

## Nomura Financial Services Conference Chris Lucas

### Slide: Name slide

Good morning I'd like to thank Nomura for the opportunity to speak this morning and all of you for attending.

I know that there are number of issues regarding bank regulation, Eurozone sovereign risk, funding and liquidity, and bank valuation that you'd want me to talk about.

But before I do so, I want to set the context by reminding you of our first half results

### Slide: Group performance

Barclays has delivered an encouraging performance for the half year in challenging economic conditions.

Underlying or adjusted profit before tax grew 24% to £3.7 billion and on a statutory basis, profits were £2.6 billion.

“Adjusted” or “underlying” numbers exclude own credit, gains or losses from acquisitions and disposals, and the provision for Payment Protection Insurance taken in the second quarter this year.

## **Slide: Financial summary**

Turning to the other headline numbers. Total income decreased 8% to £15.3 billion. There was a good performance in Retail and Business Banking where income grew 3%.

Impairment improved by 41% to £1.8 billion, resulting in net operating income of £13.5 billion, which is 6% up excluding own credit.

Operating expenses grew 1% to £9.8 billion, excluding PPI.

Taken together, this resulted in adjusted profits of £3.7 billion.

## **Slide: Adjusted performance measures**

On an adjusted basis, Return on Equity improved to 9.1%, and return on tangible equity increased to 10.9%.

Our cost to net operating income ratio improved from 77 to 73%, and we announced a dividend of 1 pence for the second quarter, bringing the dividend for the first half to 2 pence.

Our dividend policy remains unchanged.

## **Slide: Retail and Business Banking (RBB)**

Moving from Group figures, I would like now to spend few minutes reviewing our businesses in turn starting with Retail and Business Banking.

In Retail and Business Banking, we had good momentum.

Net operating income grew 14% to £5.4 billion and profits before PPI were up 33% to £1.4 billion.

## Slide: RBB – Business Performance

In UK Retail and Business Banking, profit before PPI increased 74% to £704 million.

Income grew 4% to £2.3 billion, with volume growth in mortgages and personal savings.

Improved margins on both the asset and liability side resulted in a 7 basis point increase in net interest margin to 146 basis points.

Excluding a £400 million provision for PPI and a one-off pension credit of £118 million in 2010, operating expenses were down 11%.

In Europe Retail and Business Banking we reported a loss of £161 million.

Income was stable at £604 million, and we saw some positive trends:

- there was a small increase in net interest margin to 118 basis points due to better pricing of new business;

- impairment improved 13%, despite the economic environment,

- and the business made an operating profit in June before restructuring.

Expenses increased from 495 to £657 million. This included a restructuring charge of £129 million which was mainly in Spain, where we're closing 20% of our branches and reducing headcount by 16%.

Africa now comprises Absa Retail and Business Banking and Barclays Africa.

Profits were broadly flat at £379 million.

Income increased by 5% to £1.9 billion and impairment decreased 19% to £268 million.

As a result net operating income increased 10% to £1.6 billion.

Costs grew from 1.1 to £1.2 billion reflecting a one off pension credit of £54 million last year, as well as currency movements.

At Barclaycard, profits grew 65% to £524 million, excluding a £600 million provision for PPI.

There was a strong improvement in the performance of the international businesses; profits in the US and Absa each grew to over £100 million, largely as a result of reduced impairment.

Income grew slightly to £2 billion, including Egg and MBNA.

Impairment charges improved 27% to £648 million and costs were held flat at £771 million, excluding PPI and a goodwill write off of £47 million relating to First Plus.

### **Slide: Corporate and Investment Banking**

Moving on now to Corporate and Investment Banking where profit before own credit increased 7% to £2.3 billion.

### **Slide: Barclays Capital**

I'll start with Barclays Capital where total income for the half year was down 11% to £6.3 billion.

There was an impairment write back of £111 million, and strong cost management led to a reduction in operating expenses of 3%.

Profit before tax was down 9% to £2.3 billion.

The cost to net operating income ratio for Barclays Capital, excluding own credit, was 64%, within our target range of 60 to 65%.

### **Slide: Barclays Capital adjusted performance measures**

Return on equity was 15% as we reduced legacy assets at prices at or above their marks.

In total, they decreased £6 billion to £17.9 billion.

This included a reduction of £3.7 billion relating to Protium.

### **Slide: Barclays Capital quarterly income**

I know you're interested in the quarterly income progression.

Total income for the second quarter, excluding own credit, was £2.9 billion, which is down 14% on the first quarter.

The breakdown by asset class is on the slide.

This is a good performance relative to the industry and we're making good progress in the businesses in which we're investing.

### **Slide: Barclays Corporate**

Barclays Corporate delivered operating profit before tax of £17 million, compared to a loss of £377 million last year as performance improved across all regions.

Profits in the UK increased 11% to £413 million.

In Europe losses reduced to £359 million, driven by improved impairment in Spain which was 46% lower at £299 million.

Losses in the Rest of the World more than halved to just over £100 million.

We're making good progress on the sale of Barclays Bank Russia and we made a provision of £64 million in relation to this.

The current return on equity is obviously well short of our 2013 target, but this is a significant improvement on the first half last year.

We expect Barclays Corporate to break-even for the full year.

### **Slide: Barclays Wealth**

At Barclays Wealth there was strong income growth of 12% to £848 million.

Profits decreased 7% to £88 million, as we invested £44 million in the Gamma programme.

Return on equity was stable at 10% and we're on track to reach our target of 17 to 18% in 2013.

I'd like to give you more detail now on capital, funding, liquidity and Eurozone exposures and finish with regulation and outlook.

### **Slide: Capital, Liquidity & Leverage**

Our capital, liquidity and leverage position remains rock solid with adjusted gross leverage stable at 20 times, and our Core Tier One ratio at 11%.

Our Net Asset Value per share was up 6 pence on the year end at 423 pence.

The increase from our retained profits was partially offset by reserve movements, notably currency.

## **Slide: Capital management**

As reported at half year we continue to generate capital and retained earnings, excluding PPI, contributed 44 basis points to our Core Tier 1 ratio.

The PPI provision accounted for an 18 basis point swing in the other direction.

The new regulatory requirements for market risk contained in CRD 3 will come in at the end of the year.

We calculate that our Core Tier 1 ratio would have been 10% had this been in force at the 30<sup>th</sup> June, reflecting additional market risk RWAs of £40 billion.

## **Slide: Capital, Liquidity & Leverage**

When I think about current market conditions, our liquidity and funding position remains a key strength in volatile markets.

Our liquidity pool was down slightly at the half year at £145 billion as we intentionally reduced short term wholesale deposits.

Our Basel 3 Liquidity Coverage Ratio increased from 80% to 86% and our Net Stable Funding Ratio grew from 94 to 96% as we continued to issue longer term liabilities.

Despite evidence of stress in global money markets over recent weeks

Barclays continues to attract term deposits over each of its key funding currencies and our surplus liquidity pool has increased since the 30<sup>th</sup> of June as a result of strong deposit inflows in shorter maturities.

We also raised £19 billion of wholesale debt across a variety of products and geographies during the first half and the term funding we've raised over the last 18 months has already refinanced our 2011 maturities.

And now I would like to move to our Eurozone exposures in Spain, Italy, Portugal, Ireland and Greece

### **Slide: Exposure to Spain, Italy, Portugal, Ireland and Greece**

As you know our exposure to Greece is minimal

About half our total assets in these markets relate to retail mortgages in Spain, Italy and Portugal.

Our lending criteria are conservative and the average loan to current market value in these markets is just over 50%.

Let me remind you that our impairment charges in Europe Retail and Business Banking decreased to £116 million in the first half; the loan loss rate was down to 50 basis points, and credit risk loans were 43% covered.

Our corporate assets in these markets totalled £13.8 billion.

Over half our lending was to companies that we rate as strong or satisfactory on our credit grading scale.

We've taken substantial provisions already in our lower-rated corporate portfolio especially in Barclays Corporate Spain where we acted early.

Impairment charges here are now declining and we expect this trend to continue.

Our exposure to sovereigns totalled £11.6 billion. We think of this in 2 parts.

Firstly, £8.4 billion of exposures are held as available for sale in order to hedge interest rate risk relating to in our local businesses, mainly in Spain.



Over half of this has a remaining life of under 2 years and is being replaced with interest rate swaps.

Secondly, our trading and derivative portfolio totalled £3.2 billion net at the end of June and is actively managed.

This reflects our role as a leading primary dealer, market maker and liquidity provider to our clients.

Finally our financial institutions exposure of £6.7 billion reflects normal interbank activity.

A significant part of this relates to non-Irish banks with administrative centres in Dublin but with little Irish exposure.

So all in all, we're comfortable with the assets that we own and the values at which they're held. We'll continue to manage our risks here carefully.

#### **Slide: Name Slide**

Clearly the next month is going to be important for banks and it would be wrong for me not to comment on it all.

At Barclays, our biggest need is for a reduction in regulatory uncertainty, particularly in the United Kingdom where we are waiting for the final report of the Independent Commission on Banking which will be released September 12th.

Whilst we recognise the need for a safer financial system, ring fencing is not our first choice but we are confident that a pragmatic set of workable requirements will emerge which we will be able to manage.

Whilst there has been considerable discussion about the breadth of or narrowness of the ring fence in our view the period over which implementation is required will be just as important.

We expect there to be an iterative process in the weeks following the Commission's report as interested parties express their views about the

Commission's recommendations and we very much hope that greater certainty will emerge through the autumn.

It is only with such certainty that UK banks will be able to play their role fully in supporting credit creation and economic growth in the UK economy.

### **Slide: Summary**

So in conclusion, our half year performance was resilient in challenging market conditions with adjusted profit before tax was up 24% to £3.7 billion, impairment improvement of 41%, and net operating income of £13.5 billion.

Our adjusted return on equity improved to 9.1% and our Core Tier 1 ratio strengthened to 11%.

I recognise that equity markets are currently expressing concerns about:

- growth in the UK, US and Europe,
- sovereign debt,
- regulatory uncertainty, particularly in the UK, and
- bank funding across Europe.

Despite current market volatility, Barclays continues to be rock solid on funding, liquidity and capital, attracting funding in all currencies, including USD.

So far as current trading is concerned:

I said at the time of our half year results that the performance of our capital markets businesses in July had been impacted by market conditions while our other businesses had performed in aggregate ahead of their run rate for the first 6 months of the year.

The same is true of trading in August.

Thank you very much – I will take some questions now.