maturities for 2012 are £27 billion and we have already raised £20 billion during the first half. While our long term credit ratings moved down in the second quarter, our short term ratings remain unchanged.

[Slide: Pro forma Core Tier 1 ratios]

We continue to manage the business to absorb changing regulation. We're pleased that Risk Weighted Assets have remained broadly unchanged over the last 12 months, despite the implementation of Basel 2.5.

Allowing for consensus retained earnings for the second half, and assuming no organic RWA growth, we estimate our Core Tier One ratio will improve to **11.3%** at the end of this year.

I'd like to share our current thinking on Basel 3 implementation which is scheduled to start from January 2013. Based on our current estimate of the RWA impact, we expect our Core Tier One ratio to reduce to **9.2%.** Taking into account consensus retained earnings in 2013, this improves to **10.3%** by the **end** of next year.

These proforma ratios are indicative as the rules have yet to be published and are clearly subject to change.

Further phased capital deductions under Basel 3 transition rules are likely to reduce our Core Tier 1 ratio by about 60 basis points in total between 2014 and 2018.

If we were to apply all these deductions at the end of 20**13**, our fully loaded Core Tier One ratio would be 9.7%. The equivalent fully loaded figure for the end of June this year would be 7.9%. This takes no account of our planned management actions and future profit generation. For me, these numbers demonstrate the solidity of our capital.

There's more detail on the impact of Basel 3 in the appendix.

Let me now turn to costs…

[Slide: Cost income ratio improved to 61%]

We've reduced overall costs by 3% to £9.5 billion, while income grew 1% to £15.5 billion. As a result, the cost to income ratio decreased from 64 to 61%.

Performance costs were down 14% to 1.4 billion, despite the income growth, and **non** performance costs reduced 1%.

We know we have further work to do to create the right balance for all of our stakeholders.

[Slide: Non performance costs]

Taking a look at **non-**performance costs in more detail….

In the first quarter we told you that our cost reduction programme would result in a non performance cost base of about £15.5 billion in 2013. We have reduced the run rate of non performance costs by almost £600 million in the second half of last year, through actions such as headcount reduction and infrastructure consolidation. We've sustained these savings in the first half this year and this has allowed us to absorb regulatory and investment costs of about £450 million.

Excluding the LIBOR settlement, non performance costs in the first half were £7.8 billion, so in these 6 months we've largely achieved the cost run rate necessary to deliver a £2 billion reduction in non performance costs.

We aim to mantain this run rate and self fund any additional investment in the business over the next 18 months.

Before I close I'd like to take you through our Eurozone exposures.

[Slide: Eurozone summary]

As you'd expect, we continue to manage our risks carefully in Europe, focussing especially on redenomination.

We've taken a series of actions this year to reduce local net funding mismatches in Spain and Portugal - including drawing down €8.2 billion from the ECB's 3 year LTRO and growing deposits in Spain. Since the year end, net funding of the Spanish balance sheet by the Group reduced from £12.1 billion to £2.5 billion and for Portugal, it fell 46% to £3.7 billion.

We have reduced sovereign exposure to Spain, Italy, Portugal, Ireland, Cyprus and Greece by 22% in the last 6 months to £5.6 billion. Spanish sovereign exposures decreased to £2.2 billion.

Our financial institution exposure also totalled £5.6 billion. A significant part of this relates to non Irish banks with administrative centres in Dublin but with little Irish exposure.

The majority of our corporate and retail exposures are in Spain, Italy and Portugal. Our corporate exposures in these markets decreased to £10 billion. As you know we've already taken substantial provisions in this portfolio, especially in Spain where credit risk loans were 54% covered. Impairment charges in our corporate book in Spain continue to decline.

Retail lending in Spain, Italy and Portugal decreased 5% to just under £40 billion. About three quarters of this relates to residential mortgages in Spain and Italy which have an average loan to value of 63% and 47% respectively. Credit risk loan coverage ratios were broadly stable.

As far as the outlook is concerned, while it's too early to predict an outcome for the full year, performance in July has continued to be ahead of last year. We continue to remain cautious about the operating environment, however, and will maintain our strong capital, leverage and liquidity positions.

[Slide: Summary]

So in summary, we're reporting a resilient performance for the first half.

Adjusted profits grew 13% with good performances in UK Retail and Business Banking Barclaycard, Corporate Banking and Wealth as well as a good performance relative to the industry in the Investment Bank.

Operating costs decreased 3%; our capital, liquidity and funding remain strong with a core Tier 1 ratio of 10.9%; we've further reduced our exposure to the Eurozone; and though we have further to go, we made progress towards our 13% return on equity target.

Thanks very much – I'll hand you back to Marcus.